Banking Crisis: Fallout from Greensill Financial Collapse Splatters British Government, as Taxpayers Face Big Losses

By Nick Corbishley
Global Research, April 13, 2021
Naked Capitalism 6 April 2021

Region: Europe
Theme: Global Economy

***

Downing Street's dodgy dealings with Citigroup and Greensill show just how far the British government is willing to go to line the pockets of banks and other financial firms while bleeding taxpayers dry.

The collapse of UK-based supply chain finance firm Greensill Capital continues to reverberate. In Germany the private banking association has paid out around €2.7 billion to more than 20,500 Greensill Bank customers as part of its deposit guarantee scheme after the bank collapsed in early March. But the deposits of institutional investors such as other financial institutions, investment firms, and local authorities are not covered. Fifty municipalities are believed to be nursing losses of at least €500 million.

Greensill's biggest source of funds, Credit Suisse, has seen its share price plunge by almost a quarter. This is due not only to the fallout from Greensill's collapse but also the impact of losses at its prime brokerage division caused by the stricken U.S. hedge fund Archegos, which are expected to reach €4 billion. The lender has warned of "considerable uncertainty" regarding the valuation of its supply chain finance fund. More than $5 billion of the roughly $10 billion invested in the fund remains outstanding.

Credit Suisse had assured clients in marketing documents that the debt in the supply chain fund was "low risk". In one factsheet, it also said: "The underlying credit risk of the notes is fully insured by highly rated insurance companies." At the beginning of March, that turned out not to be true. Some clients whose money remains trapped in the fund have threatened to sue.

Greensill's biggest client, Anglo-Indian steel magnate **Sanjeev Gupta**, is on the verge of bankruptcy. Gupta's GFG Alliance reportedly owes Greensill more than €3 billion. It began defaulting on its obligations after Greensill stopped lending to the group at the beginning of March. At the end of March Gupta requested a £170 million emergency loan from the UK government, which was duly rejected. Greensill's administrator, **Grant Thornton**, has been unable to verify invoices underpinning some of the loans to Gupta. Companies listed on the documents denied ever having done business with the metals magnate.

Now the fallout is beginning to splatter the British government, which invited Greensill to participate in its **Coronavirus Large Business Interruption Loan Scheme (CLBILS)**. This is despite the fact the company:

a) wasn't a bank; and

b) was quite clearly already in deep financial trouble. Greensill's participation in CLBILS allowed it to extend even more loans, this time government backed, to Gupta's empire.

Taxpayers will now probably end up holding the bag for those loans.

Special Treatment, Frantic Lobbying

Greensill Capital was the only non-bank financial firm to administer the emergency coronavirus loan schemes. The Treasury has admitted that Greensill was exempt from the capital adequacy and stress tests that would safeguard the public from risk when using other lenders. The apparent reason for this special treatment was that **former UK Prime Minister David Cameron**, who had joined Greensill as an advisor in 2018, was frantically lobbying Chancellor of Exhchequer Rishi Sunak to hand government loans to the embattled financial firm even as it spiralled toward bankruptcy.

Cameron is believed to have held share options in Greensill Capital worth tens of millions of pounds. Now they're worth nothing.

Cameron's ties with Greensill's eponymous founder, Lex Greensill, date all the way back to 2011, when Cameron's then-cabinet secretary, Jeremy Heywood, brought Greensill — then the head of Citi's supply chain finance division — into 10 Downing Street as a special advisor. Greensill was still on Citi's payroll when he joined the government. As an expose in The Sunday Times reveals, his brief was to convince ministers and senior civil servants to hire Citi to extend early payment to many of the government's biggest suppliers.

> Citigroup's pitch was to pay the state's suppliers in sectors where it apparently paid late, such as pharmacists awaiting NHS prescription fees.
>
> [Maurice Thompson, the British boss of Citigroup who would later become chairman of Greensill Capital's supervisory board] claimed this would help business owners — offering them an alternative to expensive loans — and the government. It would also be a smart investment for Citi: paying tens of billions of pounds in invoices on behalf of the most reliable of clients, the state, and taking a cut along the way.

This was not about finding a solution to a government problem, but rather a government problem that would fit Citi's — and later Greensill's — particular solution. The plan met stiff opposition in certain quarters. Given that government can borrow at ultra-low interest rates, some began asking why it needed to bring in Citigroup, or any investment bank for that matter, to pay its bills. Surely it made more sense to find a way to expedite its payments to suppliers rather than pay an intermediary to do so on its behalf.

Citi aimed to start small, by paying pharmacists that supplied the NHS, but its ambition was sweeping. It sought to roll out supply chain finance across the UK's public sector, "paying invoices covering GPs, dentists, opticians, physiotherapists, the Ministry of Defence, Her

Majesty's Revenue and Customs (HMRC), Royal Mail and even the BBC."

Dodgy Dealings

A group of civil servants tried to thwart the plan. But Greensill enjoyed the backing of Heywood, Britain's "most powerful civil servant" at the time. Heywood gave Greensill his own team and access to any department he wished to address. He also made him a senior advisor and crown representative to Her Majesty's Government on supply chain finance.

What really irked some civil servants was the ambiguity of Greensill's position. After Greensill had left Citibank, months after joining Downing Street, and set up his own supply chain finance firm (Greensill Capital) "it was unclear whose interests he was advancing: his former employer's, his own firm's or, as one would expect, the taxpayer's." Even more dubious was the way in which the government assigned projects to Citi (and later Greensill Capital), reports the Sunday Times.

> At the time the pharmacy scheme was announced, there was no detail about who would benefit from it. The government never formally announced or published details of the policy.
>
> It is only thanks to the legal small print sent to pharmacists that details have emerged. For the first five years the scheme was operated by Citigroup. Then it was awarded to Greensill Capital, which ran it until the company's collapse last month. The scheme has since been nationalised.
>
> The precise circumstances in which the work was awarded to Citigroup remain unclear. The law states that unless the government is procuring services in an emergency, such as buying PPE during a pandemic or a helicopter in the middle of a war, it must create open and fair competition for companies that hope to deliver them.
>
> However, last night the government admitted it did not sign a contract for Citigroup's services. Nor did it create an open competition so that other banks could bid for the work. Despite the warnings of Peilow, it was handed out directly to Citi via an existing and secretive relationship between the bank and the Government Banking Service.
>
> This chimes with an email sent by Greensill on November 12, 2012. He wrote: "It is important to note that there is no formal contract with Citibank with respect to the provision of supply chain finance." He added: "This situation is entirely normal in the private sector as the bank is providing financing to our suppliers, not us."
>
> What is not normal is that a Wall Street bank was allowed to handle billions of pounds of NHS cash without a contract. Even by the government's own standards it was exceptional: in 2018 it created a formal procurement process before handing the scheme to Greensill.
>
> The evidence points to a stark conclusion: in the face of staunch opposition from civil servants, the government secretly gave a scheme to Citigroup, which came up with the idea, after its former head of supply chain finance, Greensill, drove the policy through Whitehall.

The only point of this scheme was to create easy money for financiers while bleeding taxpayers dry. As such, this scandal is not just about the losses taxpayers will have to bear as a result of the government's underwriting of Greensill's emergency loans to Gupta; it's about the money that's already been squandered by the government's wholly unnecessary use of supply chain finance in the first place.

It's all eerily reminiscent of the disastrous Private Finance Initiative (PFI). Over decades successive Tory and Labour governments signed off on hundreds of debt-financed projects for which the rate of interest could be as much as 2 to 3.75 percentage points higher than the cost of government borrowing. It was a giant cash cow for the government's corporate and banking partners. In 2018 it was estimated that the government would end up paying private companies £199 billion, including interest, between April 2017 until the 2040s for existing deals, in addition to some £110 billion already paid — for 700 projects worth around £60 billion!

The senior politicians and civil servants get rewarded for their loyalty later down the line. The civil servant in charge of all the government's commercial contracts during Cameron's administration, Bill Crothers, became a director at Greensill in 2016, a year after leaving government. In 2017 Lex Greensill was awarded the CBE for services to the British economy in Queen Elizabeth II's 2017 Birthday Honours. A year later his company won a juicy government contract.

Happy Camping With Bin Salman

As for Cameron himself, he joined Greensill as a a special adviser in 2018, two years after leaving politics. In February 2020 he and Lex Greensill went on a camping holiday with Saudi Crown Prince Mohammed bin Salman, little more than a year after bin Salman had arranged the murder of Washington Post and Middle East Eye columnist Jamal Khashoggi. The holiday appears to have reaped dividends. In June 2020, a senior Greensill Capital executive spoke publicly about the company's partnership with the Saudi Public Investment Fund, describing it as "part of the family" of the sovereign wealth fund.

According to most reports Cameron did nothing wrong. Last week he was cleared of breaking lobbying rules after it was concluded that as an employee of Greensill, he was not required to declare himself on the register of consultant lobbyists. But his already tarnished reputation is in tatters and he could face an investigation. Cameron himself refuses to even respond to the lobbying allegations. His ear-splitting silence speaks volumes about the state of British politics today.

*

Become a Member of Global Research

Articles by: **Nick Corbishley**