Traders work on the floor at the New York Stock Exchange, March 15, 2013. REUTERS/Brendan McDermid

NORAD Financial and Business Reporting

By Lisa Essex

Introduction

Capital flight is a broad term for outflows of money, usually from one country to another where it is felt to be safer or where it can escape being taxed. It may be **legal or illegal**, or in a grey area in-between, and from the journalist's viewpoint this often makes it tricky to report on.

The term is often used for **short-term movements of financial assets** out of a country caused by fears or uncertainty about the economy, perhaps as a result of political change or turmoil. Episodic outflows of this kind are made easier by liberalised foreign exchange regimes. They can be large, rapid and destabilising. But they may be perfectly legal and recorded in bank figures, and they are usually temporary, with the money brought back into the country later on.

What we are more concerned with here are **undeclared outflows** of capital, which are both a more permanent and pervasive phenomenon and, by their nature, much harder to identify. A growing body of research on the subject has suggested that these capital movements are on a much greater scale than was suspected up to a few years ago.

Although these movements affect rich countries as well as poor countries, and larger developing economies in greater measure than small ones, the **impact on aid-dependent low-income countries** is of particular concern, since they are deprived of sources of public revenue that they could otherwise use to fund their own development.

Global Financial Integrity, a Washington-based organisation, puts illicit outflows from developing countries in the decade from 2000 to 2009 at **more than $7 trillion**. By far the biggest outflow was reckoned to be from China, a third of the total. Africa, with many of the poorest countries, made up only a small fraction of the total, but was the region where these outflows were reckoned to be growing fastest.

These undeclared transfers have three main components. One is money generated by **corruption** – bribes, kickbacks and theft by government officials. Another is money coming from **organised crime**, most importantly drug trafficking but including everything from contraband to prostitution rings.

In many cases, however, the largest single component of these flows comes from so-called **trade mispricing** – techniques used to move companies' profits out of the reach of a country's tax authorities. This may be done by faking invoices – for instance understating export revenue or exaggerating import costs in order to trim the amount of declared profit. Or it may be done by setting artificial prices for cross-border transactions between branches of the same corporate group.

According to the US census bureau, intra-firm imports and exports account about 40 percent of all US international trade. Figures elsewhere are thin on the ground, but some experts reckon half or more of world trade takes place within rather than between corporations.

The Organisation for Economic Co-operation and Development has international guidelines – and many governments have their own rules – for what these **transfer prices** within corporate groups should be, based on the prices that would apply in an 'arm's length' transaction between unrelated companies.

However, while setting a realistic price range is relatively straightforward for goods that are widely traded, in the case of many services there is no established market price to go by.

Lost revenue

GFI's estimates suggest that the amount of tax revenue lost globally through transfer mispricing amounts to several hundred billion dollars a year. It is worth keeping tabs on of what national tax authorities and international and regional bodies – the African Tax Administration Forum is an example – are doing to tighten up on abusive practices and ensure that companies pay tax in keeping with to their real activities in any particular country.

The best stories are more likely to come from **individual cases**, especially if they involve large or household-name companies, but these are not easy to track down.

A number of international charities and lobby groups, as well as locally-based NGOs, have built up expertise in this area and may provide good tips for potential stories. But you will need to back these leads up with your own groundwork and make sure you check and source your material thoroughly.

Multinational groups may justify the actions they take to minimise taxes on the basis of their obligations to their shareholders. But dealing with groups such as major mining or oil companies on these issues can be tough. They will be defensive about any allegations of abusive practices.

If going through official channels proves unfruitful, social media networks such as LinkedIn can be an invaluable resource for locating and contacting company executives.

The other side of the illicit capital flows story is where the money goes. In most cases, both with individual transfers and corporate operations, the trails lead through **tax havens**, even if that may not be where the money ends up.

Controversy about the amount of tax paid by wealthy individuals and some global companies has thrown a spotlight on the role tax havens continue to play. Leaders of the G-20 group of leading nations pledged at a London summit in 2009 to take action, declaring: "The era of banking secrecy is over."

This statement proved to be premature, at best. Tax havens have largely managed to protect their confidentiality, despite commitments made by many jurisdictions under an OECD project to improve transparency and exchanges of information with other countries.

A report by the British charity ActionAid in 2011 found that the 100 leading companies on the London Stock Exchange - the companies comprising the FTSE 100 share index – had almost 8,500 subsidiaries, joint ventures or associates located in tax havens. Further efforts to lift the lid on tax haven companies will be well worth following.

The role of the financial journalist

An important role of a reporter in a democracy is to act as a buffer between the government and the public. It is a two- way channel. The reporter can explain government decisions and actions to the public and pass the public view back to government.

The reporter has a role in:

Scrutinising the work of the government, the courts and big companies to highlight failures and successes:

*Rooting out corruption at all levels

*Drawing attention to official negligence or incompetence

*Giving a voice to sectors of society without one

*Helping the public cast votes in elections by explaining political programmes of rival parties

*Explaining economic trends

As you can see, covering capital flight falls into many (if not all!) of these categories.

Covering c**apital flight** is a role which means looking at various kinds of transfers from one country to another. These can be broken down into two broad categories:

- Funds that people and businesses move out of a country in **response to economic fears.** These transfers are generally recorded and visible. The money tends to return to the country at a later stage.

- Transfers of funds from **illegal activities** or **accounting mechanisms designed to reduce potential tax bills.** These are unrecorded and hidden transfers. Most of this money tends to stay outside the country.

In some cases, however, money returns to the country of origin in the form of foreign investment, often enabling the investor to benefit from tax exemptions. This kind of operation is known as **'round-tripping'.**

A large part of these 'illicit capital flows' move through **tax havens**, also known as 'financial privacy jurisdictions' or 'secrecy jurisdictions'.

But many aspects of capital flight are completely **legal and necessary**.

It is your job to understand these things and to make sure that you do not confuse and complicate issues by misunderstanding and miscommunicating. For example, an investor may want to withdraw money in order to invest in something different. You should be very wary of reporting unsubstantiated rumours which suggest that **normal financial activities** are fraudulent. This is not just immoral, in some jurisdictions it may also be regarded by the courts as defamatory, and open the journalist up to legal action. Don't be that journalist!

The problem in many cases is that the journalist is ignorant of what is going on, and too arrogant to ask someone to explain the issue. There are loads of places you can get help to understand the world of the financial and business markets, and some are listed in the useful links section. Remember, if **you** don't understand the situation, then your audience has no hope of understanding it.

Ignorance and arrogance are a deadly combination. You can do something about both of them.

Business and Finance Basics

Business and finance used to be on the back pages of the newspaper, or the last item on the TV news, after the skateboarding duck – but now it is front page all the time. The world changed in 2008 as a result of the global credit-crisis and now **all** journalists are financial journalists.

Follow the money!!

Many reporters fall into the trap of thinking that business and financial news is dramatically different from other kinds of reporting. Although the subject matter is different, the skills and approaches used are identical to those used in other branches of journalism. **Accuracy and freedom from bias** are equally required by consumers of business and financial news – and, when you consider that billions of dollars change hands each day as a result of the stories written, the reliability and usability of this material are paramount.

Many people are put off by the **jargon and specialist economic terms** used. It is impossible to avoid the jargon told to your by sources, and in news releases. But that doesn't mean you should "parrot" it to readers without explaining it. Usually, it is a sign of weak or lazy reporting – even specialist financial news publications will give quick "thumbnail" explanations of jargon and economic terms. Each time someone uses an unfamiliar term that you have to look up, use your own research to explain it in the story – or readers will be confused and annoyed. Acronyms such as OECD, or ECB should always be spelled out on first reference.

Business and financial stories should not include **too many figures**. It is important to give key data in order to lend authority and precision to a story – but if there are too many numbers, it will make the reader - or listener - switch off. If the numbers are crucial, consider putting them into a table, or a graphic – so that you don't overload the story. Even the best sourced **figures mean nothing in isolation**. If inflation is 27 percent, is that good or bad? If it was 52 percent last year, then 27 percent looks good, but if it was 4 percent, then there is clearly a major problem. Give comparisons, last year's, last month's data, or compare the figures to those of another company or country. Make sure you are comparing two SIMILAR things – comparing inflation in a developing nation to that of a mature western economy could be confusing and irrelevant.

Giving movements for figures in percent terms ("up around 19 percent" for example) is much more user friendly that giving specific numbers – but remember that some areas, such as market reporting, will require very careful use of actual numbers as well. It is important that accuracy is maintained, and all figures should be given a final check before the story is filed.

Statistics released from sources such as governments can be a chore for reporters as they need to be covered so regularly. But they are a great hunting ground for stories. If, for example, government data says that consumer prices rose sharply at the beginning of the year, but the pace of growth is now slowing, ask yourself, "What changed during the year?" Then, you might find that the government raised sales tax mid-year, which has curtailed consumer spending. So, does that mean the sales tax is too high? Is the government risking pushing the economy into recession? This kind of thinking will help you to ask good questions answer the crucial "So what?", which should appear **high in your story.**

People like to read about people. You can attract people into a business story by telling it in an engaging, human style, and by finding the "people" in the story. As well as chief executives, government ministers, economists and traders, there are the people who are affected by the story – in other words **us**! Anyone who participates in an economy, as a consumer, a taxpayer, a voter, or whatever will have their lives affected by business and financial news. It's up to you, as the journalist, to find out and explain HOW they are affected. You could use real people to illustrate a seemingly dull story about changes in car tax.

As in any kind of reporting, a single source, or side of the story is unlikely to give a complete picture. In business stories, there is a temptation to write up what a company news release says without checking what other people are saying. **Treat a news release as a starting point** for interviews, questions, research – then your story will stand out from that of your competitors.

Be different. Find a business angle in a general news story, or look at economic trends and follow them to a long-term conclusion. Talking a story over with colleagues, especially non-financial colleagues, will force you to take a general view which may lead to interesting outcomes.

Equities

Reporting on equities requires you to explain complex ideas to relatively unsophisticated people. You should also be adding to what the company says – through **objectivity, comment and insight**.

Equities are a means of raising money for a company. The organisation sells part of itself and the investor receives a **share** in the ownership of the company, and has some say in how the company is run.

Companies can fund themselves in two ways when they are setting up. One way is by **borrowing from banks or investors**, perhaps through a loan or by issuing bonds. The other way is by **selling a bit of the ownership** of the company to investors – if this is done publicly, this will be done via a share issue.

By owning shares you hope to share in the company's future profits, and you also get a say (proportionate to how big your stake is) in things like the management of the company and its future direction. There are also ways of doing this that don't involve selling shares publicly – new companies might get venture capitalists to buy a part of the ownership, in return for their expert advice. Bigger companies might turn to private equity (where private organisations get together to raise enough money to invest) for a similar deal.

Shares tend to be a riskier investment than lending money, because there are no guarantees you'll get anything back. Contrast that with debt. When you borrow money from the bank you promise to pay it back, usually within a fixed timescale, and action can be taken against you if you do not.

But to compensate for their higher risk, they tend to give investors a **higher return** than debt. This is the risk-return trade-off that's fundamental to all investing. (The difference here is known as the "equity risk premium". It's debated and hard to measure but in the long-term probably amounts to a few extra percentage points of reward per year.)

There are different kinds of companies. Some are not publicly traded, perhaps owned by a family or a government. These can be huge companies, and household names – Aldi, IKEA and Mars, to take three examples. Or the Saudi state owns Saudi Aramco -- the world's biggest oil producer, which pumps a tenth of the world's oil. Investors care about companies like this inasmuch as they affect competitors, consumers, and economies (imagine what would happen if Saudi Aramco shut its pipes, or IKEA doubled sofa prices overnight) but investors are much more interested in public companies, that have some or all of their shares listed on stock exchanges.

This means people can buy or sell their shares, depending on how the companies are faring, and means everyone is crying out for information about the company to make investment decisions.

Because their shares are listed on stock markets, they have to distribute lots of information (basically anything that might affect the share price) as quickly as possible, which makes them much more transparent.

Why do we hear so many people talking about financial statements? Surely these are just arcane documents which accountants need – not light reading for mere journalists. Actually, financial statements can paint a public company's entire financial picture -- you just have to know what to look for.

Financial statements **"show you the money".** They show you where a company's money came from, where it went, and where it is now.

There are four main financial statements.

- Balance sheets show what a company owns and what it owes at a fixed point in time.
- Income statements (also called Profit and Loss statements, or Results) show how much money a company made and spent over a period of time
- Cash flow statements show the exchange of money between a company and the outside world also over a period of time.

Statements of shareholders' equity show changes in the interests of the company's shareholders over time.

Company news is **not just results**!

Compare to the previous annual report

Read footnotes, small print, appendices, assumptions. Have they changed?

Corporate governance is somewhere else to look for the **root of a company's problems**. If it isn't good, look more closely and you may notice other things.

Get someone else's opinion. Find an analyst who specialises in that company, or in the sector. You do not work for the company, so it is not your job to "parrot" press releases. That's the kind of "cut and paste" journalism which meant that several major scandals such as the collapse of Enron (in which massive debts were hidden by accounting fraud) were not spotted.

Debt Markets

Debt markets are huge. They tower over world stock markets, with about **$83 trillion** in debt outstanding according to the Bank for International Settlements. The US alone accounts for about $35 trillion of this. It's also a more international market than equities, with more money invested overseas.

The **bond market** is also called the **debt market**, and also fixed income (which is a good name, as we'll see later).

Governments and companies need to borrow money – short-term, medium-term or long-term. If you annoy the bond markets, you won't be able to borrow money, or you will only to be able to borrow at very high interest rates. If a country refuses to pay debts -- so called **sovereign default**, (for example those incurred by a previous, corrupt, government), international bond markets can refuse to lend money until the old debts are repaid. Bond markets have long **memories**, and it is not uncommon for holders to seek repayment long after the original issuer has passed into history. Modern Russia was forced to pay back Czar-era bonds in the late 1990s, which had been repudiated after the Bolshevik revolution of 1917.

Governments have to take bond markets seriously too; they can mete out big punishments to states they think are spending too freely. Fitch, a rating agency, rattled Iceland's stocks, bonds and currency in 2006, just by slightly lowering its outlook on the country (of course, later, some investors felt the rating agencies were too slow to react to the mounting crisis in Iceland).

Debt is money which is borrowed for a fixed period of time and the capital is repaid with interest at the end of the loan. The borrower pays interest to the lender for the privilege of using the money, by making annual or semi-annual payments.

Short term you can use an overdraft. But longer term you may use such things as borrowing from a bank or borrowing from investors in the debt market. The bond is like a loan, a fixed, specified duration and interest is paid on the amount. The date of repayment is called **expiry or maturity**, that is fixed too.

A bond is a financial instrument which is NEGOTIABLE. That means it can be bought and sold many times up to its maturity (payback) date. They are essentially IOUs issued by governments or corporations which guarantee repayment of the original loan plus interest, at a specified future date.

By selling a bond, a company may agree to borrow money from investors for 10 years, paying an annual interest payment of 5 percent of the total it borrowed. That would be a bond with a 10-year maturity and a 5 percent coupon. The initial sum borrowed is the principal. For most bonds, the coupon stays fixed – that's why it's often called "**fixed income".**

Bonds are often sold at or near to face value ("par") but can rise or fall in price on the secondary (post-issue) market afterwards. The most crucial measure for investors is the bond's yield, or *how much it returns.* This could also be described as the "effective" or "implicit" interest rate for the investor. The yield is determined by how big the coupon is in relation to the current price. Yields rise as bond prices fall and vice versa. **Rising prices mean falling yields**. The coupon, however, always stays the same.

Always remember: Price goes up, yield goes down, and the coupon stays the same.

Price goes DOWN, yield goes UP, and the coupons stays the same.

Let's look at the maths.

For a 1-year, 100-euro bond sold at face value with a coupon of 8 percent, the "current yield" would match the coupon, at 8 percent. If it fell in price to 80 euros, the coupon would stay the same, meaning the yield would rise to 10 percent. In the real world, yield calculations (usually "yield to maturity" in fact) are more difficult.

Current yield: annual coupon/market price multiplied by 100

8/100 multiplied by 100 = 8 (percent)

8/80 multiplied by 100 = 10 (percent)

For all bond investors, inflation and interest rates are vital. Higher inflation eats away at the value of the principal. Higher interest rates make the existing bond's yield comparatively less attractive: investors can now earn more by parking money in the bank than they did previously. That means new bonds will have to carry higher interest rates to attract investors, and existing bonds will have to fall in price on the secondary market to reflect that.

In general longer-dated bonds have higher yields. They are tying their money up for longer, and the borrower is getting extra security because it doesn't have to keep seeking new sources of short-term debt.

Foreign exchange

This is the largest and most liquid market in the world. In coverage of the foreign exchange markets you will write about economic developments and key economic statistics (indicators), interest rates, general and political news, important speeches, bonds and other debt issues, as well as market reports.

The exchange rate affects the **denomination of all goods and services** in a country, and all exports and imports. Anyone who wants to buy goods from another country will have to exchange their local currency in order to do so. Foreign companies which manufacture overseas, will have to **buy raw materials and pay all expenses and costs**, such as wages by buying the local currency.

Governments can also be sensitive to how the strength of a country's currency impacts on its international standing. That can lead to battles between traders on one side, and governments on the other, desperately trying to use money to change the level at which the currency is trading.

Foreign exchange is the market where one currency is exchanged for another. It is the largest market in the world, just under $4 trillion per day, according to the Bank for International Settlements. The market is **Over-the-Counter** (OTC) which means that brokers and dealers negotiate with each other directly over the phone or using computers. FX deals set down what one currency is worth in terms of another. It is predominantly used for speculation and hedging, with only a small proportion for trade and investment.

Despite its size and importance, it is **largely unregulated**. No institution oversees it, or sets rules. But countries' monetary authorities can try to intervene in the market if they don't like exchange rates. In 1992, a famous battle between financier George Soros, and the UK central bank, left Soros $1 billion richer, and with the reputation as "The man who broke the Bank of England".

Foreign exchange coverage also includes news from financial officials -- finance ministers and central bank governors and other newsmakers, about the people who move markets through their views and decisions.

Coverage of the major currency and debt markets is on a 24-hour basis. The business day opens in Wellington, New Zealand, followed by Sydney, Tokyo, Hong Kong and Singapore. Late in the Tokyo day, trade opens in Europe, and in Europe's afternoon, the US markets open. Late afternoon in New York, sees the Asia-Pacific markets open. Most activity takes place in the European time zone, and London is the largest market, benefitting from, among other things, its overlapping time zone.

The market is made up of **foreign exchange dealers**, mostly in commercial and investment banks. They are linked through telephones, computers, and other electronic methods – they don't trade actual coins and banknotes.

A **market-maker** for a currency is someone who regularly quotes the rates at which they are prepared to buy and sell that currency, creating a two-sided market for customers. The market maker makes money from the **spread**, the difference between the buying and the selling price. When you see a currency rate quoted, you will see two prices, one at which the dealer will sell, and the other at which he will buy. So euro/dollar would be quoted as 1.5082-1.5088 if you looked on a dealer's screens. However, most journalists would use the **mid-price,** in this case 1.5085, which gives a good indication of where the market is, without adding too many confusing figures.

The dollar is the most important currency, as many central banks hold their reserves in that currency, and many transactions internationally are carried out in dollars. The oil market, for example, carries out almost all trades in US dollars.

Central banks can intervene directly in the currency markets to calm disorderly activity and to influence the value of their currency. They do this by entering the market to buy or sell foreign or domestic currency, in an attempt to move prices.

If you are reporting on intervention, you need to try to find out information such as:
at what exchange rate a central bank sold or bought a currency, how much it sold/bought, against which other currency it traded, whether it kept intervening or just once, what happened to the exchange rate afterwards.

As well as major markets, local currency reports from developed and emerging market countries are also important. Investors need news on which currencies are moving and why, as well as longer-term analytical stories on the factors driving capital flows.

Commodities and Energy

Economic growth depends on **raw materials**. Countries cannot produce economic growth if they cannot secure supply of the raw materials necessary to turn the wheels of industry and produce the goods which growing populations demand. Japan for example, despite being a heavily industrialised nation, does not have sufficient natural energy resources for its own needs. It's the world's largest importer of coal and liquefied natural gas, and one of the largest importers of oil.

Some journalists are **specialist commodities or energy reporters**, covering price movements in everything from coffee to copper, gas to gasoline. Reporters also write about local commodities and production, such as Southeast Asia palm oil, Australian metal smelters and Brazilian coffee. But it **isn't just specialists** who need to know about commodities.

News about political and financial developments that impact commodities production, shipping and trading, because it affects **supply and demand**. General news plays a vital role in commodities and energy coverage – you should mention the impact of major political or social news on commodities and energy markets. These markets are no longer dominated by end-users, but have attracted **speculative investors** eager to benefit from expected growth in demand as countries with large populations such as China and India increasingly industrialise, and need raw materials to do so.

Commodity market participants

These include **physical traders** who want to buy the commodity. Producers/farmers who want to lock in a price for a future date. Consumers who convert the raw materials into finished products. Commodities are unpredictable; not just the price, but all the other factors such as weather, disease, industrial strikes. The value of commodities tends to reflect the cost of obtaining them. For example, Gold is rare and has to be mined, so it is expensive.

There are two parts to these markets. Firstly, the **physical markets** where the actual commodity is bought and sold (it's sometimes called "actuals"). Trades are not standardised and each deal is individually negotiated. This is the OTC market (over-the-counter).

Secondly, in the **futures market**, no exchange of goods usually occurs. You won't have to take delivery of the actual commodity, if you don't want to, and you can close out the contract for cash.

Futures markets allow physical market participants to 'hedge' or **protect** themselves from price risks. To be liquid enough to do this, such markets often need a substantial speculative trading interest as well as hedging.

In the energy sector, journalists cover markets in crude oil, refined products, gas, electricity and other energy sources (e.g. coal). Some crude oils are regarded as benchmarks for other products' prices. Major benchmark crudes are West Texas Intermediate (WTI), Brent, and Dubai. Crudes are also termed sweet and sour, depending on how high the sulphur content is (people really used to taste the crude to determine its sulphur content – this is not recommended!). Coverage also extends to environmental issues and market groups such as the Organisation of the Petroleum Exporting Countries (OPEC). Although the members of OPEC that you hear most about are in the Middle East, there are African and South American member states as well. They don't all agree, most analysts think they all cheat on their oil-pumping quotas, and there is obviously a lot of complicated politics tied into the issue of keeping the price of oil at a level which will fuel global economic growth without choking it.

It may seem to you that "striking oil" is an amazing stroke of luck for any country. But if you look deeper, you will see that "oil-rich" countries, where oil accounts for the vast majority of the economy's earnings, tend to have **low** standards of living, and increasing debt burdens. And of course, war and political strife can easily follow the smell of oil-money.

These problems have led to an economic idea called the "resource curse" which argues that over-reliance on oil money makes rulers in a state unaccountable, and state institutions weak. They are unaccountable because resource revenues allow them not to have to raise taxes in order to provide welfare and public services (to a greater or lesser extent depending on the degree of their resource wealth).

And they are weak because the institutions of the state never develop under real discipline, through meritocracy and against measured goals and results.

Jeffrey Sachs and Andrew Warner's *Natural Resource Abundance and Economic Growth* at the end of the 1990s examined 97 countries over a period of 18 years, 1971 to 1989, and found that states with a high abundance of natural resource exports had abnormally slow economic growth in general, relative to other countries. The study became the basis of a growing recognition of the need to address the problems that natural resource abundance can create in developing societies.

Terry Karl in *Understanding the Resource Curse* notes that in Saudi Arabia, whose proven crude oil reserves are amongst the greatest in the world, per capita income plunged from $28,600 in 1981 to $6,800 in 2001.

In Nigeria and Venezuela, **real per capita income has decreased to the levels of the 1960s**, while many other countries—Algeria, Angola, Congo, Ecuador, Gabon, Iran, Iraq, Kuwait, Libya, Qatar, and Trinidad Tobago—are back to the levels of the 1970s and early 1980s, she noted.

Icelandic Economist Thorvaldur Gylfason studied OPEC members from 1965–1998, and his research showed that their per capita gross national product *decreased* by an average of 1.3 percent per year, whereas lower- and middle-income **non-oil countries** as a whole grew by an average of 2.2 percent over the same period.

According to data from The Economist magazine, despite the fact that there are laws stipulating quotas for Saudi employees, and a near-doubling in the number of non-government workers, the Saudi proportion of the private-sector workforce fell from **17% in 2000** to just **10% in 2010**.

Nigeria's economy is now hooked on oil. Prior to the 1960's it was self-sufficient in food, and was a net exporter of foodstuffs which were the main foreign currency earner. Now the country is spending more than $8.2 billion **per year** importing basic foods like sugar, fish and wheat – something President Goodluck Jonathan has vowed to change.

Don't forget that while there is a lot of talk about crude oil, the refined oil products all have thriving markets. Refined oil products can be grouped intro three categories: light distillates (LPG – liquefied petroleum gas, gasoline, naphtha), middle distillates (kerosene, diesel), and heavy distillates and residuum (heavy fuel oil, lubricating oils, wax, asphalt).

Misappropriation of oil money is a very easy route for corruption. It's a good place to look for stories.

Ethics and the financial journalist

Journalists have a pivotal role to play in public and corporate governance. In political and business reporting they can track what is done and what is not done, whether promises are kept or side-stepped, what is suspect and what is honourable. It can be dangerous work, because the corrupt and dishonest do not welcome having a spotlight turned onto their activities and dealings.

A free and independent media is essential for making citizens aware of corruption. By investigating and reporting on corruption, the media provides an important tool in the fight against the abuse of entrusted power for private gain, shedding light on the wrongdoings of public officials, law enforcement agents and the judiciary, health professionals and corporate executives alike. As such, it significantly contributes to the knowledge base with which citizens can hold both public and private institutions to account.

But journalists too are not always responsible. Some write up wild rumour as fact, make allegations without proof, or do not check the accuracy of their quotes or the numeracy of their calculations. **Some take cash for writing favourable stories.**

You need, as a journalist, to make a commitment that you will do your best to think about the way you approach your stories. Commit to keeping corruption on your list of important issues.

In many countries, particularly those in transition, citizens perceive media as the main source of information about "black forms of corruption" - system corruption that includes key state actors, political and economic power centres. They also see media as most efficient in fighting corruption – even more than parliament.

But are media themselves immune to corruption? Most media outlets are financially dependent on public and private companies as major advertisers, or on local governments as direct financiers. This dependence, combined with unclear media ownership, hampers media's capacity and will to report in an objective and un-compromised manner about corruption in companies or governmental bodies which are their main sources of financing.

But the potential for journalists to take an active part in **exposing and preventing corruption** is enormous, especially in the "social'' aspect of corruption prevention, which presupposes involvement of the whole society in this process.

Think about the questions you are going to ask. Look for the difference between what a company says and what it does.

Do not focus on output (sales/profit etc), focus on input (new ideas/strategies/commitments). Journalists should explore any difference; if the company is saying one thing but the output/input performance is not in accordance with that then there are grounds for investigation.

It's very easy to see "covering companies" as "covering what the shares are doing". But they are not the same thing. Share market valuations do not make a company successful – they measure the success of the company. Sometimes they do not even do that. The American energy company Enron hid its billions of dollars of debt using complicated financial practices, while its shares traded to a high of $90 per share in mid 2000. It was only after journalist Bethany McLean wrote an article in Fortune magazine questioning how Enron could maintain such a high share price that more people started asking questions. As the ensuing scandal unfolded, the share price fell to less than $1 per share by November 2001 when the company filed for bankruptcy.

Many companies do not concentrate on the **values**; they concentrate on the outcome – the share price. They spend time managing the **market value** – because the managers receive bonuses based on that.

Look for companies that are not managing the share price but **managing the business** and its people. The best people go to the best-managed companies. The scarce resource in a company is not money but capable people. Social responsibility is part of the brand.

Companies that only exist to make money will not do so in the long run; competition will see to that. We don't spend time at a tennis game watching the scoreboard. Lift your eyes away from the market value and **concentrate on what is creating that value**. Money is the measure of success, not what you target. The banking sector finally became a place hell bent only on making money and it collapsed.

Codes of Conduct vary between organisations, but here is the Reuters code, so that you can look at the kind of issues involved.

These are the 10 Absolutes of Reuters Journalism.

Reuters journalists:

- Always hold accuracy sacrosanct
- Always correct an error openly
- Always strive for balance and freedom from bias
- Always reveal a conflict of interest to a manager
- Always respect privileged information
- Always protect their sources from the authorities
- Always guard against putting their opinion in a news story
- Never fabricate or plagiarise
- Never alter a still or moving image beyond the requirements of normal image enhancement
- Never pay for a story and never accept a bribe

Risky Business

These are difficult economic times. Trade flows, as well as Gross Domestic Product levels and economic growth are under pressure at a global scale. Many countries and companies need significant **capital infusions** in order to promote business development and growth. But international credit is tight, and has been so since the global credit crisis of 2007 onwards, and the banks are scared of incurring bad debt, and so are reining back on loans.

The number of large companies contributing to growth in many developing countries is still limited and more are needed in order to provide levels of growth to fuel economic and social development.

It isn't just about attracting **foreign investment** – transparent, solid financial reporting is necessary to promote reforms and growth in such areas as the domestic banking system and financial markets, private equity and venture capital.

When investors feel they can rely on journalists to expose problems, this increases confidence, and confidence increases liquidity, which means it becomes easier to sell assets without a huge loss or causing price swings. One characteristic of developing markets is **thin, tightly regulated markets**. The health of companies contributes to the health of economies – and ultimately, economies are about people!

Investors are changing their focus after the financial crisis, increasingly examining companies for their environmental, social and governance (ESG) commitments to evaluate value. This means the approach is more than just accepting the financial return for shareholders (and managers on bonuses).

For example, Transparency International's Corruption Perceptions Index (CPI) is the best known of the tools which people use to assess levels of corruption, and to compare countries with each other. First launched in 1995, it has been widely credited with putting the issue of corruption on the international policy agenda. The CPI ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

However, as well as contributing to the problem, the "international aspect" may conversely be seen as creating conditions which force a solution. Corruption is becoming a major issue because of the state of the world economy.

Credit risk

For all but the most creditworthy, "triple-A" borrowers, investors demand an extra premium, or "spread," in return for the "credit risk" they run that the borrower will default. A default means the borrower can't – or refuses to – make coupon or principal payments on time. Defaults or threats of defaults are BIG news.

Credit rating agencies – the three that dominate the market are Moody's, Standard & Poor's (S&P) and Fitch - are paid handsomely **by borrowers** to give their opinion of a borrower's creditworthiness; all else being equal, borrowers with **lower credit ratings** have to offer investors a higher return to compensate for the increased risk that they present.

Although obviously no investment is completely risk-free, few things are safer bets than lending to the government of a G7 nation like the United States, Germany or Japan, even if the credit crisis has caused a few doubts. The United Kingdom lost its AAA rating in February 2013, due to a weak economic growth outlook.

The most important distinction is between **investment-grade**, (triple-A, double-A, single-A and triple-B) and **high-yield** or "junk" ratings (double-or single-B and C ratings.) Banks often prefer euphemisms such as "speculative-grade" or "sub-investment-grade" for high-yield bonds.

Many investors are barred from buying debt below a certain rating, or can only invest a small part of their funds in low-rated debt. Traditionally banks could only buy investment-grade debt. In a rare bit of bond market poetry, companies that fall to junk ratings are known as "fallen angels" and those that ascend to investment-grade as "rising stars."

But sometimes the credit rating agencies get it wrong – or act too late. During the 2007-2012 credit crisis, there was heavy criticism of how they had behaved in failing to warn people. There are now calls for international regulation of rating agencies.

Furthermore, in February 2013, the government of the United States filed a $5 billion lawsuit against S&P, saying it had inflated ratings and understated risks associated with mortgage securities, driven by a desire to gain more business from the investment banks that issued those securities. S&P denied the accusations, and the case could last for years.

Corruption and Transparency

What do we mean by corruption? Is it more than just "behaving dishonestly"? And who defines honesty anyway? The word CORRUPTION comes from the Latin word "corruptus" which means 'utterly broken'. You may have heard it called a variety of names, such as kickbacks, bribery or baksheesh.

Transparency International defines corruption as an abuse of entrusted power for private gain.

- according to rule corruption – bribes paid for preferential treatment for something that the bribe receiver is required to do by law
- against the rule corruption - bribes paid to obtain services the bribe receiver is prohibited from providing

Typically, we mean that there is dishonest or fraudulent conduct by those in power, often involving bribery. Some of the routes to corruption are everyday actions, and even inactions.

Corruption isn't limited to one kind of society, or country. But there are obviously some systems which are more conducive to creating the kind of environment in which it can flourish.

There are many key factors which can contribute to its growth. Powerful elites such as those in communist countries or dictatorships tend to be secretive, and that can persist as an attitude and habit long after the regime has changed. **Corruption is not one-sided; private sector players also bear much of the responsibility.**

Sometimes people in wider society are just not interested in tackling it, or they are afraid, or they have no experience of any other way. Corruption has become normal to them so there is no pressure to change the "way things are done around here".

Perhaps laws and regulations are ill-defined and there are many loopholes which can allow people to avoid the laws. Or maybe people don't even know what the law is.

In some cases the laws which exist are not being applied. An anti-corruption legal and institutional framework is in place in some countries only as a result of international pressure).

There are often threats to non-governmental organisations and media who were investigating corruption cases.

In some countries, **this is not a side-issue** for journalists to cover. For example, there are countries where corruption is so widespread and affecting so many aspects of life, that it may be deemed that **“state capture”** has occurred. This is defined as any individual, group or company (both in the public and private sector) that seizes and exerts decisive influence over state institutions and policies for its own interests and against the public good. Thus, as a result of the illicit and non-transparent provision of private benefits to public officials, laws, regulations, and decrees are formulated to their own advantage.

Adequate legal provisions for the protection of civil servants reporting corruption are not in place, and there is no effective investigation, prosecution and conviction of suspects of high-level cases of corruption. Weak coordination of anti-corruption efforts at the State level remains a problem. No overall survey and analysis of statistics on anti-corruption cases is available.

The special investigative means which are applicable for corruption cases are not effectively used, and cooperation between police and prosecutors needs to be strengthened. The judicial follow-up of cases of corruption is slow and the persistent lack of final convictions is a matter of serious concern. In some cases, it was attributed to the low quality of evidence presented before the court.

This isn't just a “local issue”. This is not just a problem in ex-Soviet countries, or an African problem, or an Asian problem. It is a global challenge, a key obstacle to development, undermining material well-being and social justice. It undermines education, health, trade and the environment. **Dramatic reduction of corruption levels is the responsibility of poor and wealthy nations alike.**

Corruption hampers economic growth, keeps countries from capitalising on internal resources and reduces aid effectiveness, contributing significantly to hunger and malnutrition. Petty bribery hits the poor hardest, ensuring that they stay poor.

Example: The total volume of bribes paid annually has been estimated by the World Bank Institute at US$ 1 trillion, nearly as much the annual gross domestic product for sub-Saharan Africa, put by the World Bank at US$1.26 trillion for 2011.

The globalisation of our world has also added to the conditions whereby corruption can flourish and worsen the conditions of people around the world. It's now much easier for a corrupt leader to transfer huge sums of money out of the country, rather than relying on the "gold bars in the back of a truck" method. (Although events during the Arab Spring show that the "low-tech" method can still be popular, such as in Tunisia where the wife of the ousted president was rumoured to have fled the country with one- and a-half tonnes of gold – worth about $35 million.) It has not been possible to confirm or deny this rumour – an example of how difficult this is to track!

International institutions such as the World Bank and the International Monetary Fund require developing countries to undertake certain policies in order to qualify for loans and other help. But some of these policies such as rapid deregulation and opening barriers to trade can unwittingly allow corruption to flourish.

In addition, because the most blatant corruption globally can be found in public works, construction (including land deals), armaments and defence, it is increasingly difficult for these issues to be hidden – since they affect everyone at a very basic level.

Thanks in part to the **tireless work of journalists**, there have been major acts of corruption exposed.

At a country level, Greece's problems are largely a result of mass-corruption. The Greek Finance Ministry said that one third of all economic activity in the country **delivers no revenue** to the government. Transparency International's ranked Greece as the European Union country perceived as being the most corrupt, on a par with Colombia and India. The Greek government, admitting the corruption of its bureaucracy, decided to collect a one-off property tax via the electricity bill system instead of via more usual methods.

In terms of corporate corruption scandals, there have been some high profile cases as well.

Italy's Parmalat, for example, collapsed in 2003 with a 14 billion euro hole in its accounts in what remains Europe's biggest bankruptcy. What do Lehman, Enron and WorldCom scandals have in common? They manipulated the numbers, had webs of joint ventures and associates, and were able to hide from the consequences for a while.

It's not just investors who are demanding better corporate governance. That public interest tends to turn the issue into a political one, drawing the attention of lobbyists such as environmental groups.

Managers are having to learn they are not in the business for themselves but are taking care of the responsibilities to act for the stakeholders.

Lawyers talk of rules but in the end it is about values and ethics.

Finding stories

Capital flight is a very secretive and difficult issue to cover. But the **basic, solid rules of journalism** apply in this case too.

A large proportion of daily news comes from events known about in advance, such as government news conferences, budgets, visits by foreign leaders, companies announcing annual results and court cases. These will be entered in a diary and every newsroom needs one.

However, a great deal of news arrives unexpectedly, without warning - train wrecks and plane crashes. Or unexpected movements of cash from a central bank, or the arrest of a senior minister on corruption charges!

Others are uncovered by making regular checks with the police, fire and ambulance services, essential for news of major crimes, accidents or civil disturbances. Journalists call these routine checks 'calls'. Make sure you have good contacts with people who work in these roles, and make sure you remember to call them in **quiet times** so that they will know you well enough to take your call when a major story is breaking.

Other places to find news:

• **Pressure groups** – in every country organisations lobby on causes such as the environment, animal welfare, human rights, etc. Some may have something new to say or plan a special campaign. Some are international Non-governmental organisations (NGOs).

• **Internet – Blogs -specialist journals** – covering areas such as finance, health, science, the environment or the oil industry. Written mainly for specialists, they often produce stories of interest to a wider public.

• **Research institutes/Think Tanks** – some study the state of society and the economy. Some try to forecast future trends. Others compare countries' policies. Any can provide interesting stories.

• **Anniversaries** – looking back at a major event in the past. Seeing how things have changed since.

• **Follow-ups** – looking back at a major story that happened weeks, months or years ago. What has happened to those involved?

Remember that there are different kinds of hidden transfers, so you should be looking for all of them.

Estimates produced by non-government organisations about the scale of capital flight are open to debate, but it is widely accepted that the money leaking out from developing countries without being taxed exceeds the overall amount of foreign aid they receive.

Researchers at US-based Global Financial Integrity estimate that hidden outflows from developing countries – which are only part of global outflows - amount to as much as $1 trillion (one thousand billion) a year. They have divided these illicit flows into three broad categories:

- *Corruption* -Proceeds of bribery and theft by government officials
- *Trafficking* -Proceeds generated by the trafficking of drugs, arms and people, racketeering, counterfeiting and other criminal activities
- *Commercial* - Commercial accounting operations designed to minimise tax payments, mainly through 'trade mispricing'. These practices include false invoicing of imports or exports and the manipulation of prices used for internal transactions between branches of the same corporate group.

In the midst of all this high-finance, please don't forget **ordinary people**. They are the ones most affected by these issues – not faceless bankers in far-off countries.

Use of Vox pops

Vox Pops, known more formally as the 'voice of the people', should only be used when the 'people' can realistically be expected to have some knowledge about the subject, or when their views are of interest to others.

Vox pops can help to tell or illustrate a story, or indicate a sample of opinions, but they are often misused. Strong vox pops will convey a reasonably wide range of public views on a controversial subject or an issue of importance and will generally be most effective when they deal with something the people questioned care about and have decided views on.

Eyewitness accounts can also make good vox pops as they tend to be descriptive, urgent and more expansive.

So, vox pops can be used as a survey of general opinion, not as a collection of detailed interviews with selected members of the public. If a more considered response is required, the people in question should be interviewed properly and at greater length.

There will be times when informed opinion, rather than general remarks are what is required. So, if we ask ourselves who is likely to care most about an issue and the answer is a teacher, a doctor or a soldier, then we should chase their particular comment.

Decide what question you would like the public to answer and then be consistent in your questioning.

For example:

'Do you think the new bridge in the capital was worth the money spent on it?' and 'Do you think the money spent on the new bridge could have been better spent?' are similar questions that will produce very different comments

As in all interviews, ask open questions wherever possible:

“Why do you think the prime minister should resign because of the financial irregularities of the government?” will give you a far more comprehensive response than if you ask: “Do you think the prime minister should resign?” which will elicit a “yes” or a “no” answer and not much more!

Always establish a person’s name, age, title, occupation and nationality. As with sources, it is important that your readers can judge the interviewee’s credibility.

Get a range of ages and sexes if you are trying to convey the impression of widespread public opinion. Get a variety of opinions but, if everyone is agreed, then the vox pops are equally valid. Do not use a ridiculous answer just because he/she is the only one to hold a different point of view.

Some useful links:

Governance and Accountability

African Tax Administration Forum – initiative grouping tax administrations of 35 African countries, aiming to combat tax evasion

www.ataftax.net

Eurodad (European Network on Debt and Development) – a grouping of European NGOs

www.eurodad.org

Financial Action Task Force – Paris-based inter-governmental body set up to combat money laundering and terrorist financing

www.fatf-gafi.org

Global Corporate Governance Forum

www.gcgf.org

Global Financial Integrity: the most comprehensive reports on illicit financial flows

www.gfintegrity.org

International Finance Corporation

www.ifc.org

Stolen Asset Recovery (StAR) Initiative – a partnership between the World Bank and the United Nations Office on Drugs and Crime

http://www1.worldbank.org/finance/star_site/

Tax Justice Network- a lobbying group promoting equitable taxation and transparency

www.taxjustice.net

World bank

www.worldbank.org

The Role of Journalists

The society of professional journalists

www.spj.org/ethics.asp

The Poynter Institute

http://www.poynter.org/tag/ethics/

Different Asset Classes

Definitions and explanations for financial words

www.investopedia.com/

www.investorwords.com/

More on bonds

http://www.investinginbonds.com/learnmore.asp?catid=46

http://www.bondsonline.com/

More on commodities

http://www.pimco.com/EN/Education/Pages/CommoditiesBasics.aspx

More on Equities

The U.S. Securities and Exchange Commission has a "Beginner's Guide to Financial Statements" at:

http://www.sec.gov/investor/pubs/begfinstmtguide.htm/

More on oil

http://www.pipeline101.com/overview/products-pl.html

http://www.uop.com/refining/1010.html