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Stakeholder perspectives on a financial sector legitimation process

Case of NGOs
and the Equator
Principles

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The case of NGOs and the Equator Principles

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Abstract

Purpose – The purpose of this paper is to present an in-depth, context rich, and stakeholder-focused perspective on the legitimation dynamics surrounding the initiation and evolution of one of the key financial sector environmental and social responsibility initiatives in recent years, the Equator Principles.

Design/methodology/approach – The paper draws on a combination of in-depth interviews with non-governmental organization (NGO) leaders, extensive documentary analysis and participant observation in order to understand and explain, from an NGO perspective, the use of the Equator Principles as a central element in an attempt to legitimise financial institutions' project finance activities. Key aspects of legitimacy theory are used to theoretically frame the analysis.

Findings – The paper reveals and analyses the process through which campaigning NGOs conferred a nominal level of legitimacy on financial institutions' project finance activities. It proceeds to unveil how and why this attained legitimacy unravelled. A perceived lack of accountability at an institutional, organisational and individual project level is identified as a central reason for this reduction in legitimacy.

Research limitations/implications – The paper primarily focuses on one side of the story of the dynamics of the legitimation process underpinning the evolution of the Equator Principles until 2006. Future research could focus on obtaining and theorising financial institution perspectives on the Equator Principles' development, implementation, and progression as well as analysing developments beyond 2006.

Originality/value – The paper advances our understanding of the dynamics of legitimation processes. These dynamics are studied from the perspective of a key "relevant public" thereby prioritising perceptions that are largely absent from corporate social accountability research seeking to empirically inform legitimacy theory.

Keywords Corporate social responsibility, Non-governmental organizations, Stakeholder analysis, Financial institutions, Benchmarking

Paper type Research paper

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Introduction

Increasing attention has been paid to the importance of the global financial sector in the advancement of sustainable development in recent years. Financial institutions are recognised as having a significant role to play in economic progression, environmental protection and social stewardship, through their direct and indirect influence on the companies they finance and support. Numerous financial institutions are currently involved in “sustainable” finance initiatives aimed at developing policies and procedures regarding their environmental and social responsibilities. Since the mid-1990s many have been engaged with the work of the United Nations Environment Programme Finance Initiative (UNEP-FI) which is dedicated to the integration of environmental, social and governance issues into financial operations. Some are also involved with, inter alia, the Carbon Disclosure Project (CDP, 2008), the World Business Council for Sustainable Development (WBCSD) and most recently, the Principles for Responsible Investment (PRI)[1].

Despite these developments, there is little academic research within the corporate social accountability literature examining issues surrounding the social and environmental responsibilities of financial institutions and their accountability for these responsibilities. Most of the work that has been conducted focuses on institutional investors or the equity side of private sector financial institutions. Far less attention has been paid to the credit-based activities of the industry conducted through, for example, commercial banks (but see Coulson, 2007). Some of the existing literature has been concerned with the interrelationship between environmental and social disclosure, investment decisions and market performance (Murray *et al.*, 2006), the importance and emerging fusion of public and private “sustainability” disclosure between investee companies and institutional investors (Solomon and Solomon, 2006), and mandatory reporting requirements for institutional investors regarding the extent to which social considerations are employed in portfolio construction (Haigh, 2006). However, of central concern within this paper are financial activities conducted through commercial banking, namely project finance activities, the source of widespread civil society scrutiny and criticism since the mid-1990s involving, inter alia, high-profile non-governmental organization (NGO) campaigning, customer boycotts, and civil disobedience protests. Project finance is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure to default. This type of financing is usually used for large, complex and expensive installations such as power plants, mines, transportation and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. The borrower is usually a special purpose entity (SPE) which is not permitted to perform any function other than developing, owning, and operating the installation. As a consequence the repayment depends primarily on the project’s cash flow and on the collateral value of the project’s assets (Equator Principles II, 2006).

The core objective of this paper is to present an in-depth, context rich stakeholder perspective on the legitimization dynamics embedded in the initiation and evolution of one of the key financial sector environmental and social responsibility initiatives in recent years, the Equator Principles. The Equator Principles were launched in 2003 by ten international commercial banks as a voluntary set of common environmental and social risk management guidelines for their project finance activities worldwide. The paper

specifically focuses on the perspectives and so-called counter accounting activities of a key financial institution stakeholder group – NGOs – who were influential in the initiation of the Principles. Counter accounting activities are “constituted by information and reporting systems employed by groups such as [NGOs] with a view to promoting their causes or countering prevailing official [. . .] position(s)” (Gallhofer and Haslam, 2006, pp. 681-682). Counter accounting seeks to be “an enabling, empowering and emancipatory form of accounting” (Bebbington, 1997, p. 365) embracing “a deliberately critical stance concerned to [where relevant] challenge business management” (Gallhofer and Haslam, 2003, p. 122). In this paper, a feature of the analysis of the aforementioned legitimation dynamics is the use of forms of “counter accounting” (see Gallhofer and Haslam, 2006, 2003) by campaigning NGOs in an attempt to engender progressive change in the project finance activities of certain financial institutions.

This study uses legitimacy theory as a conceptual guide to assist an in-depth examination of the NGO perspectives on how and why the Principles were developed and the nature of the debates that ensued throughout their evolution between 2003 and 2006, when a revised version of the Equator Principles (Equator Principles II) was launched. The paper maintains that the development and evolution of the Principles can be seen, from an NGO standpoint, as part of a financial sector legitimation process seeking moral legitimacy for its project finance activities and, by extension, the sector’s entire operations. This legitimation process is considered in the context of: the events leading up to the development of the Equator Principles in 2003; the production and structure of the Principles themselves; and the dilemmas surrounding their implementation and evolution until 2006.

Much of the prior research drawing on legitimacy theory to study organisational responsibility and accountability focuses on organisational perspectives (O’Donovan, 2002; O’Dwyer, 2002) and/or organisational disclosures (Deegan and Gordon, 1996; Deegan *et al.*, 2000, 2002; Deegan, 2002, 2007; Gray *et al.*, 1995; Hogner, 1982; Milne and Patten, 2002; Patten, 1992) in order to illustrate support or otherwise for legitimacy theory motivations for corporate social disclosure (Deegan, 2002). These studies primarily concentrate on whether, through a specific disclosure process, organisations seek to legitimise aspects of their activities[2]. While some previous studies have also focused on the influence of pressure groups or NGOs on corporate social disclosure (Deegan and Blomquist, 2006; Tilt, 1994), few, if any, studies drawing on legitimacy theory have examined NGO influences on a legitimation process (Owen, 2008). Relatedly, there has also been scant consideration of key stakeholder perceptions of the success or failure of such legitimation processes (Breton and Cote, 2006), and how or if they could be more effective for stakeholders (Milne and Patten, 2002; O’Dwyer, 2002).

In contrast, this paper privileges NGO perspectives in examining a legitimation process. Drawing on a combination of in-depth interviews with key NGO leaders, extensive documentary analysis and participant observation, the paper seeks to understand and explain, from an NGO perspective, the use of the Equator Principles as a central element in an attempt to legitimise financial institutions’ project finance activities. More specifically, the paper examines the emergence of NGOs as a financial institution[3] “relevant public” (Buhr, 1998; Neu *et al.*, 1998) acting as a catalyst for the development of the Equator Principles. It reveals how initially, despite reservations, campaigning NGOs conferred a nominal level of legitimacy on the financial institutions’ project finance activities through a shift from a strategy of hard

line advocacy to one of engagement. It proceeds to illuminate how and why this attained legitimacy unravelled and identifies a perceived lack of accountability at an institutional, organisational and individual project level as a central cause. What emerges is a depiction of the Equator Principles as a primarily symbolic as opposed to substantive managerial vehicle (Ashforth and Gibbs, 1990) aimed at legitimising project finance activities.

The remainder of the paper proceeds as follows. In order to theoretically frame the study, the next section reviews key aspects of legitimacy theory relevant to our analysis. It also briefly introduces the concept of counter accounting pertinent to our illumination of NGO campaigning within aspects of the case narrative. The following section outlines our research methods. We then present our case findings in the form of a narrative encompassing: the initial NGO counter accounting-influenced challenges to financial institutions' legitimacy; the financial institutions' response using the Equator Principles; and the nature of the NGO-financial institution interactions during the ensuing evolution of the Equator Principles up to the launch of Equator Principles II in 2006. The final section of the paper summarises our findings, reiterates its claimed contribution, and offers some conclusions and suggestions for future research.

Theoretical framework

Legitimacy, like a firm's reputation, resides in people's minds (Breton and Cote, 2006, p. 517).

The process of organisational legitimacy

In alluding to the concept of organisational legitimacy, Dowling and Pfeffer (1975, p. 122) note that organisations aim to establish equivalence between the social values associated with or implied by their operations and the social norms of acceptable behaviour in the larger social system or environment they are part of. To the extent, these two value systems are congruent they speak of organisational legitimacy. Organisational legitimacy can be conceptualised as both a process and a state (Deephouse, 1996). For example, if there is an actual or potential difference between organisational and social values, an organisational legitimacy state may be imperilled leading to a legitimacy gap (Sethi, 1979). Organisations may then undertake various actions as part of a legitimisation process (Ashforth and Gibbs, 1990; Suchman, 1995) aimed at establishing congruence between their values and those of "the wider society" in order to achieve a state of organisational legitimacy (Breton and Cote, 2006; Gray *et al.*, 1995). This state is ultimately conferred by "relevant publics" (Buhr, 1998; Neu *et al.*, 1998) with the power to determine the organisation's legitimacy and reflects their perceptions of the organisation's actions and activities. Hence, legitimisation processes are mainly focused on influential relevant publics. However, organisational legitimacy "is not an abstract measure of the "rightness" of the [organization] but rather a measure of the societal perceptions of the adequacy of [organisational] behaviour" (Deegan, 2007, p. 128). It is a social construct, changing over time and place depending on these societal perceptions and desires or demands (Deegan, 2007). The manner in which organisations attempt to influence societal perceptions is dependent upon the legitimisation strategies they adopt. These strategies can be focused on repairing, maintaining or gaining legitimacy (Suchman, 1995) and may conform with, or endeavour to change social perceptions, expectations, or values (Lindblom, 1994, cited in Gray *et al.*, 1995). Given perceptions have a significant influence on the attainment of organisational legitimacy,

it is widely claimed that to be successful these strategies must always involve some element of disclosure (Deegan, 2007; Magness, 2006).

There are various levels of organisational legitimacy (Breton and Cote, 2006). Certain relevant publics may not be entirely happy with an organisation's activities, but this may not prompt them to demand change from the organisation (Breton and Cote, 2006). Therefore, low effort symbolic activities or gestures may be sufficient to minimally appease any latent concerns of these publics and allow the organisation to maintain a certain "low level" legitimacy in return. However, if certain events change relevant publics' passive perception of the organisation's activities and/or if they gain more power, legitimacy and urgency to pursue their demands, then these "latent stakeholders" may potentially become "expectant" or perhaps "definitive stakeholders" demanding more from the organisation (Mitchell *et al.*, 1997). This may threaten the extant level of legitimacy and lead to a consequent de-legitimisation of the organisation in the eyes of these relevant publics. Thus, organisations must constantly monitor shifting societal perceptions that may emanate into legitimacy threats (Deegan, 2007).

Legitimacy forms and strategies

Suchman (1995) identifies three broad forms of legitimacy: pragmatic, moral, and cognitive. Of key concern in this paper is the process of attaining moral legitimacy, which rests on judgements not about whether a given activity benefits the evaluator, but rather on judgements about whether the activity is "the right thing to do" (p. 579).

These judgements reflect beliefs about whether an "activity effectively promotes societal welfare, as defined by the audience's socially constructed value system" (p. 576). Suchman (1995) argues that:

[...] organisations can garner moral legitimacy by embracing socially accepted techniques and procedures [...] Such procedural legitimacy becomes significant in the absence of clear outcome measures, [...] when 'sound practices' may serve to demonstrate that the organisation is making a good faith effort to achieve valued, albeit invisible, ends (p. 580).

Ashforth and Gibbs (1990) contrast symbolic and substantive approaches to legitimation. A symbolic approach portrays corporate behaviour as "*appear[ing]* consistent with social values and expectations" (p. 180, emphasis added), whereas a substantive approach is reflective of "real, material change in organisational goals, structures and processes or socially institutional practices" (p. 178). The symbolic approach is broadly consistent with Suchman's (1995) strategic approach to legitimation, which "emphasises the ways in which organisations instrumentally manipulate and deploy evocative symbols in order to garner societal support" (p. 572). This can involve: espousing socially acceptable goals while actually pursuing less acceptable ones; denial or concealment of information regarding activities or outcomes likely to undermine legitimacy; redefining means and ends; offering accounts (including "excuses" and "justifications"); and offering apologies. Organisations may also "adopt highly visible and salient practices that are consistent with [the] expectations [of key relevant publics] while leaving the essential machinery of the organisation intact" (Ashforth and Gibbs, 1990, p. 181). This is termed "ceremonial conformity" and represents an approach enacted primarily for its symbolic quality. Examples might include the formation of a consumer affairs department, a corporate ethics committee or the adoption of industry codes of conduct to provide the appearance of action without substance (Lenox and Nash, 2003; Bansal and Hunter, 2003).

This tendency towards symbolism may be a facet of what Ashforth and Gibbs (1990) term “the liability of newness” (p. 182) whereby organisations venturing into new or uncharted territories may find it difficult to gain legitimacy in this new space. Thus, organisations may apply, at least initially, less demanding or widely accepted legitimisation strategies. Managers seeking to gain legitimacy also, according to Ashforth and Gibbs (1990), tend to prefer to offer symbolic assurances rather than substantive action as the former normally maintains flexibility and resources. Those wishing to maintain legitimacy tend to focus on “ongoing role performance and symbolic assurances that all is well, and attempt to anticipate and prevent or forestall potential challenges to legitimacy” (Ashforth and Gibbs, 1990, p. 183).

Counter accounting and organisational legitimacy

The symbolic actions above can, however, be the subject of challenges through forms of counter accounting employed by groups such as campaigners and activists. Our focus on NGO perspectives reveals a case where aspects of counter accounting were employed to challenge the moral legitimacy of certain practices adopted by financial institutions adopting the Equator Principles. Prior research has documented the counter accounting practices of activist groups such as Social Audit Ltd (Dey, 2007; Gallhofer and Haslam, 2003) and Counter Information Services (CIS) (Gallhofer and Haslam, 2003) in the UK as well as the more recent activities of the NGO, Corporate Watch (Gallhofer and Haslam, 2006) all of whom have adopted a critical stance towards corporations aimed at challenging certain corporate assertions and practices. Many of these counter accounts are partisan, partial and adversarial as they seek to hold organisations, particularly corporations, to account for perceived deficiencies in recognising and reporting credibly on their social and environmental responsibilities (Dey, 2007, 2003; Gibson *et al.*, 2001; Gray, 1992; Bebbington, 1997). However, “in order to effect change groups [...] engag[ing] in counter [accounting] [...] activity [need to] balance working within and against the socio-political order” (Gallhofer and Haslam, 2003, p. 123) as this can be fundamental to their attempts to challenge the status quo and influence substantive change. As we shall see in our case, this tension between working within or outside the system is something campaigning NGOs in the project finance arena have grappled with, and its resolution has influenced the extent to which these NGOs, as “relevant publics”, have conferred legitimacy on Equator Principles financial institution project finance activities. Moreover, in order to be credible and effective these “counter accountants” also needed to act in a unified manner and campaign over an extended period to avoid the risk of marginalisation:

[...] [d]iverse, uncoordinated, somewhat marginal and short-lived practices can be labeled as lacking ‘standards’ and even as eccentric by more established forces and it is difficult to mobilise strategies to counter this (Gallhofer and Haslam, 2003, p. 123).

Despite this apparent necessity for unity, recent history suggests that many groups involved in counter accounting have “scarcely acted in a unified way [with] a number [...] fail[ing] to survive over a long period of time” (p. 123) or engage in systematic (i.e. consistent and complete) assessments of corporate accountability⁴ (Dey, 2007, p. 319). As a result, their ability to challenge the moral legitimacy of certain corporate activities has been compromised and often left little long lasting impact.

The interrelationship between moral legitimacy and accountability

One of the key concerns of counter accounting campaigns seeking to challenge organisations' moral legitimacy is a desire to hold organisations to account and force them to be more accountable for their actions. The concept of accountability "in its broadest sense [...] refers to the giving and demanding of reasons of conduct" (Roberts and Scapens, 1985, p. 447). More specifically, accountability entails "identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information" (Gray, 2001, p. 11). Being called to account for one's actions "requires one to explain and justify what was done" (Mulgan, 2000, p. 9), while "the question of whom to hold to account for what raises immediate issues of personal responsibility and internal values" (Mulgan, 2000, p. 10). Some claim that it is thus the notion of "moral responsibility that grounds the accountability of the entity with respect to [a] community" (Shearer, 2002, p. 543), and may prompt organisations to scrutinise their "mission, goals and performance" (Ebrahim, 2003, p. 194). Accountability is, therefore, largely "contingent upon both the demander and the context of the demand" (Ebrahim, 2003, p. 203).

From an organisational perspective, the concept of accountability is aligned with that of moral legitimacy as both concepts pay attention to the societal values and expectations of organisations. The literature claims that "the disclosure of information to relevant publics is essential for influencing legitimacy" (Deegan, 2007, p. 139), and that "organisations that lack acceptable legitimated accounts of their activities are more vulnerable to claims that they are negligent, irrational or unnecessary" (Meyer and Rowan, 1991, p. 50, cited in Suchman, 1995, p. 575). In other words, to be deemed legitimate by relevant publics, organisations have to be – or at least be perceived to be – accountable. This is important as:

[...] [l]egitimacy itself can be threatened even when an organisation's performance is *not* deviating from society's expectations of appropriate performance. This might be because the organisation has *failed to make disclosures* that show it is complying with society's expectations, which in themselves might be changing across time (Deegan, 2007, p. 135, emphasis added).

Research methods

The core objective of this paper is to present an in-depth, context rich stakeholder perspective on the legitimisation dynamics embedded in the initiation and evolution of the Equator Principles. It specifically focuses on enhancing our understanding of these dynamics from the perspective of an NGO "relevant public". This objective required accessing the experiences of key NGO members involved in campaigns which influenced the establishment and development of the Equator Principles. The evidence gathered, therefore, emanates primarily from a series of in-depth interviews held with NGOs that are now part of the BankTrack network, an international coalition of NGOs campaigning for greater financial institution responsibility and accountability. Further evidence emanates from a detailed review of public and emerging academic materials relating to the Equator Principles. In addition, extensive informal contacts by one of the authors with her broad network in the "sustainable finance" field, gained while working for UNEP-FI for over four years in the early to mid-2000s, were also utilised. This involved further informal interviews, extensive email correspondence and

face-to-face discussions about Equator Principles developments. These contacts also proved beneficial in assisting access points to potential interviewees.

A broad interview guide was initially developed. This was then transformed into a more focused semi-structured interview guide comprising questions which represented the core research themes or constructs informing the study (Eisenhardt, 1989; Patton, 2002). These encompassed: “accountability”; “the Equator Principles”; and “institutional and organisational change”. Each question category included approximately ten individual questions along with a series of probes and prompts (King, 1999). This paper focuses on certain aspects of this guide, namely, financial institution accountability, the interrelationship of accountability and legitimacy, and the influence of NGOs on the development and evolution of the Equator Principles.

Nine senior individuals from the then 14[5] members of BankTrack were interviewed from June to December 2006 (Table I). Six members were selected due to their historical and first-hand knowledge of NGO financial sector campaigns and the drafting of the Collevocchio Declaration, an NGO initiative aimed, inter alia, at co-ordinating campaigning for greater financial institutions’ social and environmental responsibility. Three senior individuals from NGOs that joined BankTrack subsequent to the initial six interviewees, were also interviewed to gain some alternative insights into the progression of the Equator Principles following their launch. From nine, seven of the interviews were conducted in person, while the remaining two were conducted by telephone. All interviews, lasting on average one hour, were recorded following the consent of the interviewees, and were then transcribed for analysis purposes. Permission to use both the interviewees’ names and that of their organisation was also requested and agreed to, and specific interviewee confidentiality requests regarding certain information obtained throughout the interviews was also granted and respected.

Organisation ^a	Position	Duration
International Rivers Network (IRN)	Policy Analyst	1 hour
Friends of the Earth (FoE), US ^b	Program Manager, Green Investments Project	1 hour 5 min
Rainforest Action Network (RAN) ^b	Former Director, Global Finance Campaign	1 hour
Friends of the Earth (FoE), Amazonia ^b	Former Manager, Eco-Finance Project	1 hour
Platform	Researcher	1 hour 15 min
Berne Declaration	Head, Private Finance Programme	1 hour 30 min
Campagna per la Riforma della Banca Mondiale (CRBM)	Co-ordinator	1 hour
WWF – UK ^c	Former Global Policy Advisor	1 hour
FoE Europe/International (former FoE Netherlands/Milieudefensie) ^c	Coordinator, Corporate Campaign FoE International and FoE Europe	1 hour

Notes: ^aListed in order of when interviewed; ^bthese interviewees moved to new organisations following their interviews/being approached for interviews, but agreed that the views expressed are representative of their experiences with the BankTrack member organisations in question; ^cHead, International Campaign on Globalisation and Environmental Issues at FoE Netherlands (Milieudefensie) and was involved in the drafting of the Collevocchio Declaration, FoE Netherlands currently hold BankTrack membership through another representative

Table I.
Interviewee details

The transcripts were carefully scrutinised while listening to the recorded interviews in an effort to identify and correct any errors that may have arisen during transcription. A set of codes (Fereday and Muir-Cochrane, 2006; O'Dwyer, 2004) was then developed based on the main question constructs and sub-questions contained in the interview guide. The codes assisted cross-interview analysis and the descriptive analysis of the interviews that followed. The transcripts were often re-read (in some cases several times) while listening to the interviews, to identify any additional issues or codes that may not have arisen during the initial review. Notes were taken simultaneously, forming the basis of the preliminary analysis of the transcript data. The transcripts (minus the code analysis) were then sent to the interviewees via email for review and approval. Specific areas of clarification or expansion were highlighted for interviewee attention, often in addition to some post-interview questions that may have come to mind following the interviews or during the initial reading of the transcripts. Almost all of the interviewees responded very willingly and sufficiently to this post-interview correspondence, although some had to be reminded to do so through follow-up telephone calls[6]. In some cases, interviewees went to great length to edit and expand upon their particular interview transcript. Interviewees were again asked for permission to use their names and that of their organisations, and to highlight any issues of confidentiality at this stage in the process.

Dependent on the interviewee response, the original and newly edited transcripts were used in the identification of key themes emerging from the interviews. These directly related to the core research issues and formed the basis for the analysis captured in the initial drafts of the succeeding narrative. Legitimacy theory was chosen as the theoretical framework for this narrative, following extensive discussion and debate between the authors given that the analysis suggested that the substance of the perceptions gathered about the development, evolution and current status of the Equator Principles revealed an emerging, dynamic legitimation process. This initial narrative was then revisited and re-drafted on several occasions over a six month period leading to several refined descriptions of the findings, which underpin the empirical exploration and analysis in the following section.

Case findings

The case narrative is structured as follows. The first sub-section sets the scene by revealing the character of the challenges NGOs posed to certain financial institutions, particularly with regard to their project finance activities. The nature of the response of a group of financial institutions to these legitimacy challenges, through the development of the Equator Principles, is then examined. We interpret the NGO perspectives of this response through a legitimacy theory lens highlighting how and why the Equator Principles initially formed part of a successful financial institution legitimation process arising from the minimal appeasement of many NGOs. The latter part of the narrative analyses how and why this attained legitimacy unravelled. Central to this unravelling was a perceived lack of accountability, at an institutional, organisational and individual project level, regarding the implementation of the Equator Principles.

Challenging financial institution legitimacy: powerful NGO campaigning

Civil society is increasingly questioning financial sector accountability and responsibility, and challenging FIs' [financial institutions'] social license to operate (The Collevocchio Declaration, 2003).

In the late 1990s, in the USA and Europe, a number of NGOs began to focus their attention on the private sector financial institutions that were becoming active in the project finance arena involving, inter alia, large dam, oil and gas pipeline projects in developing and emerging economies. This market, which was previously dominated by the World Bank, other multilateral financial institutions (MFIs), such as the International Monetary Fund (IMF), regional development banks and Export Credit Agencies (ECAs), was now increasingly driven by private sector financial institutions. Many NGOs were concerned that these new “power players” (FoE US interviewee)[7] in the field of development finance were operating without any poverty alleviation or so-called “sustainability” mandate:

[...] they were just out to make money, and not only was it changing the dynamics of what kinds of projects were bankrolled in the developing countries, but it had huge implications for the entire development trajectories of countries (FoE US).

Of most concern to the NGOs were situations where the private sector institutions stepped into finance projects that had been turned down by multilateral financial institutions on the basis of environmental and social concerns, such as the Three Gorges Dam in China (Missbach, 2004; Wright, 2006). There was a growing realisation that “private [sector] banks had been able to operate in relative anonymity” (Rainforest Action Network, RAN) and now held the real power over “unsustainable” projects or companies. Consequently, the level of NGO activism dramatically increased (Bayon, 2000), involving both direct, hard-line advocacy campaigns[8], and more strategic shareholder activism or so-called “market campaigns” (Waygood, 2006).

One of the most documented and successful advocacy campaigns was the Rainforest Action Network’s (RAN) four-year counter accounting inspired attack on Citigroup. This began in 2000 and concerned Citigroup’s funding and support for destructive extractive and fossil-based industries globally, which threatened the extinction of the world’s remaining old growth forests and the acceleration of climate change. When RAN commenced its campaign, Citigroup was the world’s leading lender to the coal industry and global fossil-fuel pipelines, as well as the top underwriter of stocks and bonds across the energy sector (Lobe, 2003). RAN launched customer boycotts founded on counter accounting against Citigroup in the US. These comprised, inter alia, media campaigns seeking to “educate” Citigroup customers involving high profile celebrities cutting up Citigroup credit cards. Personal name and shame campaigns involving Citigroup CEO Sandy Weill and a series of civil disobedience protests including office “blockouts” at branches in the US were also employed. In April 2003, hours before planned RAN protests at a Citigroup shareholder meeting, Citigroup called for a “cease-fire of campaign activities and a period of negotiations towards a permanent policy on environmental standards”[9].

Similarly, in 2000-2001, FoE Netherlands (Milieudefensie) led a highly visible NGO campaign against Dutch banks involved in destructive palm oil plantations in Indonesia in the 1990s. This utilised forms of counter accounting such as a critical report by Greenpeace in the Netherlands detailing the types of environmental and social problems associated with the palm oil industry in Indonesia and the nature of Dutch banks’ involvement with various plantation companies operating there between 1994 and 1999. It led to increased media coverage and a letter writing/post card campaign attacking these banks which many believe directly influenced ABN AMRO and three other Dutch

Banks to develop forestry policies for clients active in these sectors (FoE Netherlands/Europe interviewee and FoE Netherlands, 2006).

Certain NGO campaigning, therefore, successfully challenged the legitimacy of many financial institutions' activities. In 2002, in order to provide some structure to their campaigns and to present a more concise set of demands to the financial sector as a whole, a global coalition of NGOs – including CRBM, FoE Netherlands and FoE US, The Berne Declaration, RAN and WWF-UK, met in Collevecchio, Italy, where the idea of an NGO “declaration” was born. Subsequently, in January 2003, at a World Economic Forum counter event in Davos, Switzerland, the Collevecchio Declaration was launched to coordinate NGO financial sector campaigning.

The Declaration outlined six commitments for the incorporation of concerns into all financial operations, including commitments to: sustainability, “do no harm”, responsibility, accountability, transparency, sustainable markets and governance. It called upon financial institutions to embrace these commitments and to “[...] take immediate steps to implement them as a way for financial institutions to retain their social license to operate” (Collevecchio Declaration, 2003). It proposed the adoption of policies and procedures that would extend financial institutions' risk management practices to better consider environmental and social issues (BankTrack, 2004; Collevecchio Declaration, 2003):

I think there was the need for us [NGOs] at the time [...] to get out ahead of the banks in terms of what our vision of “just” finance was, so that we could then begin to cross the road there. You know there's always a risk in plotting the road by walking it because then we're adhering our own vision to what the banks think is possible. And actually, I think the Collevecchio Declaration has been instrumental in setting the goalposts (RAN).

The emergence of NGOs as a key relevant public for financial institutions was evident in the sustained intensity of NGO campaigns and the continuous risk of tarnished reputations for financial institutions (Crofts, 2003; Sevastopulos, 2003b). In addition, the moral nature and weight of NGO concerns appeared to legitimise their campaigns (Waygood, 2006) for greater financial institution environmental and social responsibility and accountability. Damaged reputations, the danger of retail customer boycotts, potential litigation due to the environmental or social misconduct of their clients and the emergence of new forms of shareholder activism, meant that many financial institutions recognised the need to respond to these challenges to their legitimacy in a coherent fashion (Amalric, 2005; Freshfields, 2005; Waygood, 2006; Wright, 2006; Wright and Rwabizambuga, 2006).

The financial sector response to NGO-led legitimacy challenges: the emergence of the Equator Principles

Given the extensive individual and now co-ordinated NGO campaigning, a meeting for international commercial banks was hosted by the International Finance Corporation (IFC) and ABN AMRO in October 2002, in London (Nelthorpe, 2003; Wright, 2006). The meeting resulted in four of the leading players in the project finance market, ABN AMRO, Barclays, Citigroup and WestLB, who had been subjected to various NGO campaigns, drafting a set of environmental and social risk management principles, known as the Equator Principles. The Equator Principles were launched in June 2003 with the support of six additional commercial banks: Crédit Lyonnais (now Calyon), Credit Suisse First Boston, HypoVereinsbank (HVB), Rabobank, The Royal Bank of

Scotland and Westpac. The Principles were designed as a framework for financial organisations to review and mitigate or avoid the environmental and social risks and impacts associated with their project finance transactions. All 10 adopting banks collectively accounted for 30 per cent of the project loan syndication market worldwide in 2002/03 (Amalric, 2005, Nelthorpe, 2003), which would later grow to approximately 80 per cent (Watchman, 2006), with the number of adopters rising to 41 by the launch of Equator Principles II in 2006.

The Equator Principles were based on IFC environmental and social safeguard policies (revised as performance standards in 2006), which at the time ranged from environmental assessment, natural habitats, indigenous peoples to child and forced labour. The principles were designed for projects with a total cost of \$50 million and were initially aimed at developing world and emerging economy projects, but later became more widely applicable. Projects were to be categorised into Category A (high risk), Category B (medium risk), and Category C (low risk), as a precondition for consideration of financing. Depending on the project categorisation, borrowers were requested to undertake an environmental assessment, environmental management plan, public consultation, information disclosure and independent expert review (Baue, 2003; Equator Principles I, 2003; for more detail, Appendix 1).

The Principles included strong commitments – such as “we will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes” (Equator Principles I, 2003) – which some felt could possibly be seen as embracing overly “lofty” ideals (Nelthorpe, 2003). However, the general consensus amongst Equator Principles supporters was that this was an ambitious and unprecedented move amongst competing banks, with the Principles having the potential to become the de facto standard for project finance in the near future (Nelthorpe, 2003; Phillips and Pacelle, 2003).

Perhaps unsurprisingly, several interviewees felt that NGO campaigns had played a significant role in the motivation behind the voluntary development of the Equator Principles. Many interviewees felt that those banks that had suffered sustained NGO attack were acutely aware that they now had to address civil society concerns in a more structured manner:

I think for Citi[group] in particular, but also for ABN and a few others, it was part of a corporate strategy [...] so the corporate strategy was to say ‘well at least on paper we have to deliver on something and we need to anticipate a higher or harsher criticism’ (CRBM).

[This was] the first time there had been [...] a substantive industry response to the sustainability agenda that was laid out by the NGOs (FoE US).

In support of these views, several Equator Principles financial institutions now openly admit to the prevailing nature of this perceived NGO influence and the consequent challenges to financial institution legitimacy which influenced the development of the Equator Principles[10].

The nature of the Equator Principles legitimisation process

In this sub-section, we reveal and examine the perceived symbolic nature of this financial institution response to the aforementioned NGO legitimacy concerns. Our analysis indicates that the initial group of ten Equator Principles financial institutions adopted a minimal appeasement strategy through the creation of the Equator Principles

to both repair the perceived reputational damage caused to them by NGO campaigns and to gain legitimacy for their financing activities in the face of the continued risks associated with NGO concerns. This becomes evident in the manner in which the Equator Principles were developed; their narrow focus on project finance activities and the financial institutions' reluctance to embed any accountability mechanisms in the principles. Despite the limited nature of this response, our examination further suggests that the establishment of the Principles initially succeeded in convincing many NGOs to confer a certain nominal level of legitimacy on the operations of the financial institution signatories. This was due to the sense of hope it instilled among these NGOs as a potential, albeit limited, first step on the path towards greater environmental and social responsibility and accountability. However, when the number of Equator Principles financial institutions began to increase, maintaining this negligible legitimacy was going to prove problematic unless the Equator Principles evolved to substantively address key NGO accountability concerns. We trace the NGO-FI interactions over the 2003-2006 period, until Equator Principles II was launched, and reveal how a lack of substantive movement on this issue of accountability led to the unravelling of this conferred level of legitimacy.

Competitive cooperation. Some interviewees believed that the motivation driving the manner in which ABN AMRO, Barclays, Citigroup and West LB developed the Equator Principles, with the support of six additional commercial banks, was highly influenced by competitive factors:

If you think of the four initiators of the Equator Principles, they were those mainly under attack from market campaigns, so if you read it that way it's pretty interesting because [...] these banks that were competing were the major players in project finance, so they recognised that project finance is a battle ground and they had to move on their ground (CRBM).

Given their large presence in the project finance market – all four arranged more than \$15 billion in project finance, or 17.5 per cent of the market occupied by the 20 largest arrangers (Sevastopulos, 2003b) – many interviewees believed that these financial institutions did not want to move in isolation to adopt the Equator Principles as this may have placed them at a competitive disadvantage to competitors who would not demand such standards of project sponsors (Sevastopulos, 2003a).

One of the hypotheses that Amalric (2005) proposes, which our FoE US interviewee agreed with, was that the Equator Principles were part of a strategy devised by more “exposed” banks (especially those with a strong retail banking presence), to “deflect NGO criticisms” (p. 6) and restore a level playing field with their less exposed competitors. The main purpose was thus to set the “standard” and to impose it on all industry members. These views were supported by several other interviewees, and subsequently created the perception that this action was aimed at fending off potential financial institution regulation:

They basically set up the Equator Principles as a sort of ‘gentleman’s agreement’, as a sort of bottom-line for being fair [...] beyond which you [the financial institutions] could not compete (CRBM).

By developing the Equator Principles [...] they're off the hook for five years or longer from the side of policymakers (FoE Netherlands).

Therefore, from the NGOs' perspective such "joint damage control" (CRBM), represented an attempt to "prevent or forestall potential challenges to [the] legitimacy [of financial institution operations]" (Ashforth and Gibbs, 1990, p. 183), as opposed to substantively addressing their social and environmental responsibilities:

I think the reason the banks took it on, including the people at the top, would have largely been a precautionary mechanism to say 'ok, well we can sign up to the Equator Principles and we'll be sustainable to some extent [...] and that will get people off our backs (Platform).

The Equator Principles Project finance focus. While the NGOs evidently influenced the initiation of the Equator Principles, their impact on the Principles' content and structure was limited as the financial institutions were tentative about the extent of NGO involvement in the drafting process. For example, the NGOs behind the Collevocchio Declaration, later known as "BankTrack", were not involved as a group in the specific drafting process, nor were they, in their view, substantively "engaged" with before the June 2003 launch. What did transpire were limited meetings between the four leading financial institutions and these NGOs in Washington and Amsterdam in March and April 2003, respectively:

They did – with our real encouragement – some broader level stakeholder [...] I wouldn't call it consultation because they just had a couple of meetings or so, before the Equator Principles were actually launched, for some general input (FoE US).

They basically came to us and they didn't share the draft, but we got the draft somehow... someone leaked it [...] so the whole discussion [with us] was quite philosophical in [regard to] what they should put in the preamble. However, it was not discussed in subsequent meetings (CRBM).

Given that the Collevocchio Declaration was intended to apply to all financial sector operations, one of the concerns for NGOs at the time was the proposed focus of the Equator Principles on project finance activities alone. Project finance had been at the centre of NGO campaigning and represented the area in which some of the Equator Principles leaders were already developing policies and risk management procedures[11]. However, the NGOs were aware that this was merely a small percentage of the environmental and social impacts of the financial sector as a whole. They felt that for leading financial institutions it represented the convenient "low-hanging fruit" available at the time, allowing the financial institutions to address broader NGO concerns by attempting to legitimise this specific banking activity in order to deflect attention from other fundamental areas of concern:

Well it [project finance] was the "low hanging fruit", I mean, you know [...] usually if a project is concrete usually it's massive infrastructure, usually it's oil, gas, I mean that's where the problems lie. I'm not saying it was easy but, I'm saying it was visible [and] tangible. It's different from [...] other forms of financing. Think of the way the OCP oil pipeline was financed, or investment in the derivatives market whose composition people do not understand (CRBM):

The Equator Principles were, therefore, seen by many NGOs as akin to an "evocative" symbol (Suchman, 1995, p. 572) offering minimal symbolic reassurance (Ashforth and Gibbs, 1990) to them and by extension the wider society. For the NGOs, this allowed the financial institutions to create the perception that they were beginning to address

broader NGO concerns thereby implicitly garnering legitimacy for all of their financial operations through a sole focus on project finance.

This led many interviewees to conclude that, despite being a positive development in themselves, the Principles could only ever be seen as a potential springboard for further action by the financial institutions:

Project finance is an obvious starting point for a bank to improve the environmental and social sustainability of its portfolio. But it is only a starting point; sustainable financing ultimately requires attention to the environmental and social impacts of *all* financial operations [...] the scale of the impact, not the nature or size of the transaction, should indicate whether a policy response is appropriate. Moreover, from the banks perspective, other financial products may also entail significant financial, credit and reputational risks associated with environmental and social performance. Ultimately, then, banks should have environmental and social policies and management systems that are *tailored to the imperatives and impacts of the full range of their operations* (WWF and BankTrack, 2006, p. 74, emphasis added).

The accountability gap. While the Equator Principles provided a relatively coherent and structured means by which to address NGO legitimacy concerns, the lack of any clear governance or accountability commitments therein to ensure their aspirations would transpire into practice concerned many NGOs. For example, at the time, the Principles made no provision for a governance structure to ensure compliance at an industry level, or an implementation and reporting mechanism to ensure bank and client adherence to the principles at an individual bank and project level. There was also no accountability apparatus that would include an Ombudsman function and could act as a grievance mechanism at project level for affected communities (BankTrack, 2005a, 2005b, 2004a, 2004b, 2004c)[12]. The fact that there was not even a secretariat to which the NGOs or other constituents could send their complaints to originally made the process all the more questionable for the NGOs. Furthermore, instead of formal mechanisms to ensure accountability, the Equator Principles financial institutions suggested that they could “police themselves by observing in co-financing deals how lead banks implemented the due diligence, procedures, and standards required of the EP [Equator Principles]” (BankTrack, 2003, p. 9). However, as BankTrack noted “[...] mere observation is a wholly inadequate system of accountability” (BankTrack, 2003, p. 9). Even before the Equator Principles launch, the NGOs had consistently highlighted these inherent flaws in the proposed Equator Principles structure:

The NGOs made some really, really fundamental critiques in the early stages, which just were not incorporated. So it's hard to tell whether or not they [the financial institutions] were just doing it [seeking NGO comments] simply as a routine exercise or whether or not they were serious about incorporating them. And those critiques that we made [...] still identify the most salient weaknesses of the Equator Principles [...] the lack of governance, accountability, transparency, any minimum disclosure[13], any kind of accountability mechanism at all, and also a complete lack of an approach on implementation (FoE US).

To the NGOs this lack of provision or apparent concern for transparency, disclosure and accountability mechanisms was perceived as key evidence of a primarily symbolic approach by the financial institutions to legitimising their project finance activities. The financial institutions were seen as favouring “the flexibility and economy of symbolism” (Suchman, 1995, p. 576) in contrast to the NGOs’ desire for greater substance. This was

reinforced by the NGOs' view that the financial institutions "cherry picked" from the IFC standards by deliberately excluding IFC obligations on disclosure and transparency of decision-making and the Ombudsman function (Freshfields, 2005). There was thus the feeling that "they [didn't] want to be controlled, [that] they'd rather be in control" (WWF UK). These apparent preferences for symbolism were also evident in the way the Equator Principles were geared towards discretionary adoption and implementation by adopting financial institutions:

The whole way the Equator Principles are structured is not about leading to accountability because I mean individual banks sign up without even telling the other banks. It's not some agreement. It was designed intentionally that they couldn't be held [...] not liable but [...] there is a lot of flexibility in there. I mean they're just guidelines, so it was designed around the concept of flexibility and it being difficult for banks to really have to stick to them ultimately. I don't think that was because they necessarily were trying to avoid things but they won't want to sign up to something strict (Platform).

The mere development and existence of the Equator Principles appears to have been deemed adequate for many Equator Principles financial institutions to legitimise their project finance activities. The symbolism of cooperation between financial competitors in the project finance market was considered particularly powerful to withstand any need for the disclosure mechanisms often considered central to attaining organisational legitimacy (Deegan, 2002, 2007) As a consequence, the Equator Principles seemed to represent a symbolic procedural as opposed to a substantive outcome-oriented legitimacy "tool" for adopting financial institutions (Suchman, 1995, p. 586):

There's all kinds of things I think that the initiative could have done to ensure that all the banks were being serious about implementing them [the Equator Principles]. And part of that would have been having a reporting guideline [...] the only accountability mechanism from the banks' point of view, that they pointed to, was the fact that "well if there are going to be four Equator banks and they're all involved in one deal, right, all of us will actually have to agree on how the deal is categorised. And that is our accountability because we're going to have to sit down and say "do you agree this is a B?" "Yes, it's a B", "okay, alright". See now we're all keeping each other accountable." That was the extent to which they did accountability (FoE US).

However, as we outline in the next sub-section, despite the perceived symbolic nature of the Equator Principles, they succeeded, at least initially, in enticing many NGOs into a more collaborative mode of campaigning thereby conferring a certain level of legitimacy on financial institutions project finance operations and on the Principles themselves.

Attaining a minimal level of legitimacy: the initial "success" of the Equator Principles' minimal appeasement

Our analysis suggests that the collective financial institution effort to develop the Equator Principles, as well as evident commitment to implementation in a few banks appeased several NGOs. The fact that the Equator Principles emerged from financial institutions' project finance and risk management departments as opposed to corporate affairs (Sevastopulos, 2003b) accentuated this appeasement. Many NGOs saw the Equator Principles, despite their obvious flaws, as a potential starting point from which they could influence further substantive action in the sector. Hence, they "relax[ed] their vigilance" (Ashforth and Gibbs, 1990, p. 183) and hence their counter

accounting activities somewhat and entered into a period of “hopeful” dialogue with the Equator Principles financial institutions aimed at improving the Principles and, as a consequence, Equator Principles financial institutions’ social and environmental responsibility and accountability. This engagement strategy was aimed at eventually transforming the perceived symbolism surrounding the Equator Principles into something more substantive. As such, through this engagement strategy the NGOs conferred, however grudgingly, a minimal level of legitimacy on the Equator Principles financial institutions.

The NGOs’ openness to collaboration was evident in their desire to work with the Equator Principles financial institutions. For example, BankTrack produced a report with Equator Principle disclosure recommendations (BankTrack, 2003). They also proposed structural options for an accountability mechanism for project-affected communities, favouring a “joint accountability mechanism” based on those used by the World Bank Group and other multilateral development institutions (BankTrack, 2004; WWF and BankTrack, 2006). While remaining committed to their goals, BankTrack members relaxed the partisan nature of their initial counter accounting and resolved to seek change by, as far as possible, working with as opposed to against the financial institutions they sought to challenge and change.

The Equator Principles financial institutions, however, felt that there was a certain naivety on the part of the NGOs in making these proposals only a year after the Principles’ launch. Many of them argued that they needed more time to make the internal changes necessary for their implementation. They felt that the NGOs lacked an understanding of how banks operated in this regard, especially when it came to competition, commercial confidentiality and their legal restraints concerning the release of documentation within the sector (BankTrack, 2005b). However, despite the fact that the NGOs felt that “commercial confidentiality should not be used as an excuse to deny stakeholders information” (BankTrack, 2004a, p. 13), many NGOs acknowledged such challenges for the financial institutions, and remained optimistic that the Equator Principles could eventually fulfil their potential to enhance the sector’s overall social and environmental performance. There were already some positive signs, as some Equator Principles financial institutions appeared open to dialogue with NGOs on their disclosure concerns and a small working group was established amongst them to explore options for an Equator Principles reporting framework:

BankTrack appreciates the fact that some of the EP banks made a serious attempt to engage with international NGOs over the last year, which has helped to increase mutual understanding and the flow of ideas (BankTrack, 2005a, p. 6).

The promise of the Equator Principles – that clients will ultimately design and implement more environmentally and socially benign projects, spurring more sustainable development – still holds some hope (BankTrack, 2004b, p. 46).

There was also evidence of some application of “the spirit” of the Principles to other projects falling outside a direct project finance remit. As a result, BankTrack publicly commended the efforts of some Equator Principles financial institution “leaders” to implement and even “move beyond” the Principles. For example, Citigroup’s and Bank of America’s policies on forest protection, climate change and indigenous rights were highly praised:

[...] the decision of these leading institutions to move so quickly beyond Equator represents a momentum in the sector that provides some reason for optimism [...] [this report] should be seen as an invitation to Equator banks to enter into transparent and open dialogue with BankTrack on how to move forward with the EPs [Equator Principles] (BankTrack, 2004b, p. 9).

Consequently, BankTrack's commitment to furthering dialogue and engaging in negotiation with the Equator Principles financial institutions, their desire to assist banks to move beyond the Principles and to favour a process of mutual learning and understanding over direct advocacy reflected the granting of a certain level of legitimacy to the Equator Principles financial institutions' project finance activities and the Principles themselves. The NGOs' willingness to openly recognise and commend some Equator Principles financial institutions' progress at this point also demonstrates the initial success of the financial institutions' perceived symbolic gesture. However, as we proceed to reveal, maintaining this minimal legitimacy meant moving beyond mere symbolism towards embracing greater substance particularly in the form of accountability mechanisms aimed at enabling an assessment of the actual implementation of the Principles.

The unravelling of minimal legitimacy: the centrality of accountability

The NGOs' faith in the Equator Principles turned to frustration over the first year, when implementation, from their perspective, appeared to founder. The NGOs claimed to have encountered much secrecy surrounding the implementation process, despite their willingness to shift from confrontation towards constructive dialogue. For example, clarity surrounding the ensuing Equator Principle "group" structure and its governance was far from forthcoming:

I mean it was quite chaotic, it wasn't very well organised. So a lot of it was sort of conversations with the various people. It took a while – and they were quite secretive too you know – before they started to collect into an obvious group with someone leading [...] and that was really under pressure from the NGOs for the banks to get a bit more transparent and to sort out their governance (WWF UK).

There was a growing feeling that although Equator Principles financial institutions were open to meet and discuss various issues with NGOs; the NGOs' power to effect any additional change had dissipated somewhat following the Principles' launch.

Equator Principles violations and the emergence of "free-riders". In February, 2004, several Equator Principles financial institutions announced their participation in the \$3.6 billion Baku-Tablisi-Ceyhan (BTC) oil pipeline, despite NGO counter accounts relaying numerous violations of IFC and Equator Principles standards[14]. This was compounded by the controversial decisions of some of the leading Equator Principles financial institutions to act as financial advisors and potential financiers of the world's largest integrated oil and gas pipeline development, Sakhalin II, in Eastern Russia, from 2004 onwards. Platform (2004) produced a counter account in the form of a report entitled "Principal objections: Analysis of the Sakhalin II oil and gas project's compliance with the Equator Principles" based on an evaluation of Sakhalin II's compliance with the World Bank Group (including IFC) Standards. The report, supported by BankTrack members and other international NGOs, highlighted several problems with the project and contained a detailed analysis of the breaches of the Equator Principles. The project remains hugely controversial due to problems

surrounding whale and marine biodiversity, geologic hazards, effects on local fishing communities, failures in the environmental impact assessments and breaches of Russian environmental legislation (Ostrovsky, 2006; Platform, 2004)[15].

In addition, NGOs felt that some of the new adopters of the Equator Principles were exploiting the lack of accountability requirements embedded in the Equator Principles structure. To them, these adopters seemed more interested in the reputational benefits associated with the Equator Principles “brand”, with less attention being afforded to the Principles’ substantive internalisation within their organisations. This emphasised the perceived legitimacy gains made by the original group of ten Equator Principles financial institutions while also indicating how any genuine efforts to ensure Equator Principles compliance by the these ten institutions could be jeopardised:

The fact, for instance, that any bank who wants to can sign on to the Equator Principles without having to fulfil any requirements does not add to the credibility [of the Equator Principles] because we’ve seen a lot of banks who’ve signed on to it and who obviously only mainly use it as a kind of PR tool (FoE Netherlands).

I mean some banks clearly are free riding and that’s what the [other] banks themselves complain about. Some are just here purely for the ride (Platform).

The nature of the Equator Principles structure, especially the absence of monitoring and compliance mechanisms to ensure a “standardised” approach to implementation, was leading to a situation where the Equator Principles “leaders” were unable to control the numbers of adopting organisations and their levels of implementation:

In practice they had a concrete problem which was implementation [...] they know that – they won’t probably admit [this] openly outside – but they know that in particular when you have more and more banks signing on to it [the Equator Principles], the way you manage it and check it is very much a problem. I mean, not all of the Equator Principles financial institutions [even] go regularly to their own meetings (CRBM).

Resistance to group accountability. At a meeting hosted by Credit Suisse in Zurich, in February 2005, it became obvious to several NGOs that the Equator Principles financial institutions were reluctant to move in unison on the NGOs’ accountability demands:

After a year and a half we came to them and said “it’s not working, we have some banks that have gone beyond project finance or whatever [...] and we have other banks that aren’t even internalising whatever procedures [are necessary] for implementation or keep financing rubbish, so what the hell is going on?” So if you want to protect the bottom line, to be coherent, you need to put up a sort of multi-transparent accountability mechanism. And they said “no, forget it” [...] And I still see that this is the dividing argument between us and them. I mean beyond whatever policies that you adopt, the fundamental issue is [...] how you are being held accountable in achieving this by those that are affected by your operations (CRBM).

The financial institutions argued that the Equator Principles were never structured as a group initiative or organisation, but as a set of guidelines that were designed for independent financial institution implementation. Nevertheless, somewhat paradoxically, over the two years of their existence, the Equator Principles had begun to command a form of “group” recognition. This was evident in the increasing number of Equator Principles financial institutions, rising to 31 by June 2005, and the

development of an Equator Principles website announcing new signatories and Equator Principles financial institution news items:

Well I guess they were never really into the sort of collective thing [...] they all agreed voluntarily to the same set of standards but as soon as it comes to implementation or even application of the principles [...] they are completely free to do whatever they want [...] and that point is very strongly worded [in the Equator Principles] (Berne Declaration).

Following the Zurich meeting, in an attempt to distinguish the leaders from the laggards, NGO emphasis moved towards monitoring, comparing and contrasting individual Equator Principles financial institution efforts. For example, BankTrack produced detailed counter accounts in the form of reports comparing the credit policies of international commercial banks. One report compared and rated 39 commercial banks' environmental and social policies against international standards and assessed whether these were being translated into practice[16]. A further type of counter account emerged somewhat later on the BankTrack website in the form of a so-called "dodgy deals" section listing various banks, the sustainability initiatives they were involved in, and the "dodgy deals" they were participating in/supporting. This comparison based reporting was targeted at the competitive nature of the financial institutions in order to entice some collective movement towards more substantive accountability in the sector as a whole. However, as the final sub-sections outline, according to our interviewees at the time of writing this has not transpired in any substantive manner.

Inadequate transparency and disclosure. Over the 2005 to 2006 period, despite the concerted efforts of some Equator Principles financial institutions to begin to report on their Equator Principles implementation – largely within their "sustainability"/corporate social responsibility (CSR) reports – or to, inter alia, develop sector specific policies, for many NGOs the quality of transparency remained inadequate. Moreover, it was only a minority of Equator Principles financial institutions that were making any attempts to be accountable:

I know that of the thirty plus Equator banks [as of early June 2006], there are only a dozen or so that feel as though they have to report regularly to civil society groups about their progress. Well we could circumvent that by having mandatory accountability standards for all Equator banks [...] and in doing so, we would actually force the free-riders to either step up or not drag down the whole process (RAN).

NGOs claimed that information on Equator Principles implementation such as client assessment processes, decision-making procedures, monitoring and independent evaluations of client compliance was still not being made available. They argued that:

In order for outside stakeholders to be confident that the banking sector's policy pronouncements are more than just rhetoric, banks should urgently adopt a reporting framework that shows – rather than merely suggests – that they are implementing their policies in ways that make a meaningful difference to people and planet (WWF and BankTrack, 2006, p. 76).

In addition, the lack of redress or accountability mechanism for project-affected communities remained a persistent concern.

Furthermore, in 2006, a perceived sense of complacency among financial institutions emerged through certain public utterances inferring that the NGOs had effectively taken on the accountability role absent in the Equator Principles and that

this was central to legitimising financial institutions Equator Principles related activities. Some NGOs feared that the Equator Principles financial institutions were relying on this pressure as a convenient alternative to developing more effective Equator Principles accountability mechanisms. This was reflected in views expressed in, for example, The Ethical Corporation magazine:

[...] the reason that the EP [Equator Principles] has been so successful in generating legitimacy for its participants despite lacking an explicit accountability mechanism is that that role has been left implicitly to the NGOs (Newton, 2006, p. 15).

The article above continued by quoting the Head of Environmental Risk Policy at Barclays, an Equator Principles Financial Institution, stating that Equator Principles banks were “already regulated by the fact that they operate in the glare of NGO scrutiny”. It also cited the Director of Environmental and Social Development at IFC indicating – during an online *Financial Times (FT)* debate in June – that “you [BankTrack] and others will play your part in holding us all to account”. One interviewee was clearly annoyed with this view:

[...] that’s what’s frustrating in the FT sustainable supplement and it was actually [name of Director of Environmental and Social Development at IFC] talking about IFC stuff, not about the Equator Principles [directly], and there was this online debate, where Johan [BankTrack coordinator] asked a question [...]. And she said “well now it’s up to you, the NGOs to keep the pressure on, to make sure things are implemented”. And actually I don’t want it to be up to me, I want the banks to hold themselves accountable and I’ll go do something else, they shouldn’t really rely on us. Because ultimately then we’re being free consultants and [...] that’s not our job (Platform).

In summary, a perceived absence of financial institutions’ sense of their own need to be accountable for their adopted Equator Principles commitments emerged. This was evident in the Equator Principles violations, the emergence of “free-riders”, and the limited transparency and disclosure. This in turn appeared to result in the retraction by NGOs of the previously conferred legitimacy afforded to Equator Principles financial institutions’ project finance activities and to the Principles themselves.

The launch of Equator Principles II: further minimal appeasement

In February, 2006 a revision of the Equator Principles (Equator Principles II) was initiated. However, this was mainly influenced by the revision of the IFC safeguard policies to performance standards – upon which the Equator Principles are based – as opposed to representing a direct response to previous NGO critiques. Nevertheless, the NGOs viewed this as an opportunity for Equator Principles financial institutions to address the perceived extensive flaws within the Equator Principles structure. When the NGOs were approached by Equator Principles financial institutions for their comments, the outstanding need for accountability at institutional, individual bank and community level again formed a substantive element of their responses and requests. BankTrack also produced a comprehensive critique of the draft Equator Principles II in April 2006, to encourage the Equator Principles financial institutions to finally address some of these ongoing concerns. However, only the bare minimum of these requests were included in the final version of Equator Principles II, launched in July 2006:

Some of BankTrack's feedback, such as the suggestion to regularly review the Principles with an eye toward continuous improvement, was taken on board in the revision and is very much welcome. However, the EPs [Equator Principles'] most fundamental governance and accountability problems still have yet to be adequately addressed (BankTrack, 2006a).

Equator Principles II did, however, include a principle on disclosure for the first time, but it was nowhere near as prescriptive as the NGOs had requested and only made provision for minimal reporting on:

[...] the number of transactions screened by each EPFI [Equator Principles financial institution], including the categorisation according to transactions (and may include a breakdown by sector or region) and information regarding implementation (Equator Principles II, July 2006).

The NGOs found this vague in its requirements, with no practical guidance on how this was to be addressed, which once more highlighted the discretionary and flexible nature of implementation. Additional notable changes, however, included a reduction in the project threshold for Equator Principles application, from \$50 million to \$10 million, and the expansion of the principles to include Equator Principles financial institutions advisory services along with social as well as environmental assessments, action plans, management systems, a grievance mechanism and a legal compliance covenant. However, while some revisions represented substantive improvements and there was the impression that Equator Principles financial institutions were "consistently feeling as though they ha[d] to disclose more" (RAN), overall the revisions fell far short of the changes the NGOs had been hoping to encourage. In addition, there was a suspicion that the Equator Principles financial institutions "were taking up some issues, but that they wanted to put all of the responsibility on the project sponsors" (Berne Declaration). For the NGOs, the Equator Principles had ultimately "fail[ed] to live up to their potential" (BankTrack, 2006a) to deliver substantive change:

BankTrack is disappointed that the EP banks have not taken the opportunity provided by the EP revision to provide for [...] an accountability mechanism [...] It has not yet been proven on a generalized basis that the EPs are making a difference to communities on the ground. Today, EP banks are still involved in environmentally and socially harmful projects [...] This invites legitimate allegations of "greenwash" which illustrates the urgent need for EP implementation, compliance and accountability systems (BankTrack, 2006a).

Given the disappointing outcome of the Equator Principles II process for the NGOs, and an absence of regulation, some interviewees seemed to favour a resurgence of their former hard-line advocacy campaigns involving a return to more adversarial counter accounting to try to stimulate more substantive financial institution change:

I don't think that either EP I or EP II has fundamentally changed the setting of the stage or the debate. Actually there have been dramatic changes at [some of] the individual banks [...] [but we cannot] sit down and look at the banks and say, "well, we did what we wanted to achieve [...] so we can stop working on banks, goodbye" [...] I don't think that it will ever get to this point so [...] it means that it needs the possibility to go back to confrontational challenges and attacking (Berne Declaration).

My prediction is that probably NGOs will radicalise more, because there are sort of litmus tests coming up in terms of projects, and I'm pretty sure that some banks will be involved. So my prediction is that some groups will go back to more [...] I'm not saying they won't

engage any longer, but I think they will try to strengthen again the confrontational side (CRBM).

This potential reversal of the NGOs' engagement strategy, along with new BankTrack recommendations on sustainable banking (BankTrack, 2006b), may have represented an attempt to regain some NGO influence within the sustainable finance domain, following their appeasement during the initial development and progression of the Equator Principles.

Discussion and conclusions

This paper has analysed the evolution of one of the key financial sector environmental and social responsibility initiatives in recent years, the Equator Principles. Using a combination of in-depth interviews, extensive documentary analysis and participant observation, the paper reveals many of the dynamics surrounding the production and progression of the Equator Principles primarily from the perspective of a significant financial institution stakeholder group – campaigning NGOs – who were influential in initiating the Principles. Drawing on the NGOs' perspectives, the paper has analysed the evolution of the Principles as part of a financial sector legitimisation process primarily aimed at seeking moral legitimacy for financial institutions' project finance activities.

The paper has been conceptually framed using legitimacy theory. Much of the prior social accountability research using legitimacy theory does so to illustrate support or otherwise for motivations for corporate social responsibility and/or disclosure explained by legitimacy theory (Deegan, 2002). In contrast, this paper concentrates on the perceived dynamics of a process of legitimisation, focusing especially on the perspectives of a key stakeholder group (NGOs) within this process. While some previous studies have focused on the influence of pressure groups or NGOs on corporate social disclosure (Deegan and Blomquist, 2006; Tilt, 1994), few, if any, studies drawing on legitimacy theory have specifically examined NGO influences on a legitimisation process. Moreover, there has, to date, been scant consideration of key stakeholder perceptions of the success or failure of such legitimisation processes (Breton and Cote, 2006), and how or if they could prove more beneficial for stakeholder groups (but see Milne and Patten, 2002; O'Dwyer, 2002). By engaging in a deeper exploration of Ashforth and Gibbs' (1990) notions of symbolic and substantive approaches to organisational legitimacy, the paper develops our knowledge and understanding of how legitimacy manifests itself in an original empirical domain. The paper also highlights the potential scope for a broader application of legitimacy theory within future research in the social accountability field which moves beyond a narrow focus on disclosure.

The paper reveals how NGO campaigns for greater financial institution responsibility and accountability, often involving counter accounting, challenged some of the world's leading financial institutions and forced them to address NGO concerns. In 2003, in an apparent attempt to repair and gain moral legitimacy from this relevant public, four of the world's biggest commercial banks, who had been subjected to such campaigns, garnered the support of six fellow banks to launch the Equator Principles for project finance. As the most obvious source of NGO grievances at the time, the financial institutions sought to protect their interests in the project finance market, leading some NGOs to infer that the development of the Principles involved

these institutions “engaging in firefighting or dialogue as an institutional necessity for justifying [their] own existence” (CRBM interviewee).

This initiative appeared to initially appease the NGO stakeholders as they saw the potential of the Equator Principles to act as a first step towards more substantive action in all Equator Principles financial institutions activities, not just project finance. Hence, many NGOs “relax[ed] [the extent of] their vigilance” (Ashforth and Gibbs, 1990, p. 183), reduced the extent of their counter accounting, and entered into a period of “hopeful” dialogue with Equator Principles financial institutions, aimed at improving the environmental and social responsibilities and accountability of these institutions. Our analysis suggests that this, along with NGO recognition of the efforts some financial institutions were making to implement and report on the Principles, conferred some nominal level of legitimacy on the Equator Principles financial institutions’ project finance activities and on the Principles themselves. This process operated contrary to much NGO counter accounting activity outlined in the literature in which, according to Gallhofer and Haslam (2003, p. 123), NGOs have rarely acted in a unified manner with many failing to endure for long time periods. The creation of BankTrack and its attempts to engage directly with financial institutions created a sense of unity aimed at ensuring that the campaign issues survived for some time thereby potentially improving their chances of instigating change.

However, from the NGO perspective, over the first three years of the existence of the Principles, the lack of sufficient proof of Equator Principles implementation or substantive developments in institutional transparency and accountability mechanisms, as well as the violation of the Principles by some adopting financial institutions proved frustrating. There was a sense that the Equator Principles financial institutions had “put the right process in place [but] without the right sorts of principles” (WWF UK). Sustained NGO requests for a more substantive response to their concerns have only now, according to the NGOs, been minimally acceded to in a revised version of the Principles (Equator Principles II). This appears to have reinforced a perception amongst NGOs that the Equator Principles financial institutions have “themselves frequently come to identify with the symbols and legitimating myths that support their position” (Ashforth and Gibbs, 1990, p. 186). Consequently, some NGO interviewees favoured a resurgence of the more hard-line advocacy campaigning involving counter accounting that initially influenced the establishment of the Principles.

It is clear that for the NGOs the legitimacy of the financial institutions’ project finance activities is dependent on demonstrating accountability for the implementation of the Equator Principles. For them, the Equator Principles largely represented a symbolic legitimization vehicle aimed at allowing financial institutions to advocate their adoption of highly visible and salient practices, apparently consistent with NGO expectations, but offering little opportunity to assess whether the “essential machinery” (Ashforth and Gibbs, 1990, p. 181) of the financial institutions was altered as a result. In this respect, the Equator Principles are perceived as a form of “ceremonial conformity” (Ashforth and Gibbs, 1990), aimed at maintaining financial institutions’ licence to operate in project finance activities in particular. The continued absence of a clear accountability mechanism at an institutional, organisational or project level is, therefore, central to the perceived NGO reduction in the level of their previously conferred legitimacy. For NGOs “the proof is in the pudding” (RAN interviewee), and “just because [some financial institutions] have set systems in place and have the right policy on paper [...] [is] no

guarantee of anything when it comes to real results on the ground” (FoE US interviewee). Deegan (2007, 2002) argues that all legitimisation strategies rely upon disclosure, as the provision of information to relevant publics is essential for achieving legitimacy. Our case-specific analysis supports this view as our findings suggest that unless substantive disclosure and broader accountability mechanisms become central elements of legitimisation strategies and processes, then legitimacy may not be attained or, if attained, may be fleeting.

This case is also informative about the nature of counter accounting and its ability to instigate change through challenging the legitimacy of aspects of organisational activity. Counter accounting activities encompass information and reporting systems employed by NGOs in order to promote their causes or counter prevailing official positions (Gallhofer and Haslam, 2006). Many NGOs initially employed highly adversarial counter accounting techniques to promote the cause of increased financial institution social and environmental responsibility and accountability. This elicited a limited response from some financial institutions, albeit with significant perceived potential for development. NGOs employing more “distanced” counter accounting were then faced with a choice. They could remain distant from their targets (the financial institutions) and continue to embrace highly adversarial counter accounting, as well as other partisan campaign activities, to push for more substantive change from the “outside”, or they could engage with the financial institutions in some manner in the hope of influencing change more directly. As Gallhofer and Haslam (2003) note, the NGOs effectively had to choose between working with or continuing to work against the prevailing financial sector “order”. The choice to work with the financial institutions through the coherent structure of BankTrack was a strategic one aimed at developing the Equator Principles into something likely to enable more substantive changes in financial institution activities. This unified manner and initial desire to encourage as opposed to demand improvements to the Equator Principles through extreme measures contrasts with many NGO counter accounting activities revealed in prior literature which tend to lack cohesion even when campaigning on similar issues (Dey, 2007; Gallhofer and Haslam, 2003, 2006). However, BankTrack’s “engagement” did not lead them to abandon counter accounting entirely; they merely used it in the more systematic, less confrontational vein suggested by Dey (2007) by meticulously highlighting flaws in the Equator Principles’ implementation and content and suggesting key improvements. Given the ensuing scenario whereby BankTrack were disappointed with the financial institutions’ response to their efforts, proponents of more adversarial counter accounting might consider this strategy a failure and argue that sticking with the initial radically oriented counter accounting would have proved more effective. This argument, however, ignores the fact that BankTrack’s direct engagement was always critical in nature and did not imply the total abandonment of counter accounting techniques. Our case illustrates how counter accounting can come in many forms and can be conceptualised along a continuum ranging from radical distanced counter accounting to engaged, consensus seeking counter accounting which retains a critical edge. At the time of the interviews there appeared to be some move towards re-embracing more radical counter accounting given the NGO frustrations outlined above.

From our evidence, it is not possible to fully assess if the Equator Principles financial institutions found it impossible, as many have claimed publicly, to develop accountability mechanisms given client confidentiality and legal restraints, or whether NGOs are now perceived as a less threatening force to warrant more

substantive action in this regard. Whether this is evidence of financial institution capture of the “sustainable finance” arena also remains unclear. We fully accept that this paper primarily tells one side of the story of the dynamics of the legitimization process surrounding the evolution of the Equator Principles. However, our focus on the perceptions of a particularly powerful (at least initially) and critical relevant public is deliberate, as these perspectives are largely absent from corporate social accountability research seeking to empirically inform legitimacy theory. These perspectives are also central to assessing the success or otherwise of legitimization processes.

We do, however, recognise the importance of obtaining financial institution perspectives on the Equator Principles’ development. This research is especially essential as there is evidence, alluded to by our NGO interviewees, that some individual Equator Principles adopters have made concerted efforts to implement, report on, and move beyond the Equator Principles requirements[17]. However, unless there are increased moves at an institutional level to ensure that all Equator Principles adopters demonstrate greater accountability for Equator Principles implementation, then the legitimacy of financial institution Equator Principles-related project finance activities in the eyes of the NGOs will remain questionable. Hence, future research should enlist these financial institutions’ perspectives in order to further deepen our understanding of the complex NGO-financial institution dynamics in this evolving arena, and to examine how and whether apparent symbolic approaches to legitimization can become substantive over time.

Notes

1. Available at: www.unepfi.org/signatories/index.html?&no_cache=1; www.cdproject.net/members.asp; www.wbcsd.ch/templates/TemplateWBCSD4/layout.asp?type=p&MenuId=MzM5&doOpen=1&ClickMenu=LeftMenu and www.unpri.org/signatories/ (accessed 9 June 2008).
2. For example, Patten (1992) infers that an increase in environmental disclosures by petroleum companies following the Exxon Valdez oil spill in Alaska in 1989 supports legitimacy theory explanations of this increased disclosure. In Deegan *et al.*'s (2002) study of the disclosures of BHP Ltd (now BHP Billiton) from 1983 to 1997, the authors claim that positive correlations between media attention and the volume of company disclosures provide “evidence that managers disclose information to legitimise their organisations’ place within society” (pp. 333-334).
3. We should point out that while we are specifically focusing on commercial banks in this paper and often refer to them as financial institutions throughout the paper there are also other types of financial organisations involved with the Equator Principles. These include export credit agencies, an insurance organisation, a developmental bank and a clean energy investment firm. Many of the commercial banks we consider also often have very active retail, investment or asset management arms. All of these institutions are collectively referred to as Equator Principles Financial Institutions (EPFIs).
4. See Gray *et al.* (1996, p. 273) for some critique of CIS’s counter accounting activities.
5. There are 18 members and nine partner organisations as of June 2008 (available at: www.banktrack.org/?show=18&visitor=1, accessed 9 June 2008).
6. Only one interviewee failed to adequately address the follow-up questions posed to her following the interview, and changing jobs was attributed as the reason for this.

7. We refer to individual interviewees using the full name of their NGO or the commonly used acronym used to refer to their NGO (e.g. FoE is used for Friends of the Earth). Please see Table I, first column for further details of these acronyms.
8. For example: (1) FoE England, Wales and Northern Ireland (EWNI) 2002 exposure of Barclays financing of Asian Pulp and Paper's (APP) destruction of Indonesian rainforests since the 1990s (available at: www.foe.co.uk/resource/press_releases/20020425132827.html, accessed 9 June 2008) and (2) German Urgewald's campaigns against West LBs' financing of the Oleoducto de Crudos Pesado (OCP) Pipeline in Ecuador, which violated World Bank environmental and social safeguard policies (available at: www.rainforestinfo.org.au/ocp/goodland.htm, accessed 9 June 2008).
9. See www.ran.org/what_we_do/global_finance/hist/citibank/ (accessed 31 August 2007).
10. For example, ABN AMRO representatives at the Equator Principles session at the Global Reporting Initiative (GRI) G3 (Third Generation Reporting Guidelines) conference in Amsterdam in October 2006 (attended by one of the authors) acknowledged this influence.
11. For example, Barclays had been developing their socio-environmental risk management procedures for commercial and project finance since the 1990s (Coulson, 2007).
12. A grievance mechanism was later included in EP II in 2006, yet its implementation still remains controversial to NGOs. At the time of writing, no Ombudsman function had been developed; however, in December 2007 Equator Principles Financial Institutions (EPFIs) did agree on the development of a more formal Equator Principle financial institution governance structure (available at: www.equator-principles.com/mgmt.shtml, accessed 9 June 2008).
13. This individual was interviewed prior to launch of Equator Principles II which included a provision for minimal reporting.
14. The pipeline runs from the Caspian Sea in Azerbaijan to the Mediterranean in Turkey, and was the centre of political unrest, human rights problems and environmental concerns (BankTrack, 2004b).
15. Sourced from BankTrack "BTInfo" email circulars: "Six banks still bidding to finance Sakhalin II amidst controversy and violations of Russian law" (20 September 2006) and "Sakhalin II: Environmental Groups Tell Banks of new Environmental Violations" (27 June 2007).
16. This report was published in January 2006. A second counter accounting report issued almost two years after this report (December 2007) evaluated the credit policies of 45 international banks against international standards using three core dimensions: content, transparency, and accountability and implementation (BankTrack, 2007).
17. It should be noted that a new Equator Principles reporting guidance document was produced by Equator Principles Financial Institutions (EPFIs) in May 2007, however it still promotes discretionary application by (available at: www.equator-principles.com/documents/EPReporting_2007-06-12.pdf, accessed 9 June 2008). In addition, in December 2007 EPFIs decided upon the development of a more formal Equator Principle financial institution governance structure (available at: www.equator-principles.com/mgmt.shtml, accessed 9 June 2008), which was established in early 2008. At the time of writing it was unclear from the Equator Principles website (www.equator-principles.com) alone how effective this has been.

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(The Appendix Tables follow overleaf.)

Appendix 1

Table AI.
The difference between
Equator Principles
I and II

Issue	Equator Principles I	Equator Principles II
Eligible Parties Financial Threshold Object of Assessment	Equator Banks \$50M US Projects only	Equator Principles Financial Institutions (EPPFI)s \$10M US Projects plus expansions and upgrades of projects if the environmental and social (E&S) impact of the expansion or upgrade is significant Lending plus advisory activities Environmental assessment plus social assessment (SEA)
Scope of Activities Scope of Assessment (For category A and B projects) Action Plan and Management System	Lending Environmental assessment (EA) only Environmental Management Plan (EMP) for A and where appropriate B projects EA, EMP and consultation for category A projects	Action Plan (AP) and Management System for A, and B projects SEA and AP compliance and consultation for category A and where appropriate category B
Independent Expert Review	In a structured and culturally appropriate way with project affected groups. Aim for broad community support for projects. EA and EMP to take account of consultations. For category A and where appropriate category B	In a structured and culturally appropriate way with project affected communities. Prior informed consultation (not prior informed consent) for projects with significant adverse impacts. Consultation process and results to be documented in AP. For category A and where appropriate category B
Consultation	No requirement	New requirement for borrower to establish grievance procedure for project affected communities throughout the project life cycle
Grievance Procedures	No requirement	New requirement for at least annual reporting by EPPFI
Annual Reporting Obligations Legal Compliance Covenants	No requirement	New requirement on borrower to comply with local, state and host country E&S laws, regulations and permits in all material respects
Action Plan Compliance Covenant	Borrower to comply with EMP	Borrower to comply with AP (where applicable) in all material respects
Reporting Compliance Covenant	Borrower to provide regular reports on compliance with EMP	Borrower to provide regular reports of compliance with AP and host country laws, regulations and permits
Decommissioning Covenant	Borrower to decommission facilities in accordance with a Decommissioning Plan, where applicable	Same as EP I
Remedial Steps to Remedy Covenant Breach	Lender to engage with borrower to remedy non-compliance with covenants when borrower in default	Reserving its rights to exercise remedies for non-compliance or default, EPPFI discretion to work with borrower to bring it into compliance with covenants
Appointment of Independent Expert	Lender discretion to appoint an independent environmental expert to provide additional monitoring and reporting services	EPPFI to require the appointment of an independent environmental and/or social expert, or the borrower to retain qualified and experienced external experts to verify its monitoring information for EPPFIs over the life of the loan
Streamlining Assessment	No requirement	Adopts a streamlined approach to assessment of E&S impacts to principally High-Income OECD countries, where high standards for assessing E&S impacts exist and IFC performance standards, EHS (environmental, health & safety) Guidelines and World Bank pollution prevention & abatement handbook are not applicable

Sources: Adapted from Watchman *et al.*, 2007; Equator Principles I, 2003; Equator Principles II, 2006

1992	UNEP Statement by banks on the Environment and Sustainable Development, catalysing the development of UNEP-FI.
1995	Friends of the Earth (FoE) US campaign against Merrill Lynch and Morgan Stanley regarding financial links with the Three Gorges Dam in China
1997	Launch of the “Quantum Leap Project”, by FoE US and the National Wildlife Federation US focusing on capacity building for international NGOs on financial sector campaigns Launch of FoE Netherlands led campaign against ABN AMRO financing of Freeport McMoRan/Rio Tinto gold and copper mining project, Indonesia
1998	International Finance Corporation (IFC) environmental, social and legal safeguard policies (later to become performance standards in 2006)
2000	Launch of Rainforest Action Network (RAN) 4-year campaign against Citigroup’s financing and support for logging and fossil fuel industries, e.g. Camiesa gas pipeline, Peru Launch of FoE and Greenpeace Netherlands led campaign against ABN AMRO, FMO, Fortis, ING and Rabobank for financing the controversial palm-oil industry in S.E. Asia since the early 1990s
2001	Launch of German NGO, Urgewald, and international NGO campaigns against West LB regarding its involvement in the OCP oil pipeline project, Peru Launch of FoE England, Wales & Northern Ireland (EWNI) campaign against Barclays’ involvement with the controversial Asian Pulp and Paper (APP) company, Indonesia, since 1990
2002	Development of the Collevocchio Declaration by 6 international NGOs October meeting hosted by IFC and ABN AMRO in London for international commercial banks regarding controversial project and civil society experiences
2003	January launch of the Collevocchio Declaration at the World Economic Forum June launch of Equator Principles by 10 international commercial banks October remodelling of the Netherlands based “Focus on Finance” research project, (which merged with the Quantum Leap project that year) into an NGO network
2004	January launch of the new NGO network “BankTrack” by 12 international NGOs
2006	July launch of Equator Principles II

Sources: Adapted from interviewee material/transcripts (2006); Ethical Corporation (1984); Friends of the Earth Netherlands (2006); Matthew and van Gelder (2001); Van Gelder (2003); Wright (2006); www.banktrack.org/?show=32&visitor=1 (accessed 9 June 2008); www.equatorprinciples.com (accessed 9 June 2008); www.foe.co.uk/resource/press_releases/20020425132827.html (accessed 9 June 2008); www.milieudefensie.nl/globalisering/doemee/earthalarm/abnamro.htm/view?searchterm (accessed 9 June 2008); www.ifc.org/ifcext/policyreview.nsf/Content/SafeguardPoliciesUpdate (accessed 9 June 2008); www.ran.org/what_we_do/global_finance/hist/citibank/ (accessed 31 August 2007); www.rainforestinfo.org.au/ocp/goodland.htm (accessed 9 June 2008); www.unepfi.org (accessed 9 June 2008)

Table AII.
Influential events in the
development of the
Equator Principles

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