

Ethics in Investment

How can the financial markets become fair and sustainable?



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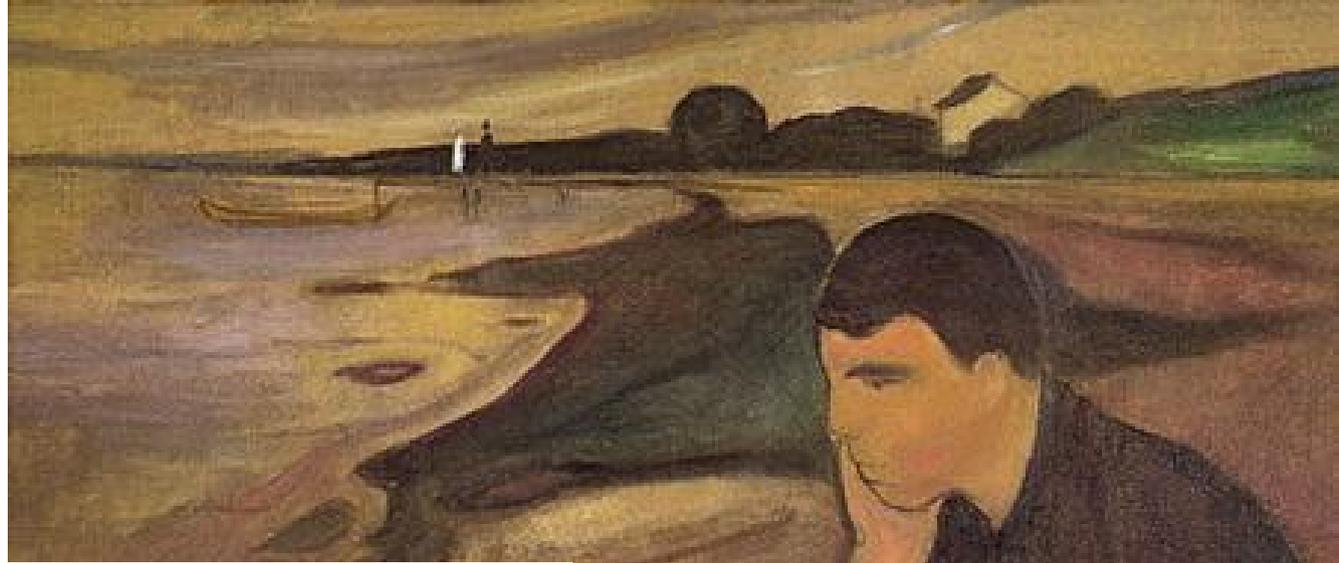
contact: markus.henn@weed-online.org



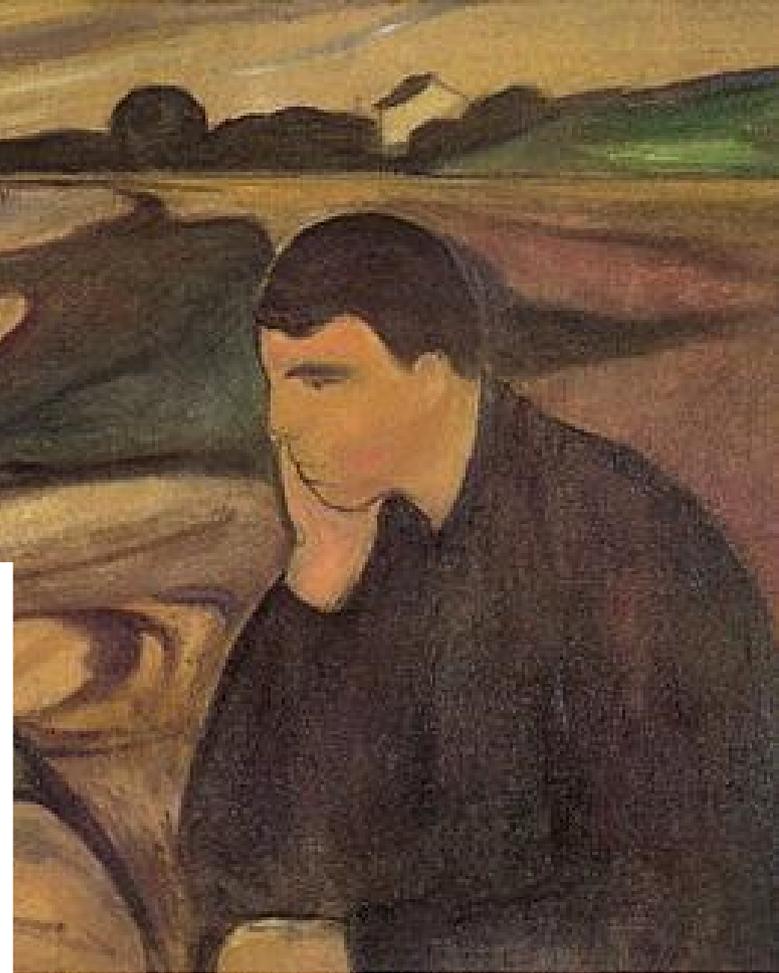
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24 April 2010, Leipzig

Who has ethics?



Individual and Society



What is ethics?

- **Human rights**
- **Fairness and Equity: local, national, international**
- **Responsibility: transparency and accountability**
- **Sustainability: economic, ecological, inter-generational**
- **Legality**

Ethical investment: society and system



Market, ethics, and the state

Is the market ethical?

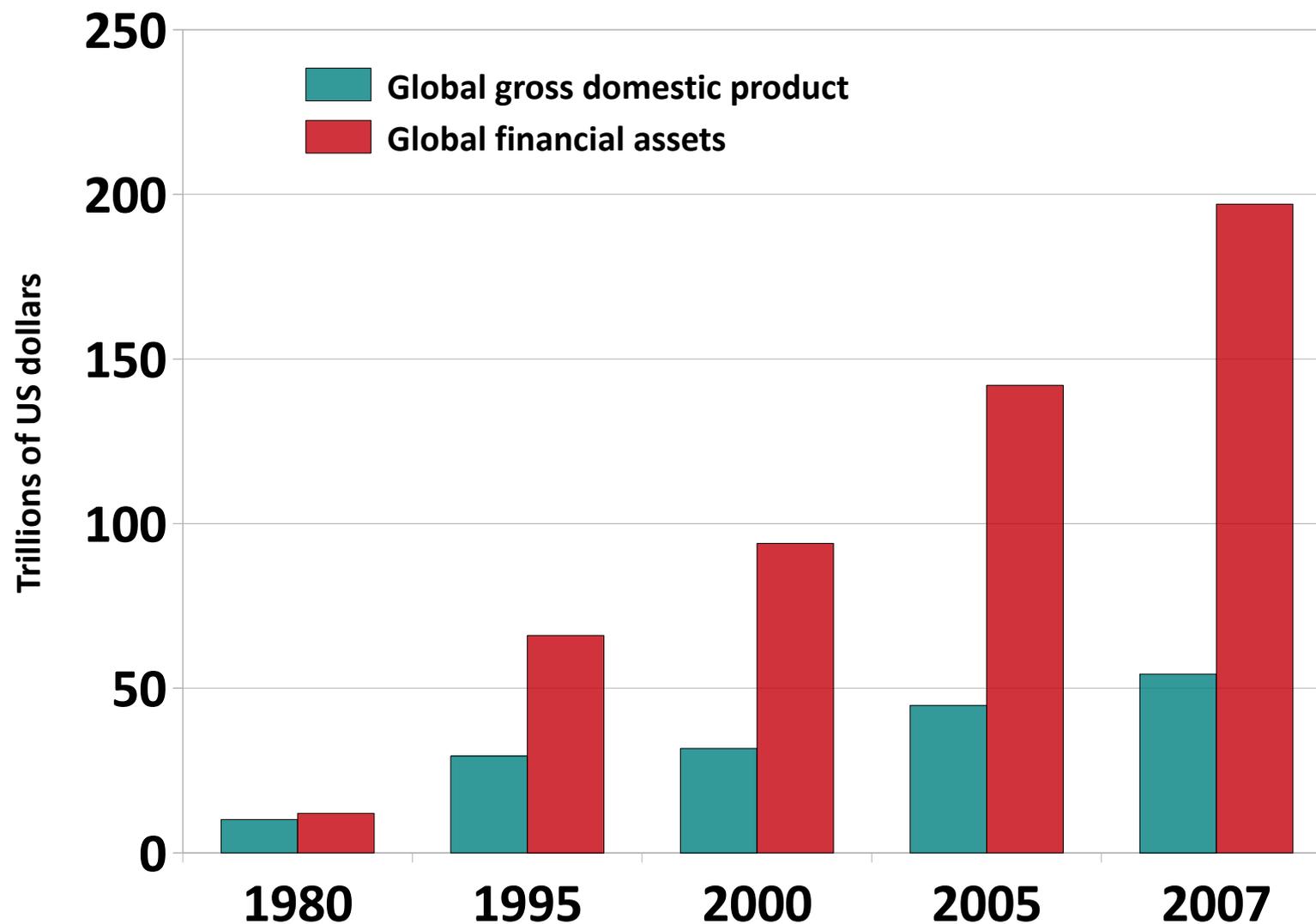
- Market in itself is not ethical, mainly because not being a system
- Individual encouraged to follow his/her interest and profit
- Investment: profit is revenue minus cost

Is the market ethically acceptable?

- If market functions (competition, transparency, liability)
- Individual ethical space
- Trade-off between profit and ethics persists

The state has to secure ethical standards

Global GDP and global financial assets

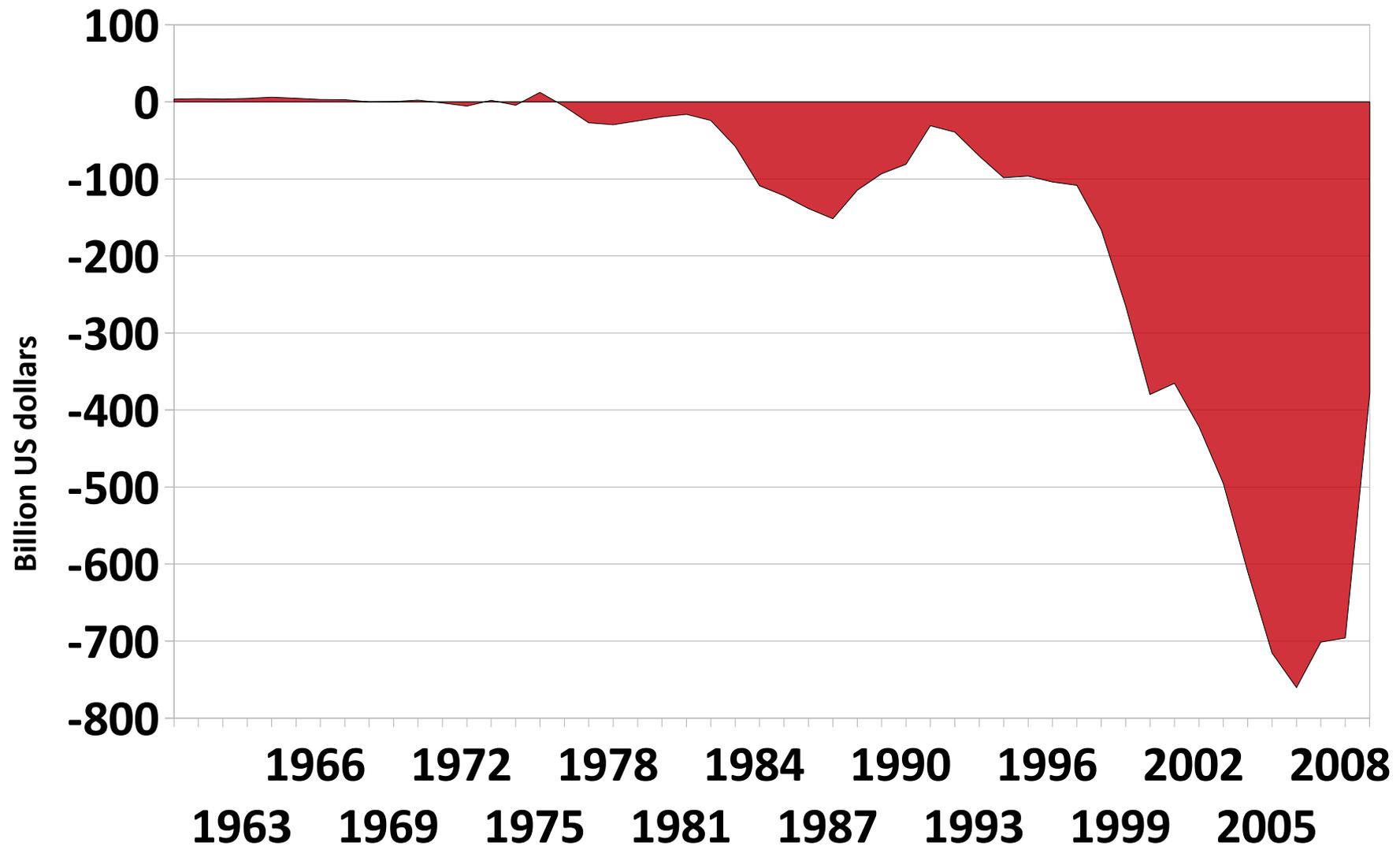


Source: McKinsey, World Bank

Financial market capitalism

- Liberalization of markets, investors, products
- Short-term speculation and excessive risk taking
- Growth and dominance of financial sector
- Privatization
- Competition between states (tax havens)
- Redistribution of wealth
- Instabilities and financial crises increase
- Global imbalances

U.S. trade balance deficit



Source: U.S. Census Bureau

Tax havens

Seychelles Company

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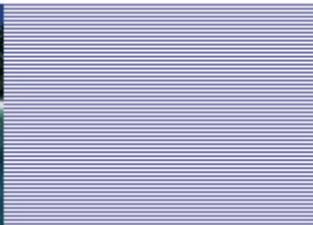
Offshore News



Our Services



About Seychelles



Offshore Information

Seychelles offshore structures can provide you with many investment opportunities and tax advantages. Most common reasons for selecting Seychelles are:

- Political and economic stability
- Tax efficiency
- Limited liability
- Minimum compliance requirements
- Privacy
- Asset protection
- Minimum administrative requirements
- Flexible company legislation
- Many opportunities for international business
- Investment opportunities

= 1. (ALMOST) NO TAXES

= 2. INTRANSPARENCY

= 3. NO/LITTLE REGULATION

Other attractive features include modern and developed trust legislation, efficient aircraft and shipping registries, provisions for the formation and domiciliation of mutual funds and captive insurance companies, and Free Trade Zone for manufacturing and service companies, benefiting from zero taxation, application procedures and availability of work and resident permits.

www.financialsecrecyindex.com:

Seychelles IBC
is just \$598.00

72 tax havens

Order NOW!

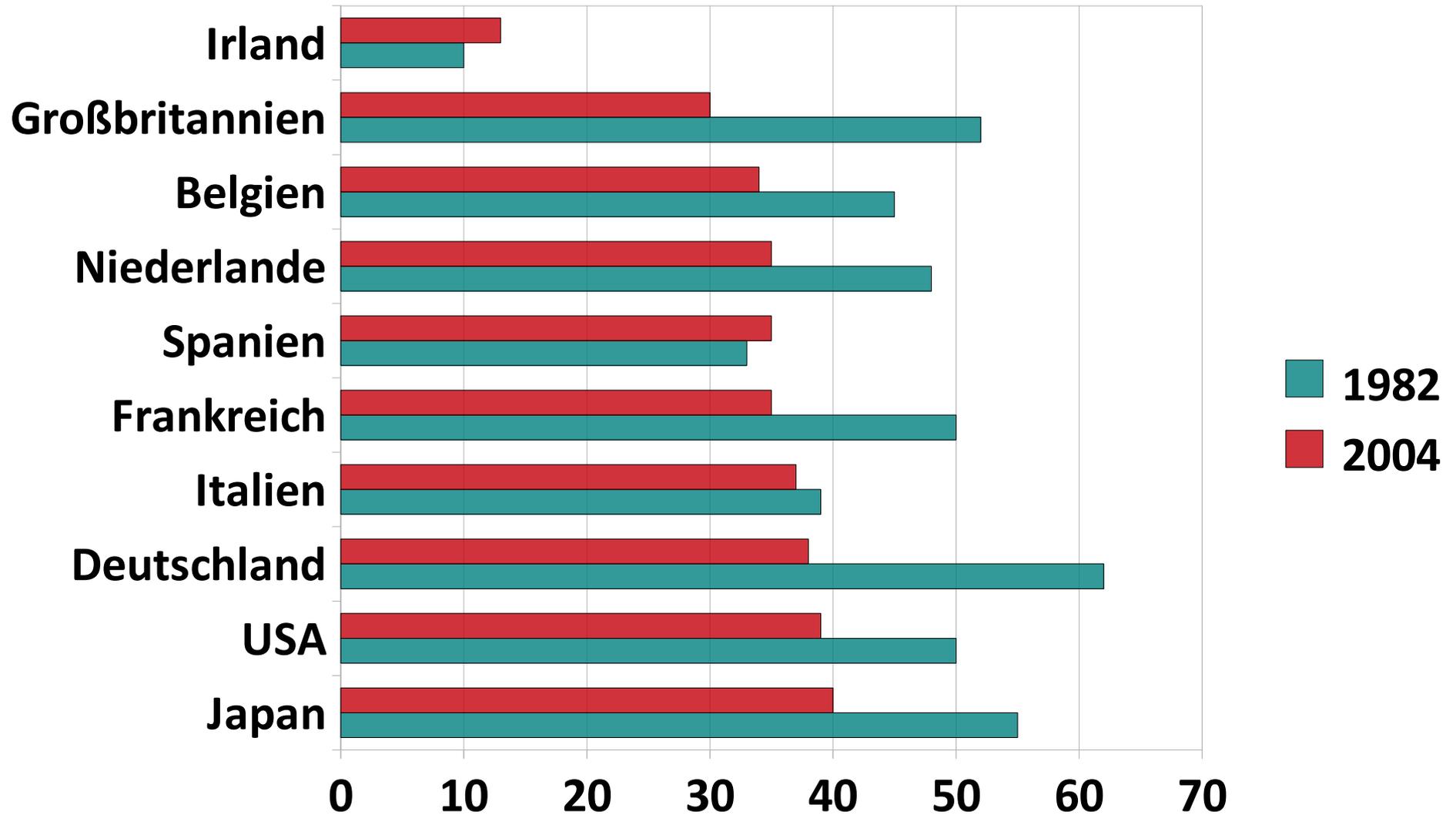
(fulfill at least one condition)

1. Delaware (U.S.)
2. Luxembourg
3. Switzerland
4. Cayman Islands
5. City of London

Tax havens: what's the problem?

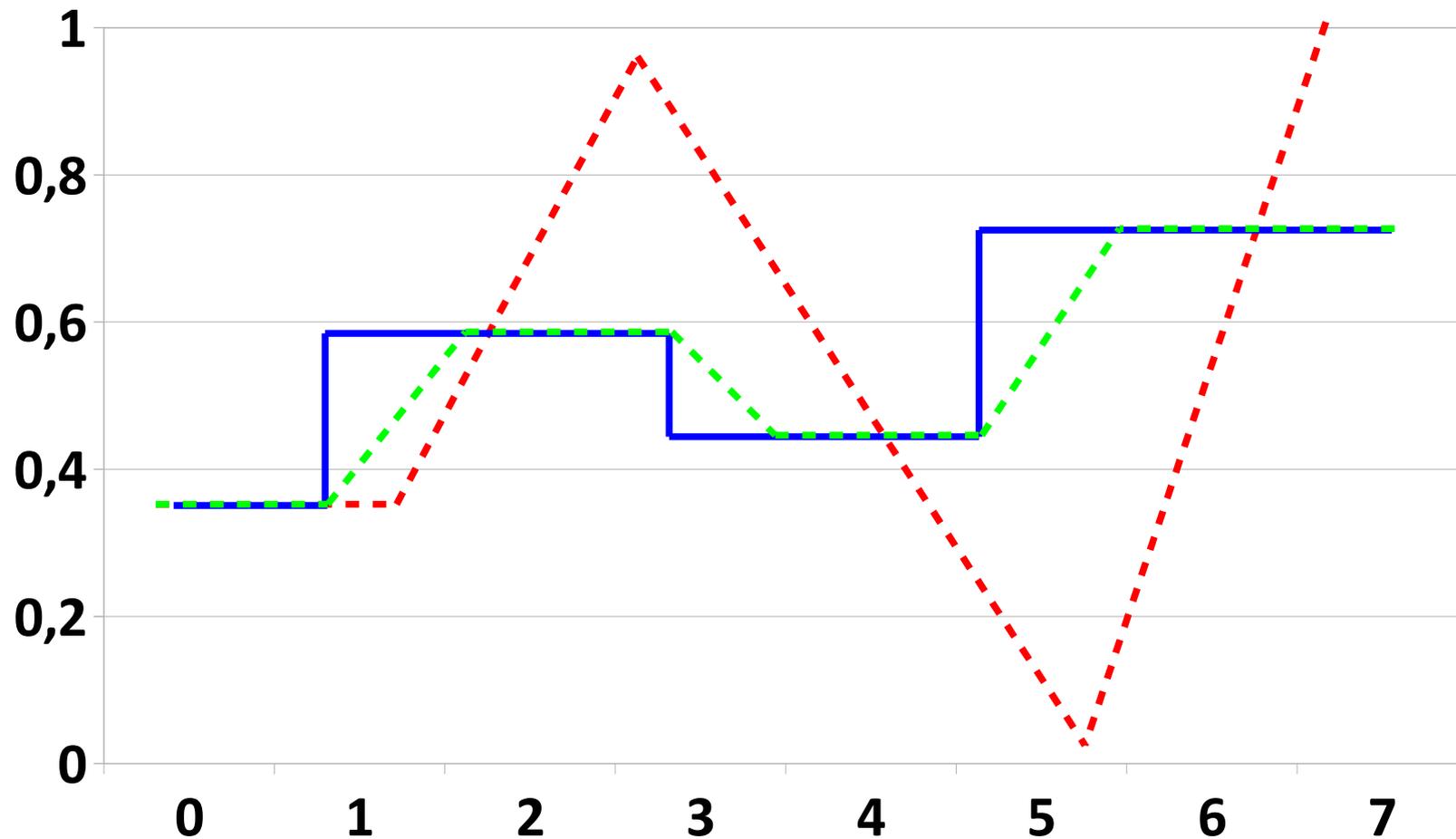
- **Revenue losses:** states cannot tax beneficiaries, tax competition
- **Illicit flows** (source: Raymond Baker / Tax Justice Network):
 - 1-1.6 trillion USD per year
 - growth since 1990s approximately 9% annually
 - 350-500 billion USD per year from developing countries
- **Wrong incentives:** investments lead by tax advantages
- **Inequality:** big companies and rich individuals favoured
- **Lack of control / secrecy:** risk-taking

Profit tax rates for stock companies



How do financial markets work?

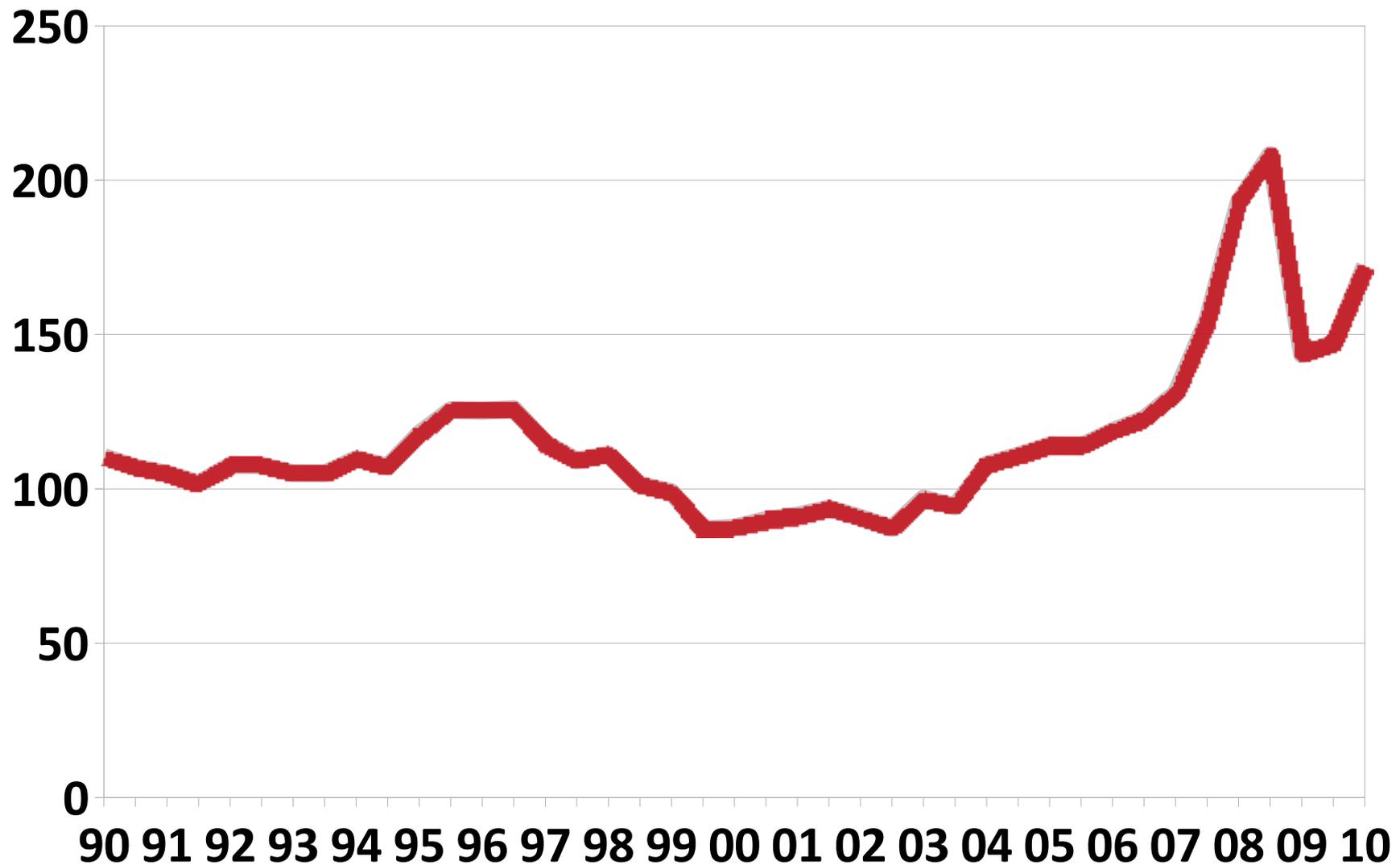
- fundamental value
- - - effective price recovery
- - - ineffective price recovery



Financial market deficiencies

- Financial markets are no well-functioning markets
- Price mechanism upside down: price increase strenghtens demand
- Technical trading, herd behaviour
- Bull and bear markets
- Instability, bubbles, and crises

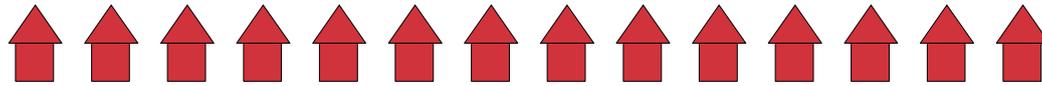
Financialisation of the food price index



Source: FAO

The financial crisis: opaque investment

1. U.S. mortgages
(supprime)



securitization

2. MBS
(Mortgage Backed Securities)



other assets



3. CDO
(Collateralized Debt Obligations)



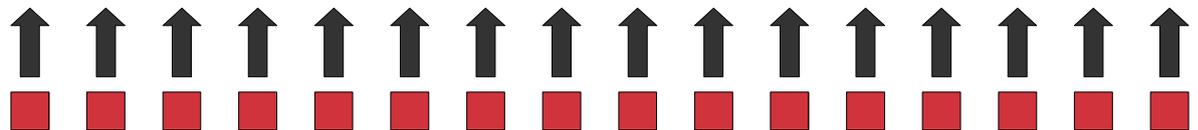
tranches



4. CDO 2 (3,4,...)



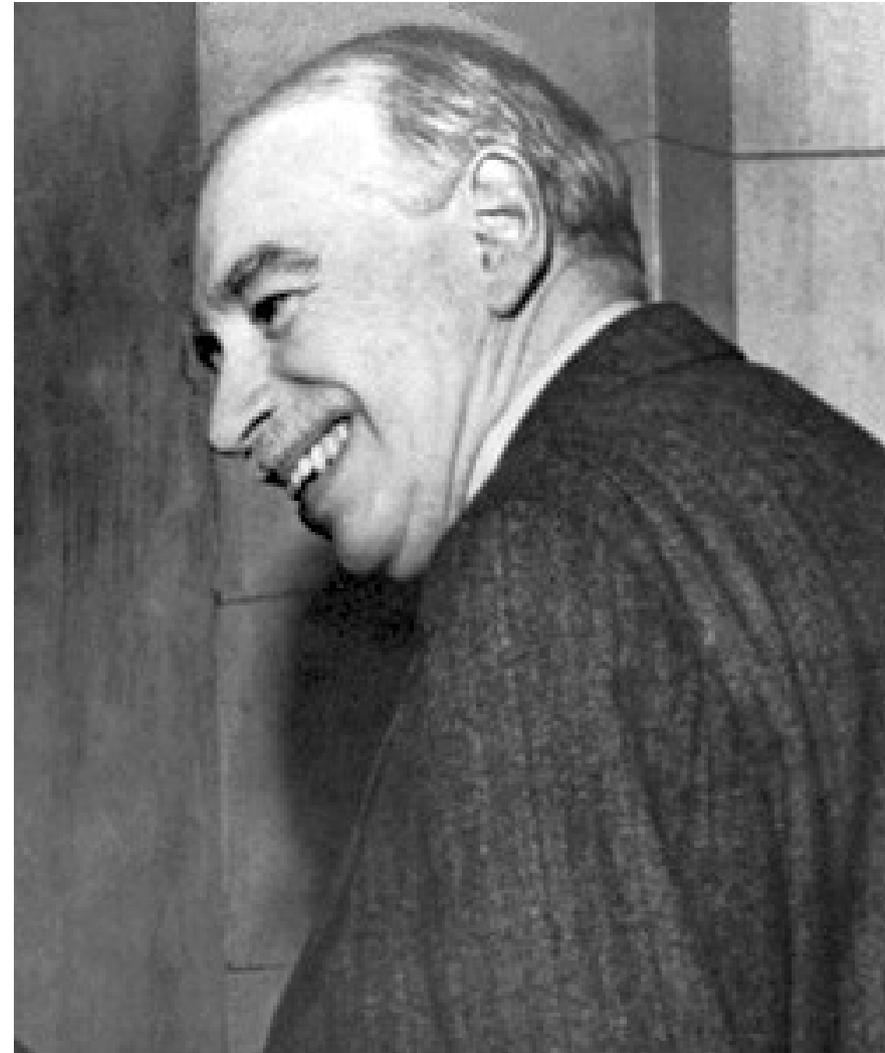
5. CDS
(Credit Default Swaps)



Limits to speculation

“Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.”

John Maynard Keynes



Financial transactions tax

- Small tax (e.g. 0,1%) on all financial transactions
- Discourages short term profit investment
- Sustainable investments almost not affected
- Less liquidity, more stability
- Petition to G20 leaders for summit in June (Toronto)

www.makefinancework.org



Tackling tax havens

- **Taxation agreements**
 - Double taxation agreements
 - Information exchange agreements
 - Ideally: multilateral, automatic, obligation for collecting data
- **Country-by-country reporting**
- **International tax coordination: EU, G20/FSB, OECD**

The role of the state

- The crisis has highlighted dangers of liberalization
- **Recent IMF Working Papers:**
 - “Foreign-bank lending funded by domestic deposits and denominated in local currency is likely to be more resistant to external financial shocks and indeed, in Latin America, acted as a firewall against the transmission of global financial shocks.”
 - “Foreign banks are not necessarily more efficient than their domestic counterparts” (on Central America)
 - „Capital controls on certain types of inflows might usefully complement prudential regulations to limit financial fragility and can be part of the toolkit...”

Further structural reforms

- **Regulation of all parties and products**
- **Strict liabilities, high equity requirements**
- **Tackling global imbalances**
- **Implementation of ethical considerations into laws**

Ethical investment: individuals and investors



Historical example

1758:

**Religious Society
of Friends prohibits
members from
participating in
slave trade**

1840

VALUABLE GANG OF YOUNG NEGROES

By JOS. A. BEARD.

Will be sold at Auction,
ON WEDNESDAY, 25TH INST.

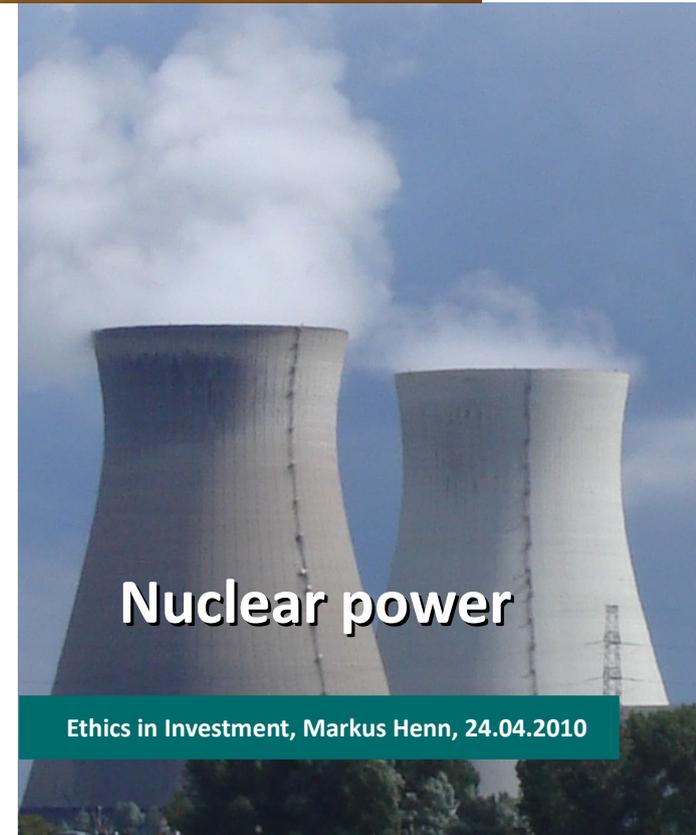
At 12 o'clock, at Banks' Arcade,
**17 Valuable Young Negroes,
Men and Women, Field Hands.
Sold for no fault; with the best
city guarantees.**

**Sale Positive
and without reserve!**

TERMS CASH.

New Orleans, March 24, 1840.

Negative screening and divestment: examples



Positive screening and investment : examples



Good working conditions



Renewable energy



Sustainability

How can a market participant invest ethical?

March 5, 2010

Norway excludes tobacco investments from oil fund

“Norway’s government pension fund can no longer be invested in tobacco companies under new guidelines introduced by the country’s Ministry of Finance. (...) The \$450 billion Government Pension Fund-Global, Oslo, which invests Norway’s oil and gas wealth for future generations, follows ethical guidelines set by the government. It already excludes companies that produce nuclear weapons or cluster munitions, damage the environment, or abuse workers’ rights.”

Source: www.financemarkets.co.uk

Engagement and activism

- “Critical Shareholders”
- www.banktrack.org
- www.banksecrets.org

BA-CA:
Nicht mit
meinem Geld!

Bank Austria
Creditanstalt
NICHT
mit meinem
GELD!

SOS
Hasankeyf

BA - CA:
NICHT
mit
meinem
GELD!

Representatives of Kurdish
organisations hand over
signatures for stopping Ilisu dam
to Austria Creditanstalt (2007)



- **Invested in ethical funds (2007):**
 - U.S.: 2.71 trillion USD
 - UK: 5.8 billion £
- **Jantzi Social Index (2000-2009):**
 - green and ethical companies average annual return: 5.68%
 - Standard & Poor's/Toronto Stock Exchange Composite: 5.61%
- **FTSE KLD 400 Social Index (1990-2009):**
 - returns of 9.51%
 - S&P 500: 8.66%
- **But: how far do you follow your ethics at expense of your profit?**

Difficulties

- **Whose ethics:** what makes a particular ethic better than another?
- **Operationalization:** how to measure ethics?
- **Interconnectedness:** what part of economy/state is really ethical?
- **Ability:** enough time and knowledge to act ethically?
- **Dilemmas:** conflicting ethical aims?

Dilemmas

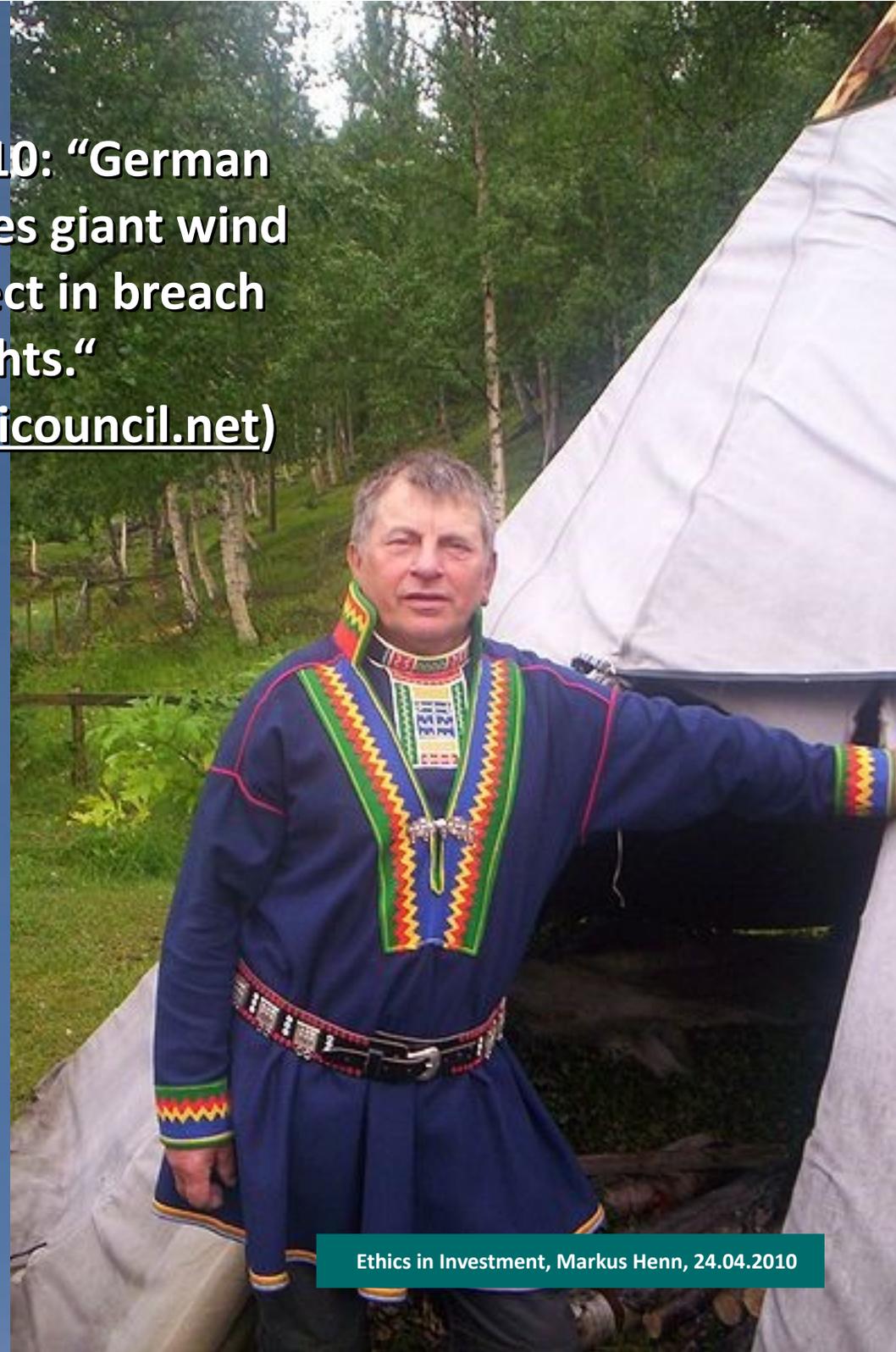


April 6, 2010: “Well-known organic companies receive their palm oil by the company Daabon in Colombia [which] takes part in the displacement of indigenous people.” (www.wir-klimaretter.de)



Dilemmas

April 18, 2010: “German bank finances giant wind power project in breach of Saami rights.”
(www.saamicouncil.net)



**Thank you
for your attention!**



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