Corporate Watch

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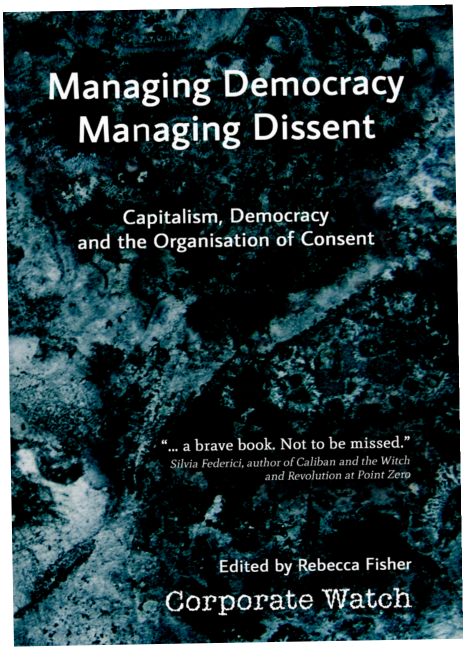
Meet the Investors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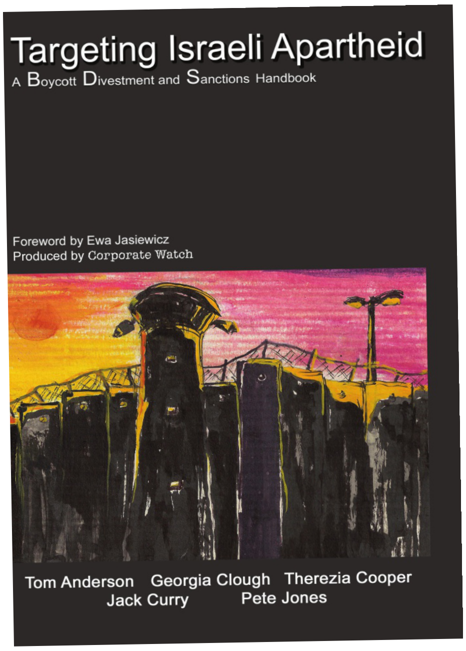
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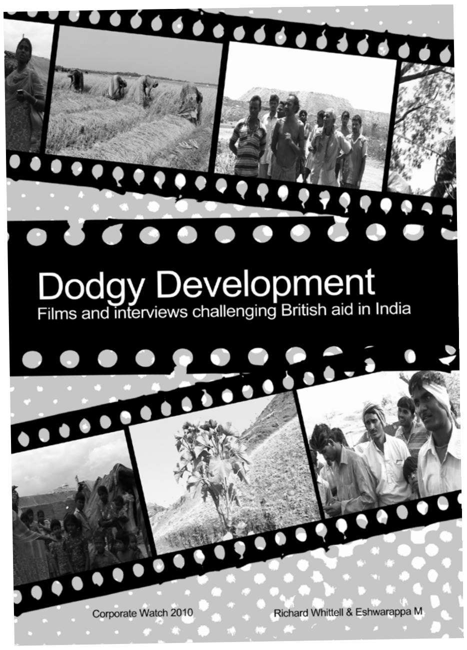
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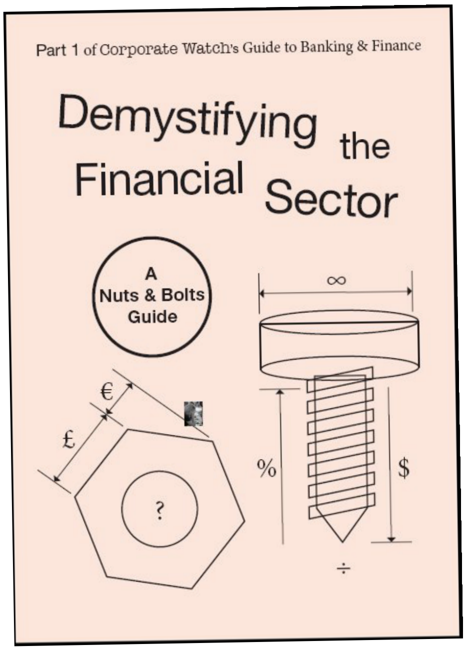
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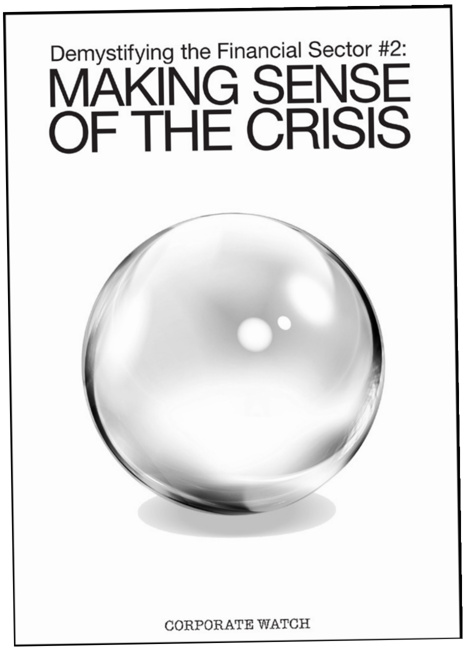
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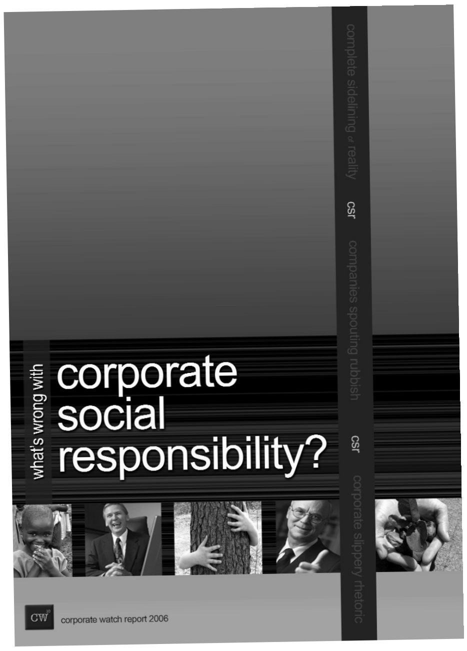
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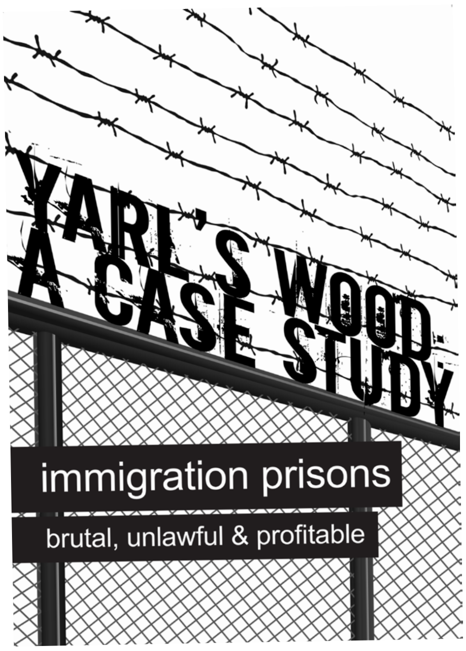
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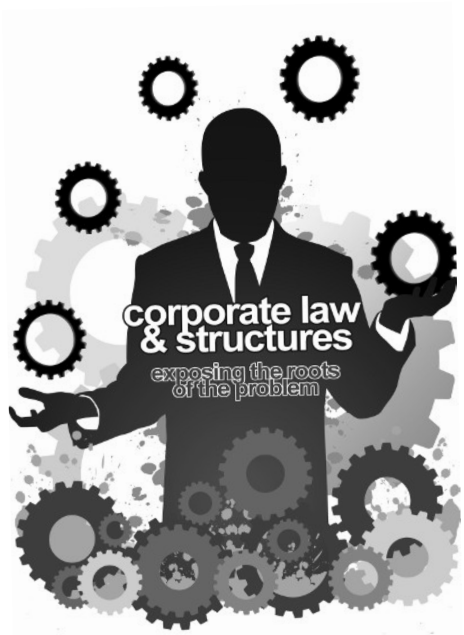
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Editorial

Speaking at a conference in May, David Cameron said he was "thoroughly relaxed about foreign investors" in the UK and that Britain was "probably one of the most welcoming countries anywhere in the world" for them. The year before, chancellor George Osborne described the government's decision to slash corporation tax as "an advertisement for investment in Britain".

It's a common refrain as governments across the world compete to lure the money of companies, banks, pension funds and other governments with ever more 'pro-business' policies. The investors themselves are often explicit about what they want. In Greece earlier this year, eleven aggrieved companies, including Nestle, Philip Morris and Unilever said that they would be happy to spend more in the country if only it was "more friendly to investment". Their definition of friendship turned out to involve lowering minimum wage, especially to young or currently unemployed people.

The whims and predilections of 'the market' are objects of obsession for a variety of financial analysts and politicians. This issue of the Corporate Watch magazine isn't for them, but it is about investment and what these much-quoted and feared investors get out of it.

In the first article, ***Who are the Investors?***, Dariush Sokolov gives an overview of the process of investment in a capitalist economy. He examines the biggest kinds of investors around at the moment and whose money they are spending, and questions whether "we are all investors now".

Following this is an interview with Jan Toporowski, Professor of Economics and Finance at SOAS, University of London. He discusses what fund management entails by looking into the thinking of investment fund managers and sovereign wealth funds, ending with tentative suggestions of what kind of campaigns would best put the wind up them.

Partly in response to public resentment and anger over various corporate abuses, there has been a proliferation of 'ethical' or 'socially responsible' investments. In an in-depth analysis, Shiar Youssef and Dave Whyte investigate the growth of this phenomenon, discussing its various definitions and mechanisms, and critiquing the ability of such investments to ever be genuinely ethical.

In ***Power Fix?*** Aris Kontos looks at the Barclays energy price fixing scandal and how the bank's 'investment' in the electricity market was actually a way to speculate against it.

Financial liberalisation has been exported to the rest of the world through a series of international institutions. An ex-employee of the controversial European Bank of Reconstruction and Development tells Corporate Watch what life was like inside the bank and how it sees its role.

Turn the page and you'll find our centre spread, ***The Economic Circus***, depicting the eddies and flows of money spent around the world.

You get four Campaign Spotlights for the price of one this issue as people campaigning against the arms trade, G4S, animal-testing and the Israeli occupation of Palestine describe how they have targeted investors in the companies they are targeting, to try to get them to divest.

Why have so few bank employees blown the whistle on their employers? Perhaps because the regulators don't give a damn, if the case of Jonathan Sugarman in Ireland is anything to go by. In Blowing the Whistle on the Banks we publish transcripts of talks that Sugarman has given about his case since his resignation. They cover warnings to the government about what was going on in his bank before the biggest bank bailouts ever, at the same time digging into the LIBOR scandal and the cosy relationship between regulators, bankers and politicians.

So is there anywhere people can put their money without contributing to the misery of others? We interview Rachel Boyd from Zaytoun, a London-based workers' cooperative that works directly with Palestinian farmers, to market their products in the UK.

This month's company profile is about outsourcing giant Capita. Shiar Youssef digs into its ever-expanding operations in the what-used-to-be-public sector and finds profits being put above quality of service again and again.

In the final article, ***The I Word***, Richard Whittell looks at companies using claims of investment to excuse dubious behaviour, before questioning whether investment by water companies is as good value as they like to make out.

Note to subscribers: The Corporate Watch magazine will no longer be a quarterly publication but will be produced irregularly. We've been producing lots of content on our website, plus books, profiles and reports, and we aren't able to put out as many magazines as before.

Existing subscribers will still receive four Corporate Watch publications a year but that may include reports and briefings as well as magazines. If you would rather unsubscribe and get your money back, please contact us at the addresses on the previous page.

You may also notice we've got a new layout. As ever, please send any comments about any part of the magazine to the contact details on the previous page.

ABOUT CW

Corporate Watch is an independent, not-for-profit research, journalism and publishing group that researches the social and environmental impact of corporations. Corporate Watch is a workers' co-operative. We work non-hierarchically and share responsibility for the collective running of the organisation. Corporate Watch strives for a society that is truly democratic, equitable, non-exploitative and ecologically sustainable.

Who are the investors?

Dariush Sokolov

According to the official history book in George Orwell's 1984, in the old days capitalists were "fat, ugly men with wicked faces", dressed in frock coats and top hats. "They owned everything in the world, and everyone else was their slave. They owned all the land, all the houses, all the factories, and all the money. If anyone disobeyed them they could throw them into prison, or they could take his job away and starve him to death." Are there still capitalists in the 21st century? And if so, what do they look like?

One line you may hear from defenders of the system these days is that we're all capitalists now. Economic power, according to this story, is ultimately in the hands of investors who decide where to allocate resources by assessing the prospects of companies, governments and other institutions and buying their shares and bonds. And investors are just people like you and me: savers, pensioners, everyday folk planning for our everyday petrol-powered futures.

I do think there is a grain of truth in this picture: in some respects, we all help keep the wheels of capital turning, and economic power did become more decentralised in the mid-20th century. But some people are much more powerful, and more responsible for capitalism's trajectory, than others.

EXPLORING CAPITAL

I will start with a few rough definitions. A capitalist, we might suppose, is someone who owns capital. And roughly speaking, capital is stuff that can be used to produce more stuff – for example, machines, raw materials or any commodities that can be stuck into production processes and used to create new commodities. These definitions already throw up lots of complex questions: is capital just physical stuff? What about ideas, or words, brand names, so-called 'intellectual capital'? What about the neoliberal economists' claim that human labour is really 'human capital'? Or the sociologists' idea of 'social capital'? And if ideas and words can be capitalised, then what about sounds, sights, smells, feelings?

Whatever forms of capital there are, one thing they share is that they can be owned, bought and sold – that is, they are 'commodities'. But there are more complexities here, too. For one thing, the people who have the most power over how capital is allocated, used and controlled, are often not those who technically own it. For example, executives, fund managers, traders, investment bank 'arrangers', lawyers and other fixers and middlemen may have more power over resources than their legal owners. With all these caveats, we might make a distinction between productive capital (actual resources that go into production processes) and finance capital. An actual machine, a ton of coal, a field of soya, and perhaps the patent on a genetically modified strain of soya beans, is productive capital. Finance capital, on the other hand, includes things like shares, bonds and money.

Originally, a share certificate was a piece of paper confirming that you owned half of the soya field, and a bond was a piece of paper saying that the owners of the field owed you a debt that they would pay you back with interest over a number of years. But the existence of pieces of paper, or pieces of gold, was never really the point. Financial instruments are agreements or contracts. They need to be recorded and represented somehow, but that could be on paper or electronically, or even just in human memory. Thus, productive capital is the actual stuff that can be used to make more stuff, while finance capital is the contractual agreements that give you legally enforceable rights over productive capital, whether now or in the future. Machines, fields, tons of beans, litres of soya milk, as well as shares and bonds, are all bought and sold in markets. The markets where financial transactions take place are called financial markets. They might be real physical places, like the London or New York stock exchanges in the old days or, more commonly now, virtual trading floors where deals are made on computer networks across the world. In any case, financial markets allow capital to move rapidly, flexibly, and sometimes without trace.

For example, a mortgage (a loan agreement on a real, physical building somewhere) can be sold, resold, pooled with other mortgages, securitised into a mortgage-backed bond (a promise to pay back interest to new investors as the mortgages in the original pool pay back theirs), or made into a reference asset for derivatives contracts (such as bets on whether the mortgages will ever be paid back at all). And these new bonds and derivatives can themselves be sold, resold, pooled and so on, ad infinitum. The physical capital, the building, stays put; but the financial capital associated with it is transformed and traded around the globe. So who owns the original building now?

Some of these transactions are done in big marketplaces that are regulated and relatively transparent. For example, companies that 'publicly list' their shares on major stock exchanges are bound by reporting rules that make their activities and ownership more easy to follow. But we should not forget that many transactions take place much less visibly. For example, even many big corporations are still owned by family members and associates, who trade their shares privately, behind the scenes.

In fact, there has been a trend of increasing privacy: private equity funds are funds that specialise in buying companies in deals away from the public stock markets. At the same time, in the recent decades of deregulation and 'financial innovation' (that is, bankers inventing ever more complex kinds of bonds, derivatives and other securities), many financial instruments have become less standardised and are typically sold in confidential, 'bespoke' deals which are near-impossible to trace. All this should be borne in mind when we look at some figures in a minute.

According to economic theory, owners look to invest their financial capital (that is, they ultimately want to put the productive capital it represents to work in production processes) where they expect it will be most profitable. In reality, things are more complicated, as capitalists are also humans and therefore act on habits, fears, instincts, affinities and so on. In any case, capitalist systems have developed a number of institutions for pooling capital, thereby concentrating investment decisions into the hands of specialist investment managers and institutions.

> One line you may hear from defenders of the system these days is that we're all capitalists now.... And investors are just people like you and me: savers, pensioners, everyday folk

THE INSTITUTIONS

Banks are one of these institutions. Millions of companies and individuals deposit money with banks. Banks pool these deposits together and re-invest them by, (among other things), making loans to more individuals, companies, states and others. According to a 2012 report by research and lobby group TheCityUK, the assets of the world's largest 1,000 banks total $102 trillion. To put this into perspective, total world GDP (the money value of all state-measured stuff produced on the planet during that year) was around $65 trillion. To break it down regionally, US banks control 13% of total bank assets, followed by the UK – a global banking 'hub' – with 12%, then Japan and China with around 10% each, followed by other European centres. China's share is increasing rapidly. Bank assets include the loans they make to individuals and companies, their holdings of government and other bonds, and any other investments they make.

Other major investment institutions include corporations, states and investment funds. All of these, in different ways, take in finance capital from numerous individuals and direct it to particular projects. I will look in a bit more detail at investment funds here.

An investment fund is a legal structure in which a number of owners pool their financial capital together under the direction of a professional 'fund manager'. Funds usually have some basic targets and criteria, such as ones about risk levels, or specific industries or regions, to invest in. But within these guidelines decisions are made by the fund managers. The figures below give a crude snapshot of global 'funds under management'. There are no standard figures on global investment: these 2012 figures are estimates, or maybe guesstimates, by TheCityUK. I have no idea how accurate they are. Note, however, that this sector, taken together, is bigger than the banks. And the figures do not account for other major capitalist investors such as states and corporations, or many other less visible and measurable pools of capital. Nonetheless, we can use them to bring out some interesting trends.

	$ tr
Private wealth	42
Pension Funds	31.5
Insurance Companies	24
Mutual Funds	23.8
Sovereign Wealth Funds	4.8
Private Equity	2.2
Hedge Funds	1.9

The biggest class of investment funds are 'private wealth' funds, managed on behalf of 11 million rich people, aka 'high net worth individuals' (HNWI), who each have at least $1 million in mobile investable assets. Though top hats have gone out of style, we are not very far from the old image of capitalists here. And the $42 trillion is just part of their wealth: this does not include their fixed, non-financial assets, such as companies, mines, land, mansions and yachts, or financial capital which is not held in visible managed funds.

One point to note is how the financial capital of the global rich is increasing. In 2002, they had funds worth less than $30 trillion. Another point is how their global demographics are shifting. 53% of them are based in the US, Japan and Germany. However, the population of HNWIs in Asia-

Pacific has increased by 2% to over 3 million individuals, surpassing North America for the first time, having surpassed Europe in 2010.

Pension funds, mutual funds and insurance funds are often classed together as 'conventional asset managers'. These are usually the biggest investment funds: some are bigger than large countries. Here are the top 10 according to the 2009 Pensions & Investment 500 survey (the amounts are their 'assets under management':

	$ tr
BlackRock	3.35
State Street Global	1.91
Allianz Group	1.86
Fidelity Investments	1.7
Vanguard Group	1.51
AXA Group	1.45
BNP Paribas	1.33
Deutsche Bank	1.26
JP Morgan Chase	1.25
Capital Group	1.18

Despite their differences, these funds have a few important features in common. First, they pool together lots of separate capital of many small investors: pension and insurance contributions or savings put into mutual funds. So, where 'private wealth' funds manage assets of the global rich, these funds manage the capital of the middle classes and better-off working classes, based overwhelmingly in the so-called first world. Secondly, as any individual investor is only a very small part of any such fund, it is fair to say that the balance of power in these funds sits very much with managers rather than the owners. However, the managers of these funds are often strongly regulated and bound by particularly tight investment guidelines. Pension funds, in particular, are usually allowed by law to invest only in the safest (highest-rated) assets.

Private equity funds and hedge funds are the prime scapegoats of lots of the recent (liberal) rhetoric about the financial crisis. Both are less regulated and operate less publicly; they take bigger risks and aim to make bigger relative profits. Hedge funds are funds that follow 'non-traditional' investment strategies, often involving complicated mathematical risk models. Perhaps the most famous example was Long Term Capital Management (LTCM), a hedge fund with a board featuring Nobel prize-winning economists that went spectacularly bust in 1998. Despite the name, hedge funds do not necessarily have anything to do with 'hedging', or making protective investments to cover risks (as in hedging your bets). And like private equity funds, they expanded in the recent boom era of deregulation, derivatives and financial 'innovation'

However, as the figures show, they are still small players in the overall scheme of things. Also relatively small, but growing rapidly from almost zero a few years ago, are 'sovereign wealth funds'. This is a symptom of contemporary global shifts in economic power.

There are two main kinds of 'developing' or resurgent economic power centres: China and other Asian manufacturers, and big commodities producers such as the Gulf states, Brazil and Russia (over 56% of the total in these figures comes from commodities exports, especially oil. Both types produce more income than the impoverished local populations, and even the elites, consume. In addition, economies in these regions tend to be more centralised, controlled by states and state-connected plutocratic elites. Such states therefore have large concentrations of capital to invest abroad and sovereign wealth funds are set up for this purpose – although, according to TheCityUk, the trend is bigger than these numbers show: "There was also an additional $7.2 trillion held in other sovereign investment vehicles, such as pension reserve funds and development funds." Many of these state funds are based in London.

ARE WE ALL INVESTORS NOW?

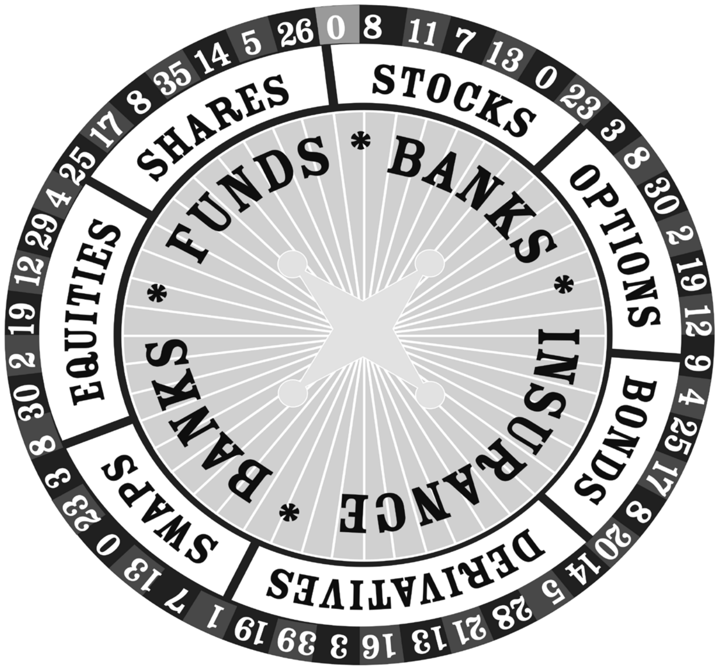
So who are the capitalists? What I have outlined above was just a snapshot of some of the more visible concentrations of capital ownership. Even there, capitalists come in many shapes and sizes.

The global super-rich are important; indeed, the numbers above probably downplay their role – we have not looked at corporate oligarchies or the many more opaque holdings of the elites.

Middle class savers are also important and, in this sense, it is true that capital ownership has become widely diffused, involving and incorporating many – at least in the richer parts of the world – and giving millions a stake in the system.

There is also now a global shift in capital ownership towards the so-called developing world. But this does not necessarily go together with further diffusion of ownership across class lines, as wealth and power in many of these economies remain highly concentrated.

We should not forget that states are also important capitalists and are, in fact, becoming more so. Bankers, fund managers and other financial specialists are also key players, even where they do not technically own the capital they manage. In fact, ownership rights are really just one of the more obvious ways in which power is encoded and maintained in capitalism. A thorough analysis of capitalist systems has to look at all the many dimensions of power involved and try to map the weak points and tensions.



'A game of mass psychology'

JAN TOPOROWSKI, Professor of Economics and Finance at the School of Oriental and African Studies, talks to CORPORATE WATCH about the madness of the money markets, the rise of sovereign wealth funds, and what scares investors.

WHO ARE THE BIGGEST AND MOST INFLUENTIAL INVESTORS AT THE MOMENT?

Fifty years ago, most stocks and shares were owned by individuals. Today they are largely owned by institutions, insurance companies, pension funds and investment funds (mutual funds). Banks too own a lot of assets but do not normally hold shares in companies. Hedge funds and private equity firms are now the last financial sector still dominated by private individuals – mostly very wealthy investment bankers and brokers. But even hedge funds and private equity funds, organised as partnerships to avoid too much disclosure of their operations, often have pension funds and insurance companies as partners and investors.

WHAT DOES A PORTFOLIO MANAGER DO?

Portfolio management is the art of managing portfolios of financial assets, whose returns may be from interest or dividends, or from increases in the value of those assets, or capital gains. Investing for capital gains is commonly known as speculation. The finance textbooks tell all sorts of stories about how this is supposed to be done by taking into account the risk and returns from an asset.

However, the economist John Maynard Keynes pointed out that it is essentially a game of mass psychology, in which a portfolio manager tries to anticipate what other portfolio managers will want to buy or sell in the future and then profit from it. The manager will even seek to form other portfolio managers' expectations of what to buy through making forecasts designed to form opinion in markets in a way that is profitable for the opinion–forming manager.

This is why the financial markets and their hangers–on are so obsessed with 'information' and the financial press is so full of opinionated comments that mostly have no foundation in any reality other than the commentator's portfolio, whose value he is trying to talk up.

Portfolio managers may be classified according to how soon they need to return the money that they are managing.

Pension fund managers typically invest for the very long–term, since their 'liabilities' to pay pensions are usually fairly predictable, determined by the respective retirement dates of the members of the fund, and the length of their service and the relationship of their pensions to their earnings.

Insurance companies have somewhat less predictable liabilities, but they are nevertheless fairly long-term. Mutual funds (investment or unit trusts) or hedge funds have much shorter time horizons, and therefore typically have to show significant returns on their portfolios from year to year.

A number of other institutions manage their assets in rather more complex ways. Private equity firms make money by restructuring the balance sheets of the companies they buy, and by manipulating the markets in the capital liabilities (shares or bonds) of those companies. Investment banks specialise in restructuring the balance sheets of companies that they do not own in return for fees.

Banks make loans and try to charge interest above the rate that they are paying, as well as offering financial services for which they charge fees. Among those financial services are derivatives contracts, which have been hugely lucrative for banks.

WHAT HAPPENS TO PEOPLE'S MONEY WHEN THEY DEPOSIT IT IN THE BANK?

The bank will normally lend out the money at interest, charging a higher interest than it pays its depositors, so that it can cover its costs. If you have a current account, which most people in financially developed countries do, and which businesses use, the deposit may be used to make payments. So your deposit may never leave the banking system but may simply circulate around different accounts in it.

More importantly, it means that the deposit that you put into the bank, and even the income that you receive, originated in a loan which a bank gave to a customer, rather than loans being consequences of deposits that banks' customers have.

SOVEREIGN WEALTH FUNDS HAVE ATTRACTED INCREASING ATTENTION IN RECENT YEARS. WHAT ARE THEY AND WHAT DO THEY DO?

Sovereign wealth funds are portfolios of financial assets owned by a government that has no immediate need or use for them. Typically they are built up from the fiscal surpluses of governments that obtain more revenue from some scarce natural resource than they can usefully use because of small populations or limited development possibilities.

This is the case with oil exporting countries such as Brunei, Libya and Norway. Alternatively they may be built up through trade, as in the case of China or, more controversially, Ireland.

Because sovereign wealth funds have no immediate need for the financial resources in their portfolios, they can afford to invest without necessarily having to worry too much about immediate returns from their investments. Nevertheless, sovereign wealth funds are run very conservatively, preferring to hold mostly bonds, issued by other governments or the top companies, or gold, favoured by governments of Middle Eastern oil-exporting countries because of its traditional mystique (out of all proportion to its actual use-value).

With the notable exception of China and Norway, the largest sovereign wealth funds are from rather traditional societies whose political attitudes tend to reflect the values of their societies.

Sovereign wealth funds are also very cautious investors because the governments that own them do not usually want to be responsible for managing companies in other countries. This would bring governments into activities that go beyond traditional diplomacy. The activities of Chinese companies in Africa illustrate the perils well. In Africa, Chinese companies have become inevitably involved in industrial relations disputes that have not reflected well on Chinese management.

If sovereign wealth funds do invest in commercial businesses it is usually in trade or finance, where the fund managers may have some experience. At the time of the international financial crisis of 2007–11, sovereign wealth funds briefly supported some banks. In 2008, for example, a subsidiary of the Qatari sovereign wealth fund, the Qatari Investment Authority, invested some $2 billion in Barclays Bank. The investment was later the subject of an investigation by the UK Serious Fraud Office.

> This is why the financial press is so full of opinionated comments that mostly have no foundation in any reality other than the commentator's portfolio, whose value he is trying to talk up.

WHAT DO YOU THINK INVESTORS OR FUND MANAGERS WOULD BE MOST WORRIED ABOUT FROM DIVESTMENT CAMPAIGNS?

The most successful disinvestment campaigns were conducted during the 1970s and the 1980s as part of the anti-apartheid struggles. In large part their success depended upon the widespread revulsion against apartheid felt in the United States, the world's largest financial investor, in the wake of the civil rights movement in that country. Few other campaigns could be as successful because there are few other examples of political issues that are so unambiguous and obvious as to win the support of the institutional investors who now constitute the bulk of shareholders.

Nevertheless, informing institutional investors and their fund managers of the activities of their companies is an important way of making this section of the public more aware of the dark side of what business does.

In the end, change will happen when social values guide economic activity and businesses are not obliged by the impersonal forces of market survival to exploit the misery of the poor and oppressed, and the diminishing resources of our environment. Meanwhile, companies and investors should also know about that poverty, oppression, and the environmental threats, and embarrassing questions should always be asked.

Ethical investment

WHAT IT IS AND HOW IT WORKS (OR DOESN'T)

Shiar Youssef and David Whyte

Conducting business in line with one's moral convictions is nothing new. In what many regard as the birth of the modern concept of ethical investment, the Quakers Philadelphia Yearly Meeting in 1758 prohibited its members from participating in the slave trade. In the late 18th century, the founder of the Methodist church, John Wesley, set out a more detailed set of principles for the "right use of money". These included not harming one's neighbour through business practices and avoiding industrial processes involving "arsenic, or other equally hurtful minerals, or…..air tainted with steams of melting lead," which were said to be harmful to the health of workers.[1]

During the twentieth century, more churches, charities and individuals began to take account of ethical criteria when making investment decisions. A key moment in the development of ethical investment funds was the establishment of the Pax Fund in 1971 in response to the Vietnam war. The fund was set up by two United Methodist Church ministers, motivated by a realisation that not supporting the war effort meant something more than simply not investing in arms manufacturers. Investors realised that their capital could have been invested in a range of other types of companies implicated in the war, not least the manufacturers of chemicals such as napalm and agent orange.

The global boycott movement against apartheid South Africa also brought issues of ethical investment to the fore. Socially responsible investment (SRI), particularly in the US, played a key role in divestment from South Africa. Friends Provident – which previously had close links to the Quakers and was founded by Joseph Rowntree – established the first ethical investment fund in the UK in 1985. The fund excluded tobacco, arms, alcohol and investments related to oppressive regimes from its products. Since the mid-1980s, the sector in the UK has grown exponentially, as shown in the table on the next page.[2]

DEFINITIONS

There is a great deal of disagreement among investors, companies, NGOs and academics on what exactly constitutes 'ethical investment', or 'socially responsible investment', as it is more commonly known in the US. The terms are often used interchangeably with, or as umbrella terms for, various types of sustainable or responsible investment. If one key reason for this lack of consensus is disputes over what an 'ethical' standard is, another, less obvious, one is the propensity of early ethical funds and advisors to differentiate their products from those of others.

As a modern concept, the term 'ethical investment' is usually used to mean the integration of ethical values and social and environmental considerations into investment decisions, rather than basing such decisions solely on financial calculations (expected risks and returns). However, some commentators would argue that ethical decisions are incorporated into the rationale for financial calculations. We will return to this point later in the discussion.

The first problem to confront is that there is no agreement on what these values and considerations are or should be. The result is that many investments regarded as ethical are simply ones that are consistent with some investor's subjective values, be they religious, political, social, environmental or, indeed, any set of values reached via a process of organisational decision-making. These values can be translated into detailed criteria for particular industries and companies that investors might avoid or promote. Then there is the investor's social and political priorities, or agenda, and how they think they can effect it. To address these differences in values, criteria and priorities, many investment advisors now use weighted criteria or some form of ethical scoring matrix.[3] In recent years, many have been giving environmental criteria more weight than others, as evidenced by the growing number of environmental and green funds in the UK, for example.[4]

There are numerous different combinations of these criteria, and different investors may put more or less emphasis on different issues, depending on the industry and the investor's priorities. A quick glance at the databases held by some of the major ethical investment consultants, such as Ethical Investors[5] or EIRIS,[6] clearly shows this. Of the 90-plus UK-based ethical funds listed by EIRIS, 80 prioritise companies with positive environmental policies, while 63 focus on humanitarian concerns and human rights records. Within this, some prioritise the former, some prioritise the latter, and others prioritise both equally.

The conditions for joining professional ethical investment associations, such as the UK Social Investment Forum (UKSIF) and the Ethical Investment Association, also reflect the range of different understandings of what constitutes ethical criteria for investment. For example, UKSIF aims to promote "transparency, effective governance and management processes" but acknowledges "differing values and financial requirements."[7] Furthermore, such associations do not usually endorse specific ethical screening or investment strategies over others. The UKSIF's members range from mainstream banks, such as Barclays, to NGOs such as Oxfam.[8] The same can be said of the "ethical accreditation" awarded by the Ethical Company Organisation,[9] whose members include controversial multinational corporations alongside small ethical business pioneers.[10]

Definition matters when it comes to estimating the value and reach of ethical investments. The US–based Forum for Sustainable and Responsible Investment (USSIF, formerly known as the Social Investment Forum, one of the first organisations serving socially responsible investors in the US since 1984) sets out a broad definition of Sustainable and Responsible Investment (SRI) as:

> "a process of identifying and investing in companies that meet certain baseline standards or criteria of Corporate Social Responsibility."[11]

This rather vague definition, which is anchored to the equally slippery concept of Corporate Social Responsibility (CSR), means that USSIF's estimation that $3 trillion out of $25 trillion invested in the US in 2010 was "sustainable and responsible" is substantially higher than estimates made by others using a narrower definition.[12]

The most significant global initiative to link CSR to investment practices has perhaps been the United Nations–supported Principles for Responsible Investment Initiative (PRI), which sets out six principles to "put responsible investment into practice."[13] These are based on a framework of three aspects: environment, society and corporate governance (ESG). The PRI invites investors to incorporate these principles into their investment analysis and decisions. As of October 2011, some 915 investment institutions had signed the principles, with total assets of $30 trillion.[14] The principles, which were originally devised by a group of the world's largest institutional investors, remain voluntary and not legally binding.

Friends Provident's current socially responsible investment product 'Stewardship' is based on the following aims:

> "to exclude companies that … harm society; support those that make a positive contribution to society; and encourage better business practices".[15]

UK ETHICAL INVESTMENT

Year	Total SRI (£m)
1989	199
1990	n/a
1991	318
1992	372
1993	448
1994	672
1995	792
1996	1,088
1997	1,465
1998	2,198
1999	2,447
2000	3,296
2001	4,025
2002	3,800
2003	3,570
2004	4,555
2005	6,078
2006	7,490
2007	8,881
2008	6,724
2009	9,521
2010	10,925

This definition is somewhat narrower but remains amenable to a high degree of interpretation and discretion. This definition also emphasises both negative and positive criteria for including and excluding investments, characteristics that, as the next section will show, ensure that principles of interpretation and discretion remain at the heart of ethical investment standards.

'ETHICALLY MIXED' FUNDS

One complicating factor in the definition of ethical investment is the common practice among big institutional investors to invest in both ethical and conventional funds. Likewise, many ostensibly ethical investors are investing in unethical companies or funds as well as ethical ones.[16] The logic behind such practices, as advocated by conventional portfolio theory, is that a 'diversifed portfolio' would reduce the 'risk of exposure'.[17]

Furthermore, as ethical funds and businesses become more popular and more financially viable, they may start to attract conventional or non–ethical investors too, which they may be tempted to accept to increase their returns. By seeking non–ethical sources of funding, ethical fund managers can limit the influence of ethical shareholders. Just because a company is financed by ethical sources does not mean it will remain ethical forever. Empirical studies of various ethical investment policies have revealed that, although funds may in theory be opposed to particular activities, they do not necessarily seek to completely avoid all involvement in them.[18] Indeed, many ethical or socially responsible funds have been criticised for not being always transparent about which companies are included in their portfolios. This has led many to question how ethical such investments are. As one expert in the field puts it: "Only when the ethical investment movement is [itself] ethically screened can it be deemed ethical."[19]

SECONDARY INVOLVEMENT

A further complicating factor in defining ethical investment is the issue of secondary involvement. A company might manufacture, among other 'good' products, parts that are used in weapons, for example, even though it may not itself be classified as a weapons manufacturer. This is the case with some electronics companies, for example. Or it might sell some products that would normally feature in ethical screening, such as tobacco or alcohol, alongside products that are deemed ethically sound. The Co–operative supermarket chain being is a case in point.

To address this problem, some ethical investors have a maximum threshold, whereby a company is excluded from their investment portfolio if its sales from excluded products exceed a certain percentage, usually 10%, of its total revenue. But whatever the percentage, this criteria remains arbitrary as long as it is not uniformly applied by all funds and investors. Such measures are also difficult to apply to all companies given that detailed breakdowns of their sales and revenues may not be publicly available.

The Body Shop, for example, markets itself as a 'caring' company that helps protect the environment, indigenous peoples and animal welfare. In 2006, it was bought by cosmetics giant L'Oréal for £652 million. Despite its assertions that it has not tested any of its finished products on animals since 1989, L'Oréal is still criticised for its extensive use of animal testing for new cosmetic ingredients.[20] This contradicts one of The Body Shop's core values, namely its opposition to animal testing[21] (leaving aside, for the purposes of this discussion, the accuracy of The Body Shop's claims[22]). As a result, organisations such as NatureWatch have been calling, since 2006, for a boycott of all L'Oréal's products, including those sold by The Body Shop.[23]

To complicate things further, Nestlé, the world's largest and most notorious food company, owns 30% of L'Oréal's shares. Nestlé is accused of unethical marketing tactics, including the promotion of the idea that its baby formula is better for infants than breast milk, and has been the subject of an international boycott campaign for years.[24] This poses a dilemma for ethical investors who want to invest in The Body Shop: can an acquired ethical company influence its new owners and improve their corporate behaviour, as The Body Shop founder, Anita Roddick, argued at the time,[25] or would such acquisitions inevitably dilute ethical standards and turn them into tools to enhance the reputation of two companies that have been questioned for their ethical standards?

> The Principles for Responsible Investment were devised by the world's largest institutional investors and remain voluntary

POSITIVE AND NEGATIVE SCREENING

The problems of definition outlined above, namely the mixing of funds and the role of secondary involvement, become even more complex when one analyses how ethical screening mechanisms have developed in recent years. With the development of ethical unit trusts and funds, different ethical screening mechanisms reflecting these various definitions were also developed in order to include or exclude certain types of companies or industries in investment portfolios. The ethical screening process uses social and/or environmental criteria that are added on to the usual financial screens.

Traditionally, negative screens focused on the 'sinful troika' of alcohol, tobacco and gambling. Today they typically also include the arms trade, nuclear power, animal testing, repressive regimes, as well as socially and environmentally harmful practices. For example, the negative criteria of the Friends Provident Stewardship includes tobacco production, alcohol production, gambling, production of pornography or violent material, the manufacturing and sale of weapons, unnecessary exploitation of animals, nuclear power generation, poor environmental practices, human rights abuses and poor relations with employees, customers or suppliers.[26] Major investment consultant Ethical Investors has a similar list, though it does not include nuclear power.[27]

Positive screens, on the other hand, attempt to identify companies with proactive practices that are deemed to be beneficial to employees, the local community, society at large and/or the environment. Investment decisions based on positive screening are often said to be the cutting edge of socially responsible investing. Positive screens might include ethical employment practices (equal opportunity and anti-discrimination policies, health and safety, decent wages, unionisation, etc.) and environmental protection measures (pollution control, energy saving, recycling, etc.). Some, such as Stewardship's, also include criteria that relate to companies involved in "new technologies that improve the quality of life", such as renewable fuel sources.[28]

Two approaches that have developed in the investment sector emphasise positive screening. First, the 'best-in-class' approach seeks to reward companies with relatively better ethical track records compared to other companies in a given industry (including industries regarded as ethically irresponsible). Examples of funds that take this approach include the Swedish Robur Miljofonden Environment Fund.[29]

The second is the "sustainable growth" approach, first introduced by the Sustainable Asset Management company. This approach is more forward-looking and assesses how well companies are likely to perform (financially as well as ethically) in light of certain future trends or scenarios.[30] Trends can range from changing regulations to changing demographics and natural resources, and industry pioneers are those companies deemed to be best-positioned to take advantage of these trends.

The advantage of positive screening for investors is said to be that it enables companies to be 'expansive' and 'creative' in their approach to ethical issues. It focuses on how companies can creatively raise the level of standards, rather than complying to a minimum set. Thus, positive screening can be used to check that businesses are conducting financial planning and employment practices on a stable, long-term basis, rather than focusing upon a narrow set of prohibitions.

The disadvantage is that such proactive practices are often less concrete and more speculative, in the sense that they set out broad goals rather than prescribed minimum standards. Positive screening relies on investment in the creative aspirations of companies, and places an expectation upon companies that they are sufficiently motivated to strive to continually improve performance. Positive screening is, therefore, based on one of two assumptions related to the market compatibility of ethical investment: either that it is possible for companies to prioritise goals beyond financial performance; or that CSR strategies are likely to be profitable in the long-term.

MARKET COMPATIBILITY

If there is a consensual view across ethical investment funds and consultants, it is that ethical business practices can be as financially rewarding as other forms of investment – in other words, that there is no fundamental contradiction between making profit and acting ethically. Indeed, an increasingly prevalent idea is that ethical investments can be more profitable than conventional ones in the long term. Investing in industry leaders, it is argued, gives companies a competitive advantage and encourages a general adoption of more ethical practices across a particular industrial sector.

However, both best-in-class and sustainable growth approaches overlook the wider, structural problems with corporate behaviour. For example, Ethical Consumer's 2008 guide to ethical investments rates 22 green and ethical funds based on 20-plus criteria similar to those used in its product-specific Buyers Guides.[31] However, this overlooks the fact that investment decisions are fundamentally different from simple consumer purchase decisions, as discussed below.

Both approaches propose a set of accountability mechanisms that are located in market relationships: that markets will respond rationally to the demand for more ethical business practices. When demand is great enough, then the market will be forced to respond. This is, after all, the basis of liberal market theory. Implied in this approach is an assumption that companies are capable of making rational decisions to follow such strategies. Yet there are two major problems that get in the way of this rationality, or place boundaries on the prospects of a truly rational response. The first problem is related to the formal goals of private companies as established in law and practice; the second is that rationality is bounded by the ability of companies to know what is in their long-term interests.

Like private companies, there are structural reasons why funds would almost always prioritise greater financial returns over ethical considerations. Corporate directors and fund managers are bound by their fiduciary duties to "act in good faith in the best interests" of the company or the fund as a whole. These interests are almost always interpreted as being to maximise benefits to the shareholder or owner, which is in turn normally interpreted as profit maximisation and the ability to issue ever-greater dividends on investments. 'External' factors, such as environmental protection or social benefits, which might be detrimental to profit maximisation, are not supposed to be taken into consideration, except where they are deemed beneficial to the long-term interests of the company or the fund.[32]

Cowan v Scargill, a case involving investments made by the National Coal Board's pension fund, found that the fund, a non-charitable trust whose purpose is to provide financial benefits for the beneficiaries, must make investment decisions in the beneficiaries' best financial interest, regardless of any ethical principles. In 1992, the case of Harries v Church Commissioners for England ruled that trustees can make investment decisions guided by ethical considerations but only if it can be shown that the trust's overall financial performance will not be harmed and the investment is consistent with the purpose of the trust.[33]

In July 2000, new legislation was passed in the UK obliging all private-sector pension funds to consider socially responsible investment as part of their overall investment policy in accordance with section 35 of the 1995 Pensions Act, which provides a statutory obligation for all pension funds to have a Statement of Investment Principles covering the types of investment, the balance between investments, risk, return and realisations.[34] However, unless all shareholders shared the same moral values and priorities, it is difficult to see how investments can be based on anything other than financial considerations. At best, they are considered CSR exercises that would benefit the investors, financially, in the long run. This is evidenced by the fact that financial screens often precede social or ethical ones, meaning that often only large companies listed on stock exchange markets are chosen by big funds to include in their ethical portfolio, while smaller companies that are not listed on these indexes get overlooked, even though they might be more ethical.[35]

Indeed, the above-mentioned Principles of Responsible Investment start with the following preamble: "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios … Therefore, ***where consistent with our fiduciary responsibilities***, we commit to the following [principles]..."[36] (emphasis added). Similarly, the UKSIF believes that ethical investment principles "should be achieved by voluntary action rather than compulsion where possible … so long as accurate information is available, it is the role of customers and market to select preferred responsible finance strategies."[37]

The latter part of this statement identifies a major problem in relation to the ability of companies to act rationally and, even if CSR strategies were compatible with financial success, to know the long-term impact of ethical policies. Another fundamental issue is that it is equally difficult for the market, or for investors, to know.

Differences in definition and criteria discussed at the beginning of this article identify the problems with knowing the relevant information that can used by investors to assess and monitor the sectors and companies that they invest in. Moreover, due to the lack of a uniform accounting and reporting method, and a standard, legally binding way of reporting the social and environmental impact of business, ethical investors and investment advisors often rely heavily on information provided by the companies themselves – information that is often selective and self-serving. A number of studies have shown that the environmental performance of big multinationals that produce extensive annual reports such as BP, can be – and often is – worse than that of smaller companies that are not as good at reporting.[38] This is partly because all big companies nowadays have investor relations managers and see this as part of their CSR, or even public relations, operations.

Corporate reporting has improved as a result of some legislative changes, but these have not yet established a standard of reporting that is fit for this purpose. Even with the development of sophisticated screening processes that use questionnaires, interviews, and pull information from various sources, including third-party sources such as media outlets, monitoring groups and NGOs, the reliability of information remains a serious problem for ethical investment decision-makers. The need to collect and produce more specialised data also means higher transaction costs and management fees, both for the investor and the investee. Information produced by companies about their activities may not reveal crucial details about the company's performance or impact on communities, the environment and so on. Or it may have been manipulated or presented in certain ways so as to spin or render invisible key controversial issues.

> All these problems point to one conclusion: the inadequacy of the market to act as an ethical selection mechanism

TO INVEST OR NOT TO INVEST...

The problems described in this article (definitional problems, the lack of reporting requirements, organisational complexities that result in ethically mixed funds and secondary involvement) all point to one conclusion: the inadequacy of the market, as it is currently constituted, to act as an ethical selection mechanism.

There are numerous conflicting studies on the economic performance of ethical investments. Some suggest a positive correlation between ethical criteria and greater financial returns, while others argue that the initial, rapid expansion of the ethical investment market was due to investing in certain profitable businesses, such as technology companies, and will soon reach a saturation point. In any case, it can be argued that such studies miss the point of ethical investment – as long as the incentive for investment is financial, and financial calculations precede or override ethical considerations, it is business as usual and ethical investment is just another niche market that will eventually get co-opted.

This article has shown how limited or simplistic many ethical screens used by ethical investors are. For instance, 'environmentally harmful practices' is often interpreted to mean ozone depletion and global warming, overlooking wider issues such the loss of biodiversity, long-term impact on natural resources, ecosystems, local environments and so on. Many investors also do not take into account the impact of an industry as a whole. The result is that companies involved in fossil fuel extraction, such as British Gas and BP, or supermarket giants such as Tesco and Sainsbury's, appear in many 'ethical' investment portfolios, even green ones, on the basis that they are 'better' than others in the industry, or that they take proactive environmentally friendly measures, such as recycling, pollution control and so on.

Moreover, the majority of established funds and businesses that market themselves as ethical would fail a strict application of some of the ethical screens discussed above, such as the Friends Provident one. For example, The Co-operative Bank, which was voted the UK's "most ethical" brand in 2008 and claims to have a "strict" ethical policy that its customers vote on every year,[39] does not have a clear policy on the tobacco or gambling industries – except with regard to 'irresponsible marketing'. In fact, the bank, through its asset management arm, invests substantial amounts of money in Imperial Tobacco and British American Tobacco, both of which have been accused of causing great harm to people's health, irresponsible marketing and smuggling.[40] The bank's policy concerning the arms trade is limited to not financing the manufacturing and transfer of indiscriminate weapons, such as cluster bombs and depleted uranium, and the transfer of weapons and torture equipment to oppressive regimes. Similarly, its policy on animal testing is limited to "the exploitation of great apes" and experimentation for non-medical reasons. By using a blend of selected negative and positive screens, the bank has since 1992 withheld over £1 billion of funding from businesses it regarded unethical, mostly on ecological grounds.[41] At the same time, it continues to invest in others that many would regard unethical.

Rather than viewing ethical investment as a means of exerting accountability through markets (a goal that is currently unrealistic for even the most powerful and astute investor), ethical investment can be seen at best as a process of engagement that may or may not effect social change. Investors can seek to use their influence on companies to change unethical practices, and encourage ethical ones, through both 'exit' and 'voice' strategies.[42] The first revolves around decisions to invest and divest (or threaten to divest), while the second seeks to influence companies' behaviour through shareholder activism and advocacy, demanding more transparency, more detailed information and so on.

However, both of these processes remain dependent on factors that lie outside of markets: the strength of public opposition, the volume of this opposition and the pressure that it brings to bear on political as well as market arenas. Shareholders' minds are most concentrated when their investment is under threat. Thus, the most effective strategies of investment/divestment are arguably those that are genuinely based upon people power; upon collective action that is not expressed exclusively through market mechanisms but brings public concerns into the public arena.

Indeed, over-emphasising investment processes may divert time and energy from actually doing valuable work, especially for smaller companies and organisations. Put differently, ethical investment should not be seen simply as investing money in profitable businesses that are, more or less, in line with the investor's values.

It should, rather, be a strategy to promote social values by pressuring companies in the most effective way possible. Investment strategies alone are not necessarily the most effective way to influence the behaviour of a company or industry.

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Power fix

What happens when a bank addicted to speculation is given free reign to profit from the price of public goods?

Aris Kontos

The privatisation of electricity companies and the liberalisation of the electricity 'market' are key conditions being imposed by the EU and the IMF in order for countries like Greece to receive more bailout money. The entire Greek public electricity company (all power stations and the entire network) is being lined up to be sold off for a price less than the value of just one of its power stations, in order to repay public debt on the orders of the creditors. At the same time, the Greek authorities are leading thousands of people into poverty and into darkness through the tax hikes levied through electricity bills, as well as cutting off people's electricity when they cannot pay them.

A recent case from the UK shows the extent to which companies will go to profit from public goods. Barclays has found itself at the centre of yet another financial scandal, facing a fine of up to $470 million from the USA Federal Energy Regulatory Commission for a complex attempt to manipulate the prices of the energy market in California, beginning in 2006. The fine is still pending, but if imposed will be the largest ever by the regulator and much higher than the $290 million that Barclays paid in the LIBOR fixing scandal.

Four financial traders are charged with manipulating prices in the energy market to show they had incurred a loss, so they could reap profits from the parallel positions they held in derivative markets.

US regulators are charging Barclays and its employees of using investments of such large volumes to influence prices, not so they would benefit in the market they were trading in but from the simultaneous positions (their investments) they held in the swap markets. In this way, by profiting from their swap positions, they were able to cause losses to their competitors, estimated to have reached $139 million, while making profits worth $35 million.

The traders used investments in various financial markets in such a way that impacted the prices that consumers were paying for electricity. Such investments (known as 'loss leaders' in the financial market lingo) were common practice in the commodity markets.

In other words, they use trading in physical goods to profit from speculating on… nothing.

The cynicism and aggression of the traders of the British bank were reflected in the emails they exchanged between themselves, with perverse vulgarities a regular feature. One message detailed how they would "fuck" a certain market to strengthen a certain indicator; another how they would "shit" on the electricity to drive another indicator down. In one example, a trader wanted her colleagues to manipulate the prices in a certain way until she returned from her holiday.

Of course the traders knew these actions were unacceptable, as they had received warnings from more senior bankers that the practise was not "without problems."

Despite Barclays' efforts to polish its image, as long as the bank, and other colossal banking groups participate in the "liberalised" – as it is euphemistically called – energy market, the price for electricity users and consumers will remain intolerable. This is because the deregulation of the financial sector has led to a huge increase in financial instruments created by the banks that are used to speculate on energy prices. These instruments, in addition to the creation of numerous, parallel, complex and opaque markets, enable the banks to appear disassociated and out of reach from the end users of the thing being traded, their only criteria being profitability.

It is worth noting that the Barclays scandal happened after the distortions in the energy market were supposed to have been ironed out following the Enron scandal 10 years ago and black-outs in California. Paradoxically, in Europe, privatisation and liberalisation are still being presented as the solutions to countries' energy problems.

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Lost in transition

The European Bank for Reconstruction and Development has attracted controversy for encouraging market-based economic development around the world.

To find out what life is like inside the bank, CORPORATE WATCH spoke to an ex-employee, who asked to remain anonymous.

WHAT DOES THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) DO, AND WHY?

The EBRD was established in 1991 following the fall of Berlin wall. The motivation was to 'help' ex-Soviet countries transition to open, market-oriented economies and promote private and entrepreneurial initiative; in other words, to move from a socialist planned economic model to a more capitalist market-oriented one. There are a few points the EBRD uses to assess market transition, such as private sector involvement, removing dependence on government funds, environmental development and energy efficiency.

The countries in which it has a mandate to operate in didn't vary much since the Bank's inception (other than the addition of Mongolia in 2006 and Turkey in 2009) until last year when, following the uprisings in the Middle East, the SEMED (Southern and Eastern Mediterranean) countries were added: Egypt, Jordan, Morocco and Tunisia, as well as Kosovo.

There are 64 shareholders, which are predominantly countries. The European Investment bank and the EU are also shareholders. Europe has the biggest seat, and is hence the majority shareholder, but others such as the USA and Japan are also present.

The EBRD issues "triple-A" rated bonds in the market and this is where the money that it invests originates from. However, the Bank also has a pool of money that comes from its shareholders. The EBRD invests in 30 countries; those in the CEB region (central Europe and the Baltic countries), south-eastern Europe (Balkans), Russia, Turkey, and Central Asia.

The bank is based in Liverpool Street and about 1,200 people work in the head office. The employees (mostly bankers) are spread through many different industries, such as the financial industry, telecoms, energy and the environment. There is an economics department with about 40-50 people, which was has grown from 30 a few years back. The economics department is considered the "policeman" of the bank as it assesses the transition impact of the projects. There is a law department as well, and numerous others.

WHAT KIND OF PROJECTS DOES THE EBRD FUND?

The EBRD is a profit-making institution. It doesn't give grants, it gives loans. The idea is that it offers funding to companies that wouldn't be able to access it on the market.

The Bank examines the different sectors of the economy and allocates funds to them. Every three years a country strategy is compiled for each country, and each year there is a strategy update. Through this process, all the different sectors are examined (power and energy, infrastructure, financial industry, telecoms, agriculture) and assessed in terms of how open and market-oriented they are; trying to identify where the biggest gaps lie. In more developed countries, the gaps are often in the financial industry, because that is often the last sector that is fully developed.

The strategy papers are written in collaboration between the different departments, so involve economists, lawyers, bankers.

This then goes to the board, and then to the countries themselves to pinpoint the gaps. The projects the Bank funds have to be in line with these strategies.

GIVE US AN EXAMPLE OF A STRATEGY.

Well it depends on the country and the state of each sector. Let us say we are looking at the financial industry in Poland: there are a few points within it that are analysed, such the extent of private equity, the loans to deposits ratios, the state of foreign direct investment.

Within these sectoral breakdowns there is a grading. Within this grading the Bank assesses how marketised a country is and where the gaps lie in comparison to other countries. These gaps then identify where investments should be made according to the strategies.

For example, some specific areas that the work is focused on are food security, energy efficiency and local currency lending. In many countries, especially in Central Asia and central Europe, foreign currency is mainly used, especially for loans, and this was part of a movement to focus more on local currencies, and not rely so much on the US dollar or the Swiss franc.

The EBRD program aims to promote the use of local currency for banks and local firms and hence have the correct interest rates for the relative markets. If a bank is lending and borrowing in Swiss francs then the interest rates would be lower than if lending in the local currency and this skews the market.

HAVE YOU GOT ANY EXAMPLES OF THE SORT OF GAPS YOU HAVE IDENTIFIED?

The bank discusses the gaps in terms of whether a particular sector has a high, medium or low gap in comparison to other countries and other sectors. In Central Europe and the Baltic countries, there would be very few high gaps because the countries are already developed in comparison with other EBRD countries of operation. So you are always comparing against other countries, and also within the regions as well.

The Bank looks at an array of different indicators and the total sector gap is a combination of many such smaller indicators.

For some sectors and countries it is easier to collate these, whereas for others, the process is much harder due to data availability and 'quantifiability' of the information.

A model is created (which is updated annually) and this then results in the corresponding gap for each sector within each country. This is the basis by which funding is justified.

As the EBRD is an international development bank, all these aspects need to be considered. The Bank can't just invest somewhere because there is an opportunity. Investments in a project are only made if there is a transition impact – and this impact is based on market–based development.

The projects can either be initiated by the bankers contacting the clients, or the clients contacting the bankers. In the past, there used to be a higher demand for these loans, but recently (the last five to ten years) the demand has fallen, as there is more competition in the supply of loans. Now, most of the agreements are initiated by the bankers going out to the countries of operation through the Regional Offices and approaching clients.

Additionally there is a department dealing with smaller clients – the Turnaround Management and Business Advisory Service. This department promotes good management in the small and medium enterprise sector within a region, providing direct support to individual enterprises.

Additionally, the EBRD implements the Business Environment and Enterprise Performance Survey in partnership with the World Bank, which examines the quality of the business environment as determined by a range of interactions between firms and the state.

There is also the Life in Transition survey, which analyses how transition has affected the lives of people in the region, examining corruption, bureaucracy, and life more generally in these transition countries.

The EBRD does a lot of research as well, working with other multilateral banks to write reports and produce publications. Every year the economics department, for example, produces the "Transition Report"; which has a specific focus each year – for example bank lending, or the environment.

WHAT OTHER DEVELOPMENT BANKS ARE THERE?

There is the World Bank, based in Washington, the African Development Bank based in the Ivory Coast (but currently in Tunisia), the Asian Development Bank, in the Philippines, and the Inter–American Development Bank based in Washington, working in Latin America.

These are the main ones. Each development bank has its own countries of operation. Initially the EBRD worked solely with the ex–soviet countries and last year, there was an agreement to extend the countries of operation to include some countries of North Africa and the Eastern Mediterranean region.

No funds have yet been disbursed to these countries, but the EBRD is helping with the ongoing privatisation schemes.

In this respect it has also collaborated with the International Finance Corporation (IFC), the private lending arm of the World Bank, and we have also been involved with them.

HOW ARE THE IMPACTS OF THE EBRD LOANS ASSESSED IN RELATION TO SOCIAL FACTORS, OR IMPACT ON COMMUNITIES, AND PEOPLE?

The Life in Transition survey assesses the impacts of the loans, and examines how things are changing in the countries of operation over the long run, looking mainly at social factors. Within the country strategy, social factors such as education and literacy rate are also examined.

AT WHAT POINT WILL ITS WORK BE UNNECESSARY?

One country has already graduated – the Czech Republic. Poland and Hungary are in the graduating process. However due to the current economic crisis, this process has been prolonged.

WHAT KIND OF CRITICISM DOES THE ERBD RECEIVE?

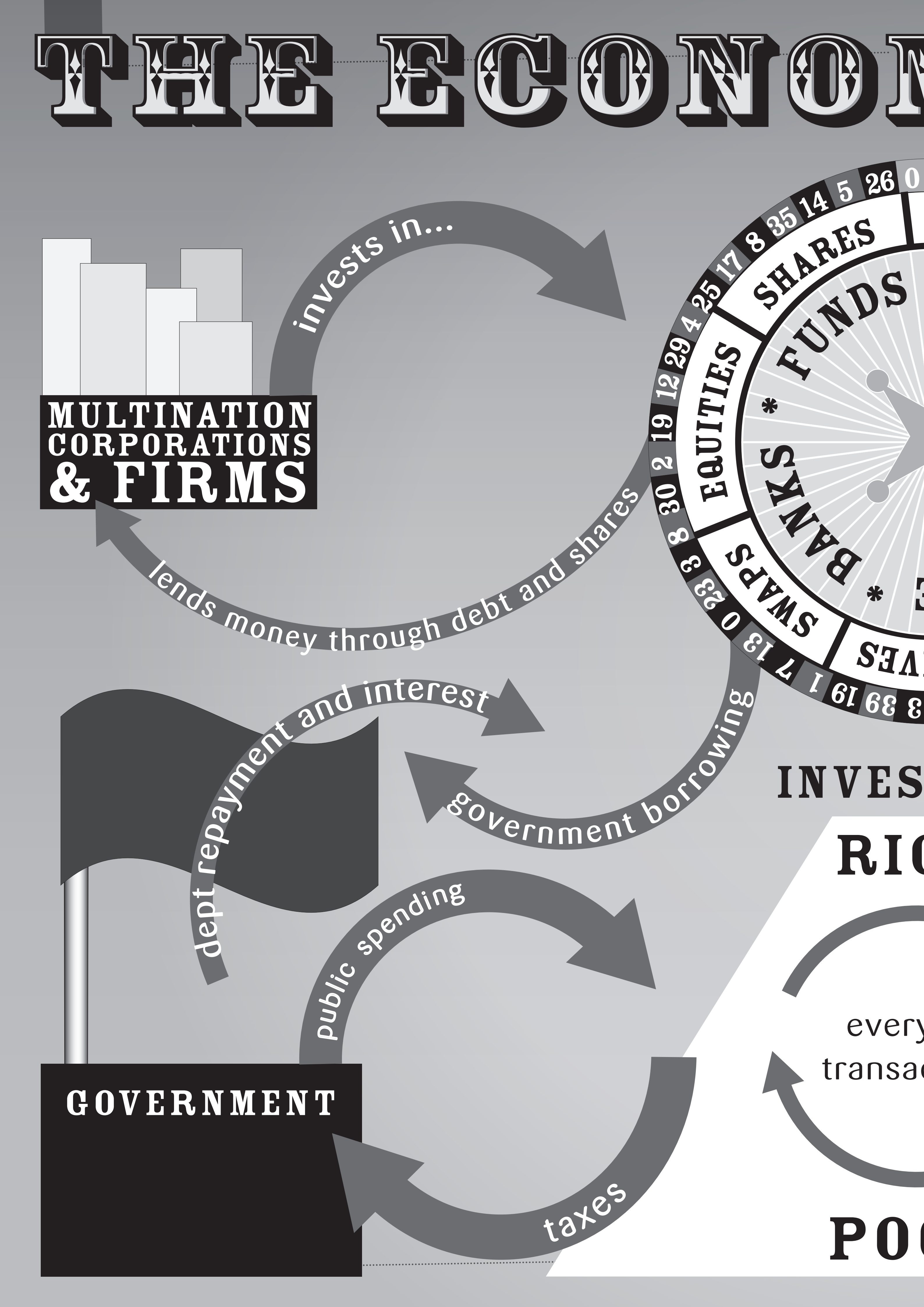
Not all countries need to transition to a market–based economy to develop. It might be appropriate in some countries and not in others or in some sectors and not others. I don't think it is right to have one size fits all model.

It is also quite top down development work. It is not clear how heavily the loans impact the people. There is a bit of a schism between the two. And the bank works primarily with big institutions. There is only one department that works with small businesses.

WHAT ABOUT CAMPAIGNS AGAINST EBRD-FUNDED PROJECTS, INCLUDING GOLD MINES IN KYRGISTAN AND GAS AND OIL IN NORTH-EAST RUSSIA, FOR EXAMPLE.

I don't know specifically. When you are working in countries, especially in this region of the world, where corruption is prevalent and where there are natural resources, there is bound to be some sort of corruption. But at the same time, it has been said that the EBRD has invested in projects that are not ethical or good for the long term sustainability of the country or 'good development'. However the Bank does aim to make 'good' investments.

In addition, some decisions are indeed quite politically influenced. For example Russia receives a large portion of the funds in comparison with other countries with much larger transition gaps, and hence much greater needs for the investments. It seems like there are political agreements and motives about where the money goes but then again, this is probably the case with all multilateral development banks.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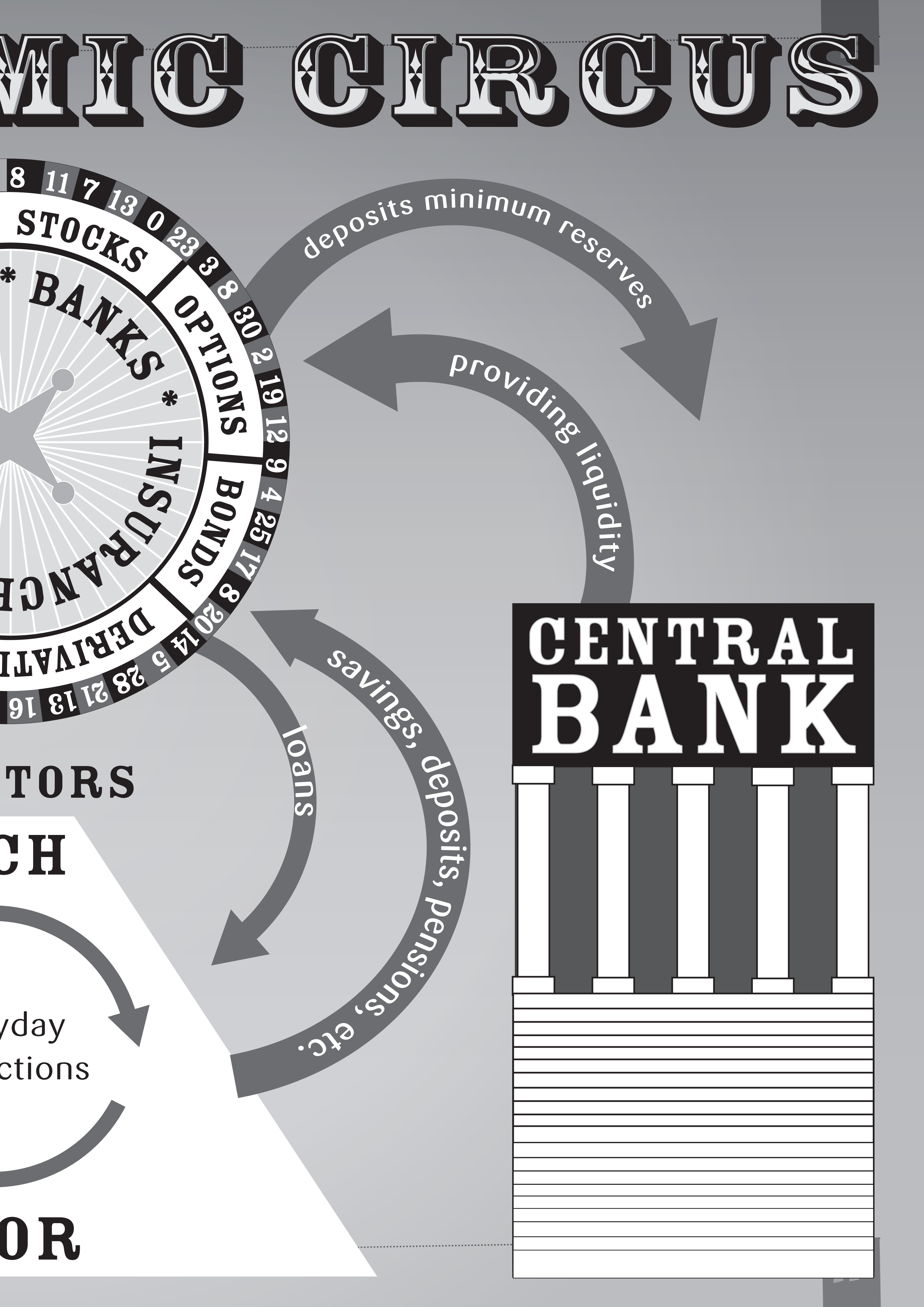
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Campaign spotlight

CAMPAIGNERS HAVE LONG REALISED THAT TARGETING INVESTORS IS ONE WAY OF PRESSURING THE COMPANIES THEY ARE FIGHTING AGAINST.

CORPORATE WATCH LOOKS AT DIVESTMENT TACTICS USED BY FOUR ACTIVE CAMPAIGNS.

ARMS TRADE

Anti–militarist activists have called for companies to divest from the arms trade. A lot of work has been done to try to convince investors to divest from companies involved in the manufacture of weapons. For example, the Campaign Against the Arms Trade's Clean Investment campaign targeted investment by charities, churches and local authorities. Campaigns were also started in universities, calling on them to stop investing in the arms trade.

The campaign had a number of successes, largely with the charitable sector and church investment, but came up against the 'fiduciary responsibility' of fund managers when campaigning on local government investment.

Recently, divestment campaigns have focused on Barclays Bank, which has substantial investments in the arms trade. Barclays also performs 'market–maker' services for arms company ITT Exelis, which owns Brighton–based EDO MBM.

Barclays is also the only high street bank in the UK with significant direct investments in Israeli companies. Corporate Watch research showed that in 2011 the bank held shares in eight Israeli companies, including one that provides antennae for use in Israeli checkpoints in the West Bank.

Smash EDO, a campaign aimed at shutting down EDO MBM has said arms companies "do not operate in a vacuum but are propped up by the networks of corporations and investors which constitute the global capitalist system which puts profit before peace, greed before people."

In 2009, a UK–wide anti–militarist campaign was called for against Barclays, with campaigners targeting the bank in Cambridge, Bristol, Plymouth, Hastings, Falmouth, Tunbridge Wells, Wrexham, Brighton and Nottingham. Bank branches were defaced, cash machines glued shut and demonstrations held. One group of activists climbed a hoarding above a Barclays branch in Cambridge and cut out letters several feet high from an advertising hoarding reading "Barclays, $7 billion in the arms trade". Since then the Target Barclays campaign has held a number of demonstrations outside bank branches, a protest has been held against the bank's 2012 annual general meeting and a stickering campaign has been waged against Barclays sponsorship of London's bike–hire scheme.

In 2009 a map was produced showing the locations of the investors in the international arms trade in the city of London, including the Royal Bank of Scotland, HSBC, Prudential, AXA and Aviva. A day of action, held to coincide with the biannual Defence and Security Equipment International (DSEi) arms fair, which was being held in Docklands, saw hundreds of anti–militarists holding a march through the City, throwing shoes at the offices of investors in a gesture of disgust, invading offices and smashing windows.

Many funds that market themselves as 'ethical' have policies not to invest in the arms trade. However, these policies often draw a narrow definition of which activities to exclude. For example, the Dutch AP7 fund will not invest in companies involved in bombs or cluster bombs but does not have any policy precluding investment in companies which, for example, supply uniforms or logistical equipment to armies.

Co–operative Asset Management, meanwhile, does not exclude the possibility of investment in armaments companies and instead offers investors the option of investing in "sustainable funds" as an investment decision. The Co–operative Bank states that it "will not finance the manufacture or transfer of armaments to oppressive regimes; or the manufacture or transfer of indiscriminate weapons".

A representative of The Co–op told Corporate Watch: "For our purposes indiscriminate weapons include cluster munitions, antipersonnel landmines, depleted uranium munitions, incendiary munitions and chemical and biological weapons." This would not exclude, investment in, for example, companies involved in producing missiles which may be indiscriminately fired at civilian areas.

For more information:
www.smashedo.org.uk
www.caat.org.uk

G4S

Last year Corporate Watch published a comprehensive company profile of G4S. The profile included a long list of the company's major investors.*

The list includes many big investment funds and banks such as BlackRock, Lloyds, HSBC and the Co-operative Bank; governments such as those of Norway, Saudi Arabia, Singapore, the province of Quebec and the states of California and New York; and public sector pension funds such as the West Yorkshire Pension Fund, the Lothian Pension Fund, the Universities Superannuation Scheme, the Teachers Insurance and Annuity Association of America and Kuwait's Public Institution for Social Security.

Since the company profile was published, a new campaign against the notorious security company has been gathering momentum, in the UK and beyond. Stop G4S is a UK-based coalition of various grassroots activist groups, campaigns, NGOs and trade unionists that have a shared interest in "holding G4S to account for its track record of human rights abuses across the world and in stopping the company from taking over public services or being given any more control over our lives."

Among other tactics and forms of protest, campaigners have been 'engaging' with some of G4S's institutional investors to try and persuade them to divest from the company. At the top of their list were the 'soft' targets – that is, investors who have some sort of ethical or socially responsible guidelines that can be used to persuade them to divest from G4S because the company does not fit their criteria. The most obvious of these seemed to be the Co-operative Bank, which prides itself on having a "strict ethical policy."

The Co-operative Asset Management, the bank's investment arm, owns, through NCH Pumpkin, 1% of G4S's total shares. Back in 2010, the Co-op, prompted by Palestine solidarity campaigners, wrote to G4S advising it that "proximity to human rights violations" deemed its business in Palestine/Israel "unacceptable for our Sustainable Funds" and asked the company to demonstrate how its activities in the Occupied Palestinian Territories could be justified, both against its own human rights policies and the norms endorsed by the UN. G4S issued a statement promising it would, at some point in the future, "exit from certain contracts" it holds in the West Bank involving check points, prisons and police stations. In its 2011 annual report, the Co-op applauded this step, ignoring the fact that G4S did not say anything about its contract with the Israeli prison service, under which it provides services to prisons inside Israel, or its contracts with private businesses based or operating in illegal settlements in the West Bank.

Campaigners were obviously not content with this result and wrote to the Co-op raising these points, but the bank refused to engage with them further, claiming it plans to sell its investment arm to Royal London. In July 2012, however, Co-operative Asset Management confirmed that it had ditched its investment in G4S, saying it had "lost faith in the management" after the debacle over the company's bungled attempt to purchase rival services firm ISS.

Next on the list was the West Yorkshire Pension Fund (WYPF), which owned, via its funds, G4S shares estimated to be worth almost £8 million as of March 2012. On 26 October 2012, campaigners from South Yorkshire Migration and Asylum Action Group (SYMAAG) and Barnsley Asylum Support Group picketed WYPF's annual general meeting in Huddersfield, with the call "Do not invest in G4S". Some 200 leaflets were handed to the AGM attendees, many of whom were apparently not aware that WYPF invested in the company. The leaflet emphasised that the pensions of members, who include local government and fire service workers,and councillors throughout West Yorkshire, were dependent on G4S profiting from other people's suffering. Although the response from pensioners and members of the WYPF to the picket and the leaflet was, according to protesters, overwhelmingly positive, the fund has not yet decided to divest from G4S.

Other public sector worker pension funds that own shares in G4S include the Lothian Pension Fund, which is one of the largest pension funds in Scotland and manages the pensions of local government employees in Edinburgh and the Lothians area of Scotland. In September 2012, the fund owned around 300,000 ordinary shares in G4S, worth almost £800,000.

It seems investors need a lot of persuasion to get them to divest from a company for ethical reasons rather than financial ones. Campaigners have had better results with local councils and other government bodies across Europe that had, or were planning to have, contracts with G4S, or even with private businesses that deal with it. For example, it only took a few protest letters by customers and campaigners and a low-key Facebook and Twitter campaign to get Good Energy to ditch G4S as its meter reading contractor.**

But the two types of targets are not unrelated: the more contracts G4S loses, or fails to win, the less financially viable it becomes for investors who only care about maximising the returns on their investments.

For more information:
www.stopg4s.net
www.corporatewatch.org/g4s

* The list can be found at www.corporatewatch.org/?lid=338
** See www.corporatewatch.org/?lid=4459 for more details

ANIMAL RIGHTS

The Channel 4 documentary "It's a Dog's Life" was shown on TV in 1997. The graphic images of animals being abused at Huntingdon Life Sciences sparked a national outcry and led the UK animal rights movement to turn its attention to the company.

At that time, Huntingdon Life Science PLC (HLS) was a FTSE 100 company, listed on the London Stock Exchange, and worth up to £0.5 billion.

It was one of the largest laboratories in the world, contracted by corporations to test products on animals. Its main base was at Alconbury in Huntingdonshire, with a smaller laboratory in New Jersey.

Fresh from success in shutting down both Consort Kennels, a commercial breeder of beagles for animal testing laboratories, and Hill Grove Farm, the last commercial breeder of cats for laboratories in the UK, the animal rights movement was in a strong position, with plenty of momentum.

Up until then, though, campaigns had focused primarily on particular sites, such as university and corporate laboratories, and small businesses. Taking on HLS required an entire new set of tactics to be developed alongside the traditional protest ones. Various organisations were involved in the new campaign but the principal one was Stop Huntingdon Animal Cruelty (SHAC).

Campaigners wrote to each and every shareholder, informing them of what sort of company they were investing in. For many of them, this was shocking news that led them to sell their shares

The initial campaign was quite effective. However, as a FTSE 100 company, HLS had access to a lot of financial resources that gave it considerable resilience.

This led campaigners to examine what went into making a FTSE 100 company such as HLS work; not just the animal experiment side, but everything else.

Campaigners soon realised that, in many cases, the ability to raise money was dependent on share prices, as debt could be converted into shares quite easily. If the share price went down, then the company's ability to raise money would be curtailed. This realisation led to a multi-stage campaign.

Initially the campaign focused on shareholders of every size, from large multinationals to private individual investors. Campaigners wrote to each and every shareholder, informing them of what sort of company they were investing in.

For many of them, this was shocking news that led them to sell their shares. For others, being contacted by activists was sufficient for them to sell. HLS's share price began to decline in fits and starts, but the trend was downwards overall.

Following this, there was a campaign of naming and shaming the remaining shareholders, which included the Labour party's pension fund, through protests and leafleting campaigns.

No distinction was drawn between institutional and individual investors. This innovation in tactics garnered large amounts of press coverage, particularly in the financial papers, and it quickly became apparent that HLS's name was considered among professional investment firms as 'dirt' to be avoided, as it brought with it too much trouble.

The next stage was to make all trading in HLS shares next to impossible. This involved targeting small but vital companies known as 'market makers', which connect buyers and sellers. One by one, these were picked off until it became almost impossible to trade in HLS shares.

After two years of campaigning at this level, HLS fled the London Stock Exchange for the New York–based NASDAQ, only to be driven off this by US activists. The company then had to move into the 'over–the–counter' market, usually seen as the resting place of junk stocks.

Within a couple of years, HLS's share price had fallen by 5,000% and the company had been forced out of two major stock exchanges. This was in many ways an unparalleled achievement for a campaign. Eventually HLS had to be taken private by its senior executives, who used a loan to buy it out.

For more information:
www.shac.net

PALESTINE

In 2004, in the wake of the construction of the illegal Israeli apartheid wall on Palestinian land, Palestinians from a broad range of civil society groups called for boycott action from international civil society. The call was a recognition that governments and politicians had failed to take effective action to stop Israeli war crimes against Palestinians and, in many cases, had offered unconditional support to the Israeli state.

The call was for three types of actions: boycott, divestment and sanctions (BDS). The D in BDS calls for campaigns to persuade investors to divest from Israeli companies and companies that are complicit in Israeli apartheid, militarism and colonisation. Divestment has proved one of the more challenging aspects of the BDS campaign but the movement has won some significant victories.

For example, in 2006, ASN Bank divested from French company Veolia over its contracts in the occupied Palestinian territories. ASN has since divested from a number of other companies which are complicit in the occupation.

B D S

Danske Bank bowed to BDS pressure in 2010 stating that it did "not want to put customers' money in companies that violate international standards".

A successful BDS campaign was waged against Dexia Bank, aimed at persuading it to divest from Dexia Israel, which had made millions of dollars worth of loans for settlement building in the West Bank.

The campaign induced the Belgian–French banking group to make the announcement in 2011 that it would divest its shares even if it incurred a loss. Though Dexia, which is in the process of collapse, has still not divested its share it plans to do so by the end of 2013. The Dexia campaign was international in scope with actions in Turkey, France, Luxembourg and Belgium which persuaded 42 municipalities that invested in Dexia to pass motions calling for divestment.

In 2007 the Church of England announced that it would ditch investments in companies fuelling the illegal occupation of Palestinian territories. In 2012 the US Quaker Friends Fiduciary Corporation (FFC), which held over $200 million in assets, has divested $900,000 in Caterpillar shares.

In 2013 the director of the British agricultural company Valley Grown Salads, that owns a stake in the Israeli company EDOM UK which sources fresh produce from Israel's settlements, agreed to divest the company's shares in response to BDS campaigning.

There have been some victories in persuading pension funds to divest from companies complicit in Israeli war crimes. After a campaign by Norwegian activists, the Norwegian state pension fund divested from Elbit, an Israeli arms company. The Swedish AP7 state pension fund, which handles pension savings worth around $15 billion, followed suit in 2010, divesting from a number of companies including Alstom, a company involved in the construction of the Jerusalem Light Rail project on occupied territory.

The response of some funds, however, has been to enter into engagement processes with the companies, rather than divesting. One example is The Co–operative Bank's strategy to attempt to address concerns raised by campaigners about the Co–operative Asset Management's investments in G4S, relating to G4S's provision of services to the Israeli prison service, police, settlements and military checkpoints.

The Co–op's response was to 'engage' with G4S and to point to an internal review by G4S of its activities as a reason why it should not divest. However, the fund did decide to divest all its shares in G4S in July 2012.

Other companies have chosen to divest from companies complicit in the occupation in the case of 'ethical funds', but allow other funds to continue investing. For example, US pension fund TIAA–CREF divested over $72 million shares in Caterpillar from its 'Social Choices' fund, yet retained shares worth millions in the company in its other portfolios. Crucially, practices like this allow companies to offer ethical investment as a consumer option to investors while continuing with business as usual in their core investment strategy.

Campaigners in the UK are lagging behind a little compared to other campaigners in Europe, in terms of divestment campaigns. Research carried out by Corporate Watch in 2011 showed that a sample of six British pensions funds profiled had extensive investments in companies complicit in Israeli war crimes, as did four British universities.

The call was a recognition that governments and politicians had failed to take effective action to stop Israeli war crimes

For more information:
http://corporateoccupation.org/
http://www.bdsmovement.net/

In 2007 Jonathan Sugarman, the Senior Risk Manager at Unicredit Ireland, Europe's fifth largest bank, notified the Central Bank of Ireland that his bank was not meeting its minimum liquidity requirements. The regulators ignored and silenced the case.

One year later, amid the escalation of the financial crisis, the Irish government announced one of the largest bank guarantees in history, worth 400 billion Euro – more than double Ireland's GDP at the time. The guarantee covered not only bank deposits, but the banks' bondholders as well, making the main beneficiaries of the guarantee the creditors of Ireland's insolvent banks. This led Ireland straight into the arms of the Troika (the IMF, the ECB and EC) in November 2010, seeking a bailout of 85 billion Euro. The accompanying conditions demanded a structural adjustment programme of severe austerity that makes ordinary Irish people pay for the banks' mess.

Sugarman's story highlights how the banks persistently broke all rules in the book but, not only did they not suffer any repercussions, they were rewarded. And when someone spoke out against the rule breaking, the authorities silenced his case.

After a brief description of his case are extracts from a 2012 speech Sugarman made in Athens about his experience and the banking and finance industry in general. Giving insights, anecdotes and stories on the crisis from someone with very much an insider's view, he outlines a variety of banking issues in plain and clear language.

Blowing the whistle on the banks

Liquidity is often defined as the blood supply of a bank. Jonathan Sugarman's job was to make sure the bank had enough liquidity to satisfy the Central Bank's requirements.

One of the requirements was that the bank would hold 'liquid' assets (that could easily be sold) amounting to at least 90% of the bank's liabilities due to mature over a certain period. Irish law stipulates clearly that the legal consequences for breaching this minimum limit included the bank being fined and the risk manager and managing director of the bank being sentenced to five years in prison.

However, Unicredit's senior management ignored Sugarman's concerns that the bank was breaching these requirements, saying the problems arose from glitches in the information system of the bank and thus were not real liquidity breaches. During this time, Sugarman had to fill in daily reports stating that the reasons for missing the targets were technical. Serious doubts about the honesty of this reporting led him to send an official notification of a liquidity breach to the regulator in July 2007 – just over a year before the Irish government announced one of the largest bank guarantees in history.

But despite the law stating that even a breach of liquidity as small as 1% must be reported, the regulators ignored Sugarman's report, which said that at times Unicredit's liquidity had been as low as 20% below the minimum required by law. One might assume that when a crime is reported the regulator would start an investigation. In this case the response was that the 20% breach had been noted by the Central Bank but there was no further investigation.
Sugarman resigned from Unicredit Ireland in 2007, when he realised he would be held accountable for continuous breaches of the Central Bank's liquidity regulations – and could potentially face a prison sentence for it.

At a later meeting with the Central Bank, in May 2011, Sugarman was told that anything he might say could be used against him by the state's public prosecutor, and so he refused to talk. In February 2012, he met again with Central Bank officials and this time he did disclose what he knew. Although the regulators admitted that there were more irregularities that had been spotted, the case was simply declared closed in August 2012.

Whether legal proceedings against the bank will be possible or not is still unclear. In Sugarman's words: "the police must first declare a crime has occurred. When the police claim no crime happened, how can you prosecute the criminal? In order to prove that, the state authority itself has buried the evidence". The story has been picked up around the world, yet the regulators and members of parliament in Ireland have not pursued this issue. Meanwhile, the Irish people are being forced to pay for the bank's excesses and for debts they did not create.

LIQUIDITY AND RISK MANAGEMENT

Jonathan Sugarman: "Liquidity calculation is something that each one of us does, every day. Well maybe not every day if we want to sleep well, but at least once a month. For example, if I were the father of a family of two children. I have a job, I have a house. I owe money on the house. I have a monthly income. It's coming up to the end of the month and I say: "Ok, what is my liquidity position?" I have money coming in. I have money coming out – food for the children, home insurance, mortgage payments. That is my liquidity forecast: how much money have I got coming in, how much money have I got coming out. How liquid am I?

My job as a risk manager for Unicredit was to look at the bank's liquidity position at least once a day, sometimes several times in one day, and say: "OK, this is how much money we have coming in today, this is how much money we have to pay back this afternoon, this is how much money we will get back in one week, this is how much money we will get in ten years, this is how much money we owe in fifty years". That is what we risk managers get paid to do. And we get paid to make sure that the banks do not run dry of liquidity. Because when we operate as a bank we promise when we get our licence that we will keep our liquidity going. Unfortunately, sometimes in some

Jonathan Sugarman

countries, the banks have seemed to run dry. I can think of Ireland, I think actually Greece had a liquidity problem as well. Where are your risk managers? Where are the supervisors for banks in this country?

This is now the audience participation moment. How many of you have a drivers licence? Ok, most of you.

What happens if you drive your car tomorrow morning and run me over in Sytagma square? There is a dead body. The driver gets arrested. Because in your licence it says that if you break the speed limit, or you kill someone, you go to jail. All of your banks are dead. How many people are in jail? Zero.

A crucial point throughout this global financial crisis is that we have been convinced that we don't understand enough to have an opinion about this crisis. Because unless you have a degree in economics, or three degrees in maths or finance, don't even to try to understand, My point is very simple: when all of you drivers break the law and run me over, and get brought in front of a judge, does the judge at any stage ask any of you if you understand the physics and chemistry of a four cylinder engine? And what I am saying to you here, this evening, is that a banking license – I can show it to each and every one of you – says very clearly: "If you break the law, you might be facing a term of imprisonment not exceeding five years". How many bankers are in prison?

NICE WORK IF YOU CAN GET IT

Before **Brian Hillery** was Unicredit Ireland's chairman, he was an MP for Fianna Fail, the party in power at the time of the bailouts. He left Unicredit in 2008 when he became a director of the Central Bank of Ireland!

Unicredit Ireland is a subsidiary of Unicredit, Italy's largest bank. The head of the Central Bank in Italy at the time of the scandal was **Mario Draghi**, who is now the head of the European Central Bank.

THE LIBOR SCANDAL EXPLAINED:

Jonathan Sugarman: I've been asked to say a few words about what LIBOR is, and what the scandal is about. LIBOR is the London Interbank Offering Rate. We all have to pay interest on our loans and we all hope to receive some interest on our deposits. When the banks have money that 'rests', it means they are losing money. So my job at the end of the trading day was to count the money in the box and say: "OK, I've got 500 million Euro, I will deposit it for one night. What is the best rate I can get? I call a few banks, this one will give me 2%, this will give me 10%, this will give me nothing".

What happens in London is that every morning by 11.30 a panel of 18 international banks ranging from UBS, Deutsche Bank, Barclays, HSBC Credit Agricole, Societe General, are asked: "OK how much interest are you willing to pay on overnight deposits, one week deposits, three month deposits? Tell us, and then we, the British Banking Association, will publish an average and say this is the price of money today in London, at lunchtime". I cannot overstate the significance of this interest rate. Every interest payment that each one of us makes on his card, on his loan, is determined by this rate.

So when you go into a bank and you say: "I want to either give you a hundred thousand Euro", or: "I want to loan you a million Euro", the interest rate that you will receive or you will pay is based on LIBOR [or EURIBOR if in Euro].

As a bank's risk manager, I see everything, I touch nothing. My job at the end of the day is to tell the dealing room: "Right, we have 500 million Euro too much, do something with it". They will do according to what the rate is. And that is how they will decide whether they will deposit it for one week, one month or a few days.

Why is there a scandal? Because it now turns out that for many years, some say as early as 1991, the banks have been deliberately fixing the rates according to what they want. So, what is the latest estimate of the Greek bailout in billions? 360 billion Euro is the extent of the Greek problem, and that is why the whole world was watching to see what you would do in your elections, to "save the Euro or not save the Euro", because of 360 billion. The LIBOR scandal affects contracts that amount to $500 trillion. 500 ***trillion***! It involves the biggest banks in Europe and some of the biggest banks in the world. Picking on Greece is much easier than picking a fight with UBS, Deutschebank, HSBC or the other banks that have been making headlines. To date, we know that Barclays has paid £300 million as a fine. That is it.

> You are losing hospitals, schools, essential services for 360 billion. This is a scandal of 500 trillion

As far as I know, if this gentleman over here and I go and open a business and we do something criminal, we might go to prison. But, no, apparently, if you are the Royal Bank of Scotland, you negotiate. I'll pay you £200 million, and I'm fine. And it is crucial that people understand the magnitude of these amounts. You are losing hospitals, schools, essential services for 360 billion. This is a scandal of 500 trillion.

BANKS, REGULATORS AND POLITICIANS

Jonathan Sugarman: The last subject I would like to touch upon concerns the very comfortable relationship that exists everywhere in the world between bankers, politicians and regulators. And I will come to this subject from two different perspectives.

Number 1: the bondholders. We all know about the bondholders. The bondholders want the Greek public to pay them the money they owe them back. Now, did we ever get to discover who these bondholders are? Who are these people that you owe the money to? And I would like to quote from an article written in July 2011 by a very good friend of mine, David Malone in the Guardian newspaper. The title is 'Bankers, bondholders and the double standards over repaying debt'. These are the highlights.

"Gradually the story became less about the banks owing us money and more about owing the bondholders. It seems to me that our governments and their financial advisers from the banks have a double standard when it comes to debt and its repayment;

we have been convinced that we don't understand enough to have an opinion about this crisis

one which greatly benefits the financial world and punishes the taxpayer. On the one hand, the debts of private banks and those who own that debt, the bondholders, are being protected from any losses by the publicly funded bailouts.

"The double standard is creating two different groups with very different financial prospects: one group made of the bankers and their bondholders (the financial class), and it is actually doing rather well these days – doesn't have to pay back its debts. The other group, the rest of us, find our wealth is disappearing because we are paying off not only our debts but theirs as well. Our welfare, pensions and pay are all being cut in order to appease the bondholders, while the banks and the money they owe us, seems to have almost disappeared from the story altogether."

So the question is: who are the bondholders? And why are Europe's banks more concerned with paying them than paying us? Finding out who the bondholders of a bank or a nation is isn't all that easy. But a few days ago Barclays compiled a chart of the top 40 holders of Greek debt. One name on the list is illuminating. Eurobank EFG is the largest private holder of Greek debt. Only national banks and international lenders such as the ECB hold more.

So who is Eurobank EFG? Well, it is part of a larger group of banks which go under the name of European Financial Group EFG, which is based in Luxembourg. The heart of the group is EFG Bank, a Swiss private bank. Are the owners Swiss?

Not quite. The bank is 40% owned by the Greek Latsis family, whose fortune is managed by Spiro Latsis.

It is very kind of you to be looking after your very own families so kindly.

So when Greek taxpayers have their wages cut, their pensions shrunk and see the assets of the nation sold off, they will be helping to protect the Latsis' investment in Greek debt. And it's no accident that Eurobank EFG Bank holds a lot of Greek debt. The bank set up a special fund in 2009, during the crisis, specifically to buy up Greek government debt. All of which becomes more interesting when you step back and realise that EFG is not only a bondholder but also one of the banks being bailed out. EFG's Greek banking arm, EFG Ergasias, is one of the four Greek banks most reliant on ECB funding for its survival. No wonder the CEO of EFG Bank said that the Greek decision to enforce austerity and avoid default was "necessary".

You are very kind people. Latsis is a very powerful family.

More on Sugarman and the cover-up:

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Talk in Thessaloniki http://www.auth.gr/video/15117

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Zaytoun

Rachel Boyd from Zaytoun CIC talks to CORPORATE WATCH about an investment worth making

WHAT IS ZAYTOUN AND HOW DID IT START?

Zaytoun is a UK distributor for Palestinian suppliers. It was started around ten years ago by people who had volunteered with the International Solidarity Movement in Palestine. The idea came to import olive oil to support local farmers and it grew from there.

We're a workers' cooperative. We don't have shareholders so the more money we make the more gets invested in the organisation.

We started off with olive oil. We've now added olives, maftoul – which is a bigger grained cous cous – almonds, and lately we've started doing dates. The dates are aimed at the Ramadan market. A lot of Muslims buy Israeli dates for Ramadan because they're very big and juicy, but they're a heavily subsidised part of the [Israeli] land grab. They come from the Jordan Valley, which is vulnerable to losing land. With Ramadan it's all about encouraging people not to buy Israeli dates and actually to have some alternative. And to have a political message to go with what they do when they break the fast. That is what Zaytoun does – we're here as a campaigning organisation to talk about the occupation.

At the moment we're really trying to raise money for this year's date harvest. Zaytoun will be paying farmers at the August harvest and Ramadan falls nearly a year later, so loans are crucial for us.

OKAY – THIS MAY NOT BE THE BEST PLACE TO RAISE MONEY.

Every little helps! If people invest in us it means we're paying less bank charges, which means we can serve our suppliers better.

WHO ARE YOUR SUPPLIERS?

Our main supplier is called Canaan Fair Trade. They source exclusively from co-ops and farmers' associations. We also source from Sindyanna in order to support Palestinian citizens of Israel who face racial discrimination and a lack of market access.

WHAT HAVE THE EFFECTS BEEN SINCE YOU STARTED?

When we first started selling olive oil, many farmers were selling their oil at below the cost of production, so there wasn't much incentive to farm.

There is some still-used Ottoman law that means after three years if land hasn't been farmed it can be claimed by the Israeli state. So making land economically viable has meant that land can stay in Palestinian ownership and people can gain a livelihood from it. This has been especially important since the wall went up, as employment within Israel is no longer an option.

We're part of the Palestine solidarity movement. We're a part that's supporting the economy and providing an income for people there.

We also provide a connection between people that support Palestine. We organise tour groups each Autumn, and we bring over a couple of farmers each Spring. They meet fair trade groups and Palestine solidarity groups. They give inspiring speeches about Palestine and help people feel a bit more passionate and connected to the campaign.

That in no way substitutes for any other part of the movement. It goes alongside all the other bits. We are a drop in the ocean in the whole aid-dependency set up, but still a drop that is looking at grassroots empowerment.

DO YOU PLACE ANY LIMITS ON WHOSE MONEY YOU WILL ACCEPT AS INVESTMENT INTO ZAYTOUN?

We've never had any problems with this, up to now! Everyone who has invested so far has generally been an active supporter. We've never had anyone who we think is really dodgy, but we don't offer great interest rates.

Almost everybody who's invested so far has invested at 0%. We go up to 2% for short term loans or 3% for longer term loans.

WHAT WOULD YOU DO IF YOUR INVESTORS TRIED TO PRESSURE ZAYTOUN IN A WAY THAT WENT AGAINST THE PRINCIPLES OF THE ORGANISATION?

They don't have any right to. We would not accept terms which go against our ethos. We'd say they can have their money back. We try to vary our finance sources as much as possible so we avoid any one investor having too much power.

SO HOW DO PEOPLE WHO GIVE MONEY TO ZAYTOUN KNOW THAT YOU ARE GIVING A FAIR DEAL TO SUPPLIERS?

We're audited by the Fairtrade Foundation. To have the fair trade mark there is an audit process, which involves verifying that farmers do get paid up front and all that. We are organically certified by the Soil Association too. We also produce an annual report. And people can meet the farmers on our harvest tours or when they come over to the UK.

The money has a very direct impact in Palestine. It's not getting watered down. It makes us more profitable, which means we have more money to invest in campaigning here and also supporting that supplier chain and increasing and opening up the market here.

ISN'T THERE A RISK THIS WILL CHANGE AS YOU BECOME BIGGER? LOTS OF ORGANISATIONS BECOME LESS ETHICAL AS THEY GROW.

All the workers here do Palestine campaigning work within that movement. We have a Palestinian worker in the West Bank who is there to talk to farmers about their experiences of the suppliers that we use and to have his ear to the ground about what prices people are actually getting and what their relationship is like with the suppliers. So there's that check as well. We pick our suppliers extremely carefully.

CAPITA company profile

Shiar Youssef

Meet the company that collects Council Tax and TV Licence fees, takes Londoners' 999 Calls, assesses whether benefit claimants are 'fit for work', holds your criminal record and much, much more...

After Margaret Thatcher's privatisation schemes and New Labour's opening up of entire new public sector services to private competition, the coalition government is now advancing this neo–liberal agenda further with major new experiments in public sector 'reforms'. By cutting public spending, the Tory–led coalition is forcing taxpayer–funded services to turn to the private sector, which is presented as 'more efficient' than the public sector.[1]

Not that there is any more evidence to support privatisation than there was in the Thatcher or Blair days. Following the Olympics security fiasco in summer 2012, when G4S failed to deliver its contract and provide enough security, the head of the Local Government Association Sir Merrick Cockell said the days of assuming that private companies offer the best way of delivering public services were "over", in what the Financial Times described as "comments that may jolt the multibillion–pound outsourcing industry." There had been a period, he added, "when 'public bad, private good' had almost been a mantra, accompanied by a belief that the right way for local authorities to do things was to outsource everything." But that's over now, he predicted, rather over–optimistically.[2] Even ministers, such as defence secretary Philip Hammond and culture secretary Jeremy Hunt, called upon the government to "think again" about the private delivery of public services.[3]

Yet it seems that policy–makers' strong belief in the market economy, coupled with a strong private sector lobby, have meant any such criticisms have fallen on deaf ears. In 2011, Capita's chief executive Paul Pindar used the cuts to call for even more outsourcing. "Billions of pounds could be saved in government back offices without the need for 'criminal' cuts to frontline services such as police, libraries, youth centres or healthcare [by outsourcing] administration and processing functions," he said.[4]

Following the G4S Olympics fiasco, Mr Pindar took it upon himself to respond to the doubters and said, rather self–confidently: "There's no way on the planet that the government can afford not to engage with the private sector, especially given the size of the national deficit... Government ministers should be looking at how to extend the engagement of the private sector further and faster."[5]

SERVICES SHRINK, CAPITA GROWS

The critical comments and warnings by observers, analysts and even politicians have not stopped the coalition government from handing over more and more public services to Capita and other outsourcing companies, and a growing list of public contracts and acquisitions are contributing to Capita's rapid growth.

Capita Plc is the largest 'business process outsourcing' company in the UK, with a market share of 23% in 2011.[6] Headquartered in London, its is a FTSE 100 company listed on the London Stock Exchange as CPI.L. It employs some 46,500 people at more than 350 sites, including 68 business centres across Europe and India. In 2012, the company reported a revenue of £3.4 billion, almost half of which came from public sector contracts.[7]

THE OUTSOURCING ROUTE TO GROWTH

Over the last five years, Capita has grown by an annual average of 14% in terms of revenue and 10% in terms of profit.[8] According to the company's accounts, almost half of its revenue in 2012 came from public sector contracts, broken down as follows: 11% central government, 18% local government, 8% education, 6% health, 3% emergency services, and 1% defence. The remaining revenue came from the private sector, mainly in the insurance, pensions and financial services markets.[9]

In April 2012, the UK government unveiled £70 billion worth of lucrative public sector contracts, in what has been described as the biggest wave of outsourcing since the 1980s.[10] The giants of the outsourcing market, including Serco and Capita, were invited to a Cabinet Office briefing and presented with a five-year "pipeline of bid opportunities" in 13 sectors, ranging from construction, transport and energy to healthcare and welfare.[11]

Jefferies International, an investment bank, estimated that the new contracts represented around £4 billion of incremental annual revenue for the growing outsourcing sector in the next few years, with three key departments – the Ministry of Justice, the Ministry of Defence and the Department for Work and Pensions – in the frontline.[12] Though many have already been awarded in 2012, lots are still in the pipeline and will be up and running by the end of 2014. Industry analysts estimate the potential UK outsourcing market to be £117 billion a year, claiming only 7% has been outsourced so far.[13] And because of this "wave of public sector sales," brokers like Jefferies International are advising investors to buy shares in growing outsourcing companies like Capita, which is ranked second after Serco in terms of market performance.[14]

In anticipation of this wave of outsourcing contracts, Capita raised £290 million from its shareholders in April 2012 to fund new acquisitions, in order to help it pursue billions of pounds of government contracts coming up for grabs. The company describes its "key drivers" in the public sector as follows:

"The ongoing pressure to reduce budgets whilst maintaining frontline services is creating a steady pipeline of opportunities in the public sector, particularly across Capita's traditional markets of central and local government, where we are seeing renewed vigour and innovation in terms of how the private sector can support long-term objectives."[15]

The company's long-term growth strategy is based primarily on securing medium- to long-term customer management and business process outsourcing (BPO) contracts, which currently make up around 65% of its overall revenue.[16] The demand for BPO, the company reassures its investors, "continues to be driven by the public sector's need to deliver quality, cost-efficient services, and the private sector's requirement to remain competitive and innovative."

"There's no way on the planet that the government can afford not to engage with the private sector"

Paul Pindar, Capita CEO

Capita secured £1.3 billion of new contracts in the first six months of 2012, which it said was a record, though it had apparently "underestimated the time it would take for government outsourcing to kick off."[17] Nonetheless, the company remains confident that the UK BPO market will "generate a wide range of opportunities to fuel Capita's future growth, and we continue to influence the shape of the BPO market, delivering both traditional outsourcing and transformational outsourcing to our clients."[18]

NEW 'OPPORTUNITIES'

As mentioned above, council contracts accounted for 18% of Capita's 2012 revenues. Local councils face a 26% reduction in their government grant over the four years of the current spending review (to 2014–15), with further cuts threatened in the next spending round.

A 2012 report commissioned by the local government think-tank Localis, in partnership with Capita, predicted a "town hall revolution" that would see councils working with a patchwork of organisations from the public, private and voluntary sectors to deliver services, "instead of doing everything themselves."[19]

In November 2012, Capita was named as the preferred bidder for a £320 million, 10-year contract to run back-office services for Barnet council, dubbed "EasyCouncil" for its aggressive cost-cutting measures and pioneering many of the coalition's far-reaching reforms.[20] Over 500 of the council's staff (15% of the total) will be transferred to the private sector under the deal, which the council claims will save it £125 million.[21]

In December 2012, Capita signed a £1.7 billion contract (its biggest ever) with Staffordshire County Council to create a joint venture, in which Capita holds a majority stake, to provide educational support services to schools and academies in the Staffordshire region.[24]

Under the terms of the agreement, which will see 3,800 staff transferred from the public to the private sector, Capita would invest £25 million in the first year and a further £7 million over the following three years to 'improve' schools, with ground maintenance, catering and additional educational subjects, such as performing arts, provided by the company. The council said the deal will "bring about vital investment and commercial expertise, meaning services to schools are sustained and around 4,000 jobs are protected. These would otherwise be lost in the face of reduced funding to schools and growing competition from the private sector."[25]

The venture is expected to generate revenues of £85 million a year over 20 years and act as a basis for securing further similar contracts in the future. Commenting on the deal, Capita said "changes in government policy giving educational establishments greater freedom over where and how they buy services [mean] there is a significant opportunity for the provision of quality, industry-leading support services on a national level."[26] Industry analysts estimate the UK educational support services 'market' to be worth around £16 billion a year.

West Sussex County Council has already signed an outsourcing contract with Capita.[22] Earlier this year, the Conservative leader of Cornwall council quit over a controversial Voice Risk Analysis software provided by Capita that is being tried by some local councils to use as lie detectors on benefit claimants. [23]

And it's not just schools and local councils that are up for grabs; even emergency services are being privatised. In March 2012, the London Fire Brigade became the first fire service in the country to outsource

CAPITA
Translation and interpreting

CASE STUDY: HOW THE SAVINGS ARE MADE

Following Capita's acquisition of Applied Language Solutions (ALS) in December 2011 – which has now been re-branded as Capita Translation and Interpreting and forms a new stand-alone business within the Capita Group52 – there was a systematic programme of "restructuring and change" taking place behind the scenes. Capita claims this was to supply frontline staff with the "help" they need so that they work "more efficiently and effectively, while allowing departments across the public sector to save money."

But as we have seen with numerous other private restructuring programmes, in the world of privatisation and outsourcing, efficiency means cutting any 'extra' costs, primarily labour costs. Thus, Capita's "reducing operational inefficiencies" in its new translation business simply meant cutting down on staff, wages, other staff expenses such as transport, social security and so on. In the first month of the Framework Agreement with the Ministry of Justice, the company only fulfilled 58% of service requests – against a target of 98% – and received more than 2,000 complaints in the first quarter of the year.

In its Tender Response, ALS promised the MoJ: "Our business model is tried and trusted and has delivered significant cost savings to a number of existing customers within the [ministry]."

They did this by introducing a "more competitive national environment amongst the interpreters", by abolishing the three-hour minimum payment and only charging for the "actual work done", by replacing it with a one-hour minimum, then charging by the minute after the first hour (or by the second with telephone interpreting and by word with translation). "Interpreters that want to make a real career within this sector," the document adds, "have been extremely flexible, understanding the new economic environment and pushing themselves forward for more professional development and more assignments."

The company then cites as evidence its "tried and tested methods" used with police forces, which have allegedly delivered "dramatic cost savings and value for money across the board." These include hourly rate reductions; lower travels expenses; and technological alternatives to face-to-face interpreting (machine translation, for example).

Interestingly, ALS had anticipated "negative media coverage" of its contract with the MoJ: "The UK press may report the annual spend on language services and can report, under the Freedom of Information Act, on payments made to suppliers of these services." The cautious company warned the ministry: "It is therefore essential that an agreement statement be in place to use in response to any questions around this topic, which will communicate the efficiencies that the framework agreement will deliver and in turn how these will equate to genuine cost savings for the MoJ."

The "potential lack of interpreter engagement" was another anticipated risk: "In the Northwest, we have encountered a group of interpreters who have attempted to resist the outsourcing by the Police Services and have refused to accept assignments via Applied Language Solutions or any other agency." But it goes on to reassure the ministry: "We do not envisage this causing any problems for the provision of the contract" because, "through targeted recruitment and sponsorship of linguist training, we have fully mitigated this problem."[52]

its handling of 999 emergency calls in a 10-year deal with Capita, which took over the control system and the 120 staff last summer.[27]

Fire brigades across the country are expected to follow suit if the £20 million deal is deemed successful (in terms of saving money) as fire brigades face 20% cuts to their budgets over the lifetime of the current government. In March 2013, Capita also bought up the Fire Service College for £10 million.[28]

Police forces are also in the process of outsourcing their 999 control centres, as they embark on the most drastic reforms of the service in 30 years.

Last year, Lincolnshire police became the first police force to privatise its back-office functions, while West Midlands and Surrey police dropped a similar deal with G4S following the Olympics security fiasco.[29] In May 2012, Leicestershire, Nottinghamshire and Derbyshire police forces signed a "collaborative agreement" with Capita, which will provide them with a "shared back office" under a shared system called Origin.

The deal, worth £2 million over five years, was the first of its kind in the country.[30] The month before, Capita had signed a four-year framework agreement with the Metropolitan Police Service for the supply, delivery and support of radio-managed services and peripherals used under the Airwave Radio Service.[31]

Nationally, Capita has reported a similar surge in central government contracts. In late 2011, the company beat its main rival, Serco, to a 10-year contract with the Ministry of Defence to handle the enlisting of some 9,000 soldiers a year.[32]

The £44 million a year deal, which covers everything in the armed forces recruitment process, from marketing to training, was the first in a series of outsourcing deals that could transform the way the British armed forces go about their daily business over the next ten years.[33]

Other deals in the pipeline include contracts to run the MoD's back-office and finance functions, and plans to outsource the running of all the regional military bases. Around half of Capita's £4.6 billion bid pipeline in 2011 came from central government and MoD contracts, compared with 21% six months before, when local authority, life and pensions work accounted for the bulk of the 'new opportunities'.[34]

In February 2012, Capita won a two-year contract with the Cabinet Office to manage the provision of all civil service training.[35]

"The ongoing pressure to reduce budgets is creating a steady pipeline of opportunities in the public sector"

- Capita website, 'Investor Overview'

Under the terms of the contract, the company was supposed to directly deliver 49% of the training itself and manage the remaining 51%, which would be procured on the open market. But the actual ratio in the first 11 months was 41% / 59% respectively. Nonetheless, in February 2013, the Cabinet Office extended the contract for a further two years.[36] The company anticipates the contract will generate revenues of at least £30 million a year over the two years of the extension.

Other significant contracts that Capita holds with central government departments include:

– A contract with the Criminal Records Bureau to hold and manage criminal records.[37]

– A controversial contract with the Department for Work and Pensions to assess Personal Independence Payment claims, which replaced the Disability Living Allowance.[38] The other contractor is Atos.[39]

– A contract with the UK Border Agency to trace and contact 174,000 migrant workers and overseas students who had been refused permission to stay in the UK but whose whereabouts were unknown to the authorities (so-called "overstayers").[40] Capita was in the news for cocking up this new 'bounty hunters' venture over Christmas.[41]

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ACQUISITIONS

Besides the new contracts, Capita has also embarked on a spate of acquisitions in the last couple of years, and most of the newly acquired businesses appear to be in sectors that are being increasingly opened to the private sector.

For example, Capita bought up Applied Language Solutions (ALS) in December 2011, a few months after ALS was awarded a £300 million contract with the Ministry of Justice to provide all translation and interpreting services to the ministry, including immigration tribunals.[42]

In August that year, Capita had also acquired Reliance, the security company contracted by the UK Border Agency and the Ministry of Defence to provide detainee and prisoner escort services, among other things.[43] The company has now been renamed Tascor, though its new website does not mention anything about Reliance or Capita.[44]

In the healthcare 'market', Capita acquired Medicals Direct,[45] a provider of medical screening services, in 2012, and Clinical Solutions,[46] a provider of clinical products such as patient management software used to manage over 70 million clinical calls over the past ten years in the UK and abroad. Both companies are among a growing list of private companies taking over parts of the NHS. In October 2012, Capita also acquired social care recruitment consultancy firm Medicare First,[47] which provides social workers to public and third-sector organisations throughout the UK, including many NHS trusts.

Other significant acquisitions by Capita in recent months include buying up, for an undisclosed sum, employment screening company The Security Watchdog,[48] which is described as a leading provider of "security and compliance services in the fields of employer consultancy and pre-employment and employment screening" (i.e. snooping on staff and workers.) The company's clients include many financial and pharmaceutical multinational corporations.[49] Commenting on the deal, the company's managing director, Susie Thomson, said: "We believe The Security Watchdog will be a perfect fit into the Group's overall offering. We share the same service delivery ethos which can only bring more value to existing and new clients."[50]

Other acquisitions include debt recovery companies, reservations and other travel services providers, accounting and secretarial services providers and so on and so forth.[51]

> "Government ministers should be looking at how to extend the engagement of the private sector further and faster"
>
> **- Paul Pindar**

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49.http://www.securitywatchdog.org.uk/about-security-watchdog
50. http://www.capita.co.uk/news-and-opinion/news/2012/janjune/capita-acquires-the-security-watchdog-ltd.aspx
51. For a full list of the sectors that Capita is involved in, see http://www.capita.co.uk/what-we-do/sectors.aspx.
52. For more details on this case study, see this Corporate Watch article: http://www.corporatewatch.org/?lid=4644.

The I word

Richard Whittell

Earlier this year, Corporate Watch published an investigation into the finances of commercial radio giant This is Global. It revealed that the owner of Classic FM, Heart and Capital had not paid any corporation tax in the last five years, after sending millions through tax havens.

A defensive Global responded that this was not tax avoidance but "significant and legitimate investment," saying the company had "invested over £500 million in commercial radio in the UK over the past six years and played a major part in promoting and rejuvenating the sector." £500 million is roughly the same amount as high interest loans that Global has taken from its owners through the Channel Islands.

In 2012, interest payments of £60 million on these loans helped turn a £33 million profit from the UK radio stations and other businesses into a £29 million loss, leaving Global with a UK tax ***credit*** of £257,000 for the year.

Previous years' accounts also show either no corporation tax paid or credits received. In total, more than £200 million has left the UK as interest payments to the owners since Global was founded in 2007.

"Channelled £500 million through tax havens" doesn't quite have the same ring as "invested over £500 million" and Global's statement is a familiar PR strategy.

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> "Investment" is the safeword for companies feeling a little too exposed

'Investment' is the safe word for companies feeling a little too exposed.

Google boss Eric Schmidt said his company was "investing heavily in Britain" after the internet giant's financial contortions were revealed last year. More recently, Npower's Paul Massara dropped the 'I' word to justify his company's non-existent tax bills.

It isn't just used for tax dodging. In February this year, we asked water companies in England and Wales to respond to an investigation that questioned the financial efficiency of privatisation.* Their responses all boasted of their huge spending to improve the supply. Southern Water was a typical example, saying it was "investing £1.8 billion in a major capital improvement programme from 2010 to 2015 – equivalent to spending nearly £1,000 for every property in the Southern Water region over the five-year period."

You can't argue with those numbers, can you? Everyone knows leaky pipes need to be fixed, so why complain when such spectacular-sounding amounts are being pumped into the system?

But it's not just about the amount the companies are spending. We also need to ask what they and their investors are getting back.

The 19 water companies' accounts show that, between them, they are borrowing a massive £49 billion from banks, pension and investment funds.

The principal motivation of these lenders is not to improve the quality of people's drinking water but to make a decent return on what they hope will be a safe and stable investment.

To satisfy their demands, the water companies paid more than £3 billion in interest payments on their borrowings in 2012.

Their owners and shareholders – also banks, private equity, pension and investment funds – want their cut too and the companies paid out a total of £884 million in dividends in the same year.

The water industry's total revenue in 2012 was £10 billion, meaning almost one third of the money spent by people on water bills in England and Wales left the system as interest or as dividends.

So the only people putting money into the system and not getting any back are the 'customers'. And they're not only paying for water and infrastructure, but for the owners and lenders' returns.

All the water companies say borrowing is the cheapest way to finance investment and that it means people don't see their bills rise massively each time new infrastructure is needed.

In the current economic context that may be true but, just like the companies that won contracts under the Private Finance Initiative, the water companies are paying far more to borrow this money than the government would if the supply were public. The UK government can borrow much more cheaply than companies because it is regarded as a more secure investment.

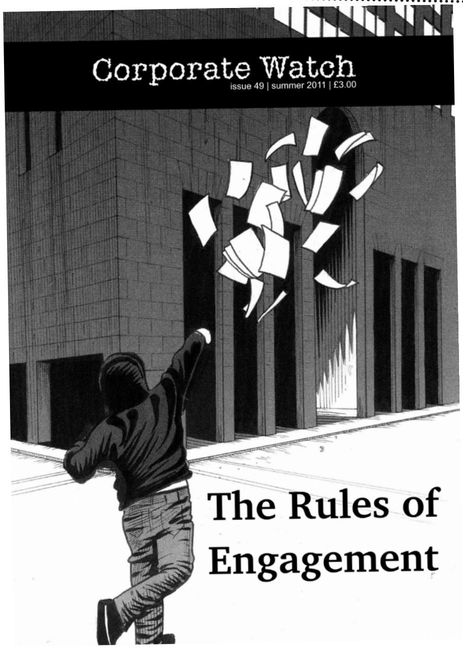
If the water and sewerage system was in public ownership, borrowing and financing costs would be much lower. Corporate Watch found that, given the government does not have to pay dividends to shareholders and is currently paying around 3.5% a year on the 30-year bonds it is issuing (compared to the 6% overall rate the companies are paying) almost £2 billion a year could be saved.

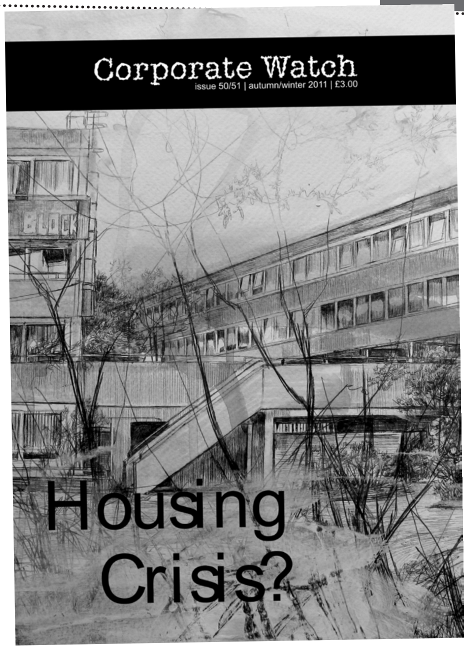
This could either be reinvested in the system to address problems like leakage or help reduce bills. If the amount was all taken off bills, the average saving per household would be around £80 a year.

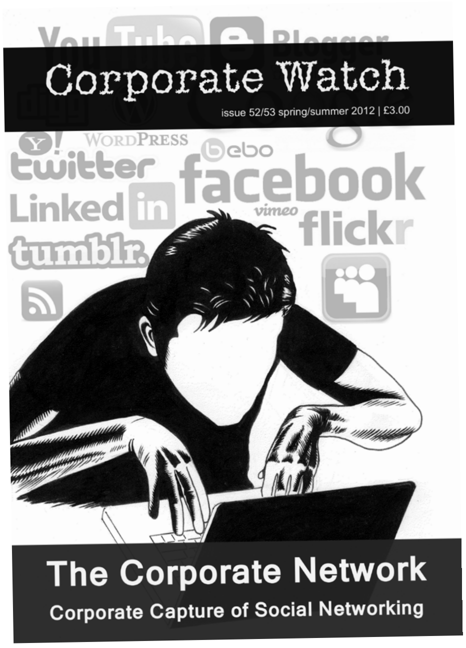
This still might not be ideal – the supply would remain dependent on banks, bondholders and a big state – but it could at least bring the same big investment, only cheaper.

What's the lesson? If you hear a company boasting about how much it is investing, always ask what it, and its investors, are getting in return.

* Although some of the water companies are also avoiding tax in a similar way to Global!







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