# "From Virus to Vitamin" Newsletter

## n°17 - 25 June 2021

# Sustainable Finance: Hype or Hope?


www.obsfin.ch/virustovitamin-n17/

**Observatoire de la Finance**

16, chemin des Clochettes
1206 Genève, Suisse
Tél.: +41 22 346 30 35

www.obsfin.ch
E-mail: office@obsfin.ch

## QUESTION UNDER DISCUSSION

**"Sustainable finance is very much in fashion nowadays as it is seen as one for the tools for slowing down climate change. But "sustainable finance" is more a catchword than a definition of a precise financial product or technique. What needs to be put in place in order to leverage the present enthusiasm around sustainable finance?"**

## TABLE OF CONTENTS

# EDITORIAL

## Sustainable Finance: Hype or Hope?

In recent years, and even more in the wake of the pandemic, it has become evident that finance must contribute to the development of a more sustainable economy. However, the current sustainable finance landscape is characterized by heterogeneous concepts, definitions, industry and policy standards, which tends to undermine the credibility of this nascent market and open the door to greenwashing.

One of the challenges is to decide where to draw the line between sustainable and "normal" investments, and how to subdivide the universe of sustainable finance. The lack of clear rules on what can be labelled sustainable opens the door to unscrupulous companies and fund managers trumpeting their ESG ratings while simply relabelling existing funds without changing profoundly neither the underlying strategies nor the portfolio composition. As a result, some observers are concerned that "the overall prevailing mechanism is based on short-term maximization of financial returns, and that ESG is still essentially an idea."

Thus, the first step to improve the situation is to create "an accepted framework of definitions and metrics" at regional or global levels to identify high-level standards and align the actions undertaken by political authorities around the world. But it is also important to act on the other side of ESG which is direct financing as opposed to stock market. For example, at European level, the Commission has recently adopted several regulations to support and improve the flow of money towards sustainable activities.

In addition, it is suggested that broader structural reforms may be necessary "to fully integrate climate-aligned structural change with economic recovery". Not only should the legal framework be changed, so "that emissions generate costs", but "international financial transactions could be taxed, so that they leave a trail, shedding light on tax havens while generating resources for sustainable practices." Other potential measures may include: "central bank rediscount policy favouring sectors that do not use fossil fuels; active and pugnacious mobilization of the shareholders most aware of the ecological crisis; monitoring of speculative drifts."

If sustainable finance is to be more than a hype and become a real hope, then we will also need governments to step in to fix the rules, with a view to make any financial activity "sustainable by default". Otherwise "the present enthusiasm around sustainable finance may well be short-lived."

**Virgile Perret & Paul H. Dembinski**

**"… the present enthusiasm around sustainable finance may be short-lived …"**

Finance is only one of the means: directing public and institutional financial flows towards investments that exclude - or fight against - the carbon economy; central bank rediscount policy favouring sectors that do not use fossil fuels; active and pugnacious mobilization of the shareholders most aware of the ecological crisis; monitoring of speculative drifts. However, **whatever financial modalities are adopted, these ecological costs will necessarily weigh on financial profitability. Which leaves me to fear that "the present enthusiasm around sustainable finance" is short-lived**.

**Etienne Perrot**

**"… labels should apply only to project financing related to clean energy …"**

**All sustainable finance labels should apply only to project financing related to clean energy.** Investment houses should not finance fossil fuel firms in any way to declare themselves deserving a sustainable finance seal of approval. This also goes for green financing.

**Oscar Ougarteche**

**"… ESG is still essentially an idea …"**

The world produces an amount of goods and services amply sufficient to ensure everyone has a dignified life. We have the necessary technologies to produce in a sustainable way. And we presently have detailed understanding of the slow-motion catastrophe climate change represents. While the Paris conference presented the goals, the Addis Ababa conference on how to fund them reached no agreement. The overall prevailing mechanism is based on short-term maximization of financial returns, and ESG is still essentially an idea. **The legal framework has to change, so that emissions generate costs. International financial transactions must be taxed, so that they leave a trail, shedding light on tax havens while generating resources for sustainable practices. The key issue is corporate governance.**

**Ladislau Dowbor**

Table of Contents

Table of Contents

**"… it is not clear that substantial public intervention is needed …"**

Sustainable finance is a broad umbrella, but nonetheless has a clear meaning as investments strategies and products that aim at fostering activities that promote environmental, social and governance improvements. The private sector has rapidly developed, having realized that there is a clear appetite by investors for investment with such priorities. Specific products have been created, as well as rigorous metrics and certifications. **It is therefore not clear that substantial public intervention is needed (in fostering sustainable finance, by contrast to ensuring proper pricing of for instance CO2 where taxes are needed). Public intervention could focus on requiring disclosure of the sustainability dimension of investment by financial intermediaries to facilitate transparency.**

**Cédric Tille**

**"… every financial decision should take climate risk into account …"**

Globally private sector needs altering processes such that their investments do not worsen climate change. The Indian government needs to introduce guidelines to standardise climate-related revelations in all financial statements and push private companies to manage their exposure to climate risks in their tasks and processes. A lack of clarity about true exposures to specific climate risks for physical and financial assets, coupled with uncertainty about the size and timing of these risks, creates major vulnerabilities. **It is suggested that the only way forward is to fully integrate climate-aligned structural change with economic recovery needing a fundamental shift in the entire finance system. Meaning that every financial decision should take climate risk into account and climate finance is integral to the transformation process.**

**Archana Sinha**

Table of Contents

**"… green rating for business firms …"**

Rendering sustainable finance an effective, practical concept depends, inter alia, on (1) measures regarding definitions, sustainability reporting, and regulation; (2) genuine commitment to mitigation of climate change; and (3) honest and sound assessment of outcomes. Under (1) can be singled out the extension of the definitions and accounting essential to regulation, with special attention to the concepts of natural capital and of contingent assets and liabilities. Under (2) there is the need for senior bankers and other key decision makers to evaluate and explain the charting and navigation of the new business routes required for mitigation. Under (3) **there are roles for many different parties - governments, central banks, research institutions and NGOs. The roles could include development and application of green ratings for business firms and other relevant institutions, which draw on historical experience with credit ratings.**

**Andrew Cornford**

**"… an accepted framework of definitions and metrics …"**

The movement towards ecological sustainability is still in its infancy in the world economy. It is real and probably here to stay, but companies and governments will meet many economic, physical and human hurdles on the way, including raw materials bottlenecks and lack of specialized talent. ESG investment can be seen as an expression of demand for sustainability in society, pressing in the right direction. But to confirm their effectiveness and credibility, **ESG motivated investors will need an accepted framework of definitions and metrics (the "taxonomy" being discussed at EU level). Ideally, one would imagine a world-wide self-regulated consensus about environmental cost, similar to the one which led to the international acceptance of the International Financial Reporting Standards (IFRS).**

**Domingo Sugranyes**

Table of Contents

**"… a point of reference in public debate …"**

A transition from enthusiasm to reality requires 3 steps:

- From experts' room to the public sphere. Sustainable finance cannot flourish without being a point of reference in public debate and a "visible" concern in everyday life. Such a paradigm shift can only be initiated through a participatory socio-political justification.
- Towards a glocal perspective. As it happens with every declaration the 17 SDGs and the Agenda 2030 provisions need to be part of the national and local development strategy both as aims and evaluation measures.
- From wishes to accountability. Various actions - mirrored in the national and international law - are required to empower accountability: legislation initiatives that forbid hazardous products, give motives for "clean production" and favour of a circular economy, annual monitoring on sustainable practices, reduction of waste/emission and a regulatory framework for investment plans.

Christos Tsironis

**"… any finance activity needs to be sustainable by default …"**

Given that rational justice requires the current generation to have a fiduciary duty to the future generation, any finance activity needs to be sustainable by default. In that sense we need to distinguish between finance and unsustainable finance, and need to focus on diminishing unsustainable finance to the benefit of finance. This means finance needs be defined purposeful and needs to account for all interests at stake. **This then needs to be coded into law and into incentive systems. While ESG-data is important, assessing and certifying impact on a case-by-case basis gives true input for governance and direction towards social and environmental sustainability,** all things considered. This requires a new moral psychology for leadership.

Eelco Fiole

# LIST OF CONTRIBUTORS

**Andrew Cornford** (Counsellor, Observatoire de la Finance; from 1977 until 2003 staff member of UNCTAD, latterly with special responsibility for financial regulation and international trade in financial services)

**Paul H. Dembinski** is the initiator and Director of the Foundation of the Observatoire de la Finance. In parallel, he is partner and co-founder of Eco'Diagnostic, an independent economic research institute working for both government and private clients in Switzerland and elsewhere. Paul H. Dembinski is also Professor at the University of Fribourg.

**Ladislau Dowbor**, economist, professor at the Catholic University of São Paulo, consultant to a number of international agencies. His books and technical studies can be found free of charge (Creative Commons) at http://dowbor.org.

Dr. **Eelco Fiole**, CFA, LLM is an investment governance expert, board director and adjunct professor of Finance Ethics in Lausanne and Neuchatel. He was a CFOO for almost 10 years in (alternative) investment management and blockchain, and holds advanced degrees in various academic domains. Thriving on idiosyncrasies and deeply international in his outlook, he is increasingly currently focused on social innovation.

Dr. **Virgile Perret** holds a Ph.D in Political Science from the University of Lausanne and he is specialized in the study of monetary innovation from an interdisciplinary perspective. He collaborates with the Observatoire de la Finance where he is responsible for managing the global Prize "Ethics & Trust in Finance for a Sustainable Future".

P. **Etienne Perrot**, Jesuit, Doctor in Economics sciences, member of the editorial board of the magazine Choisir (Geneva), editorial adviser of the journal Études (Paris).

Table of Contents

Table of Contents

# LIST OF CONTRIBUTORS

Dr. **Archana Sinha**, a doctorate in Agricultural Economics, currently is Head, Department of Women's Studies, Indian Social Institute, New Delhi, India. She is responsible for implementing research on various women issues, rural and urban based issues on gender and development, agriculture related rural economy, livelihood, gender and social exclusion, women workers, food security, nutrition, health promotion, SDGs related issues.

**Domingo Sugranyes Bickel**, KCSG. Graduated from the University of Fribourg, Switzerland. Secretary General of UNIAPAC, Brussels, from 1974 to 1981. With MAPFRE international insurance group from 1981, Executive Vice-Chairman until 2008. From 2009 to 2019, Chairman of Vatican-based Foundation Centesimus Annus Pro Pontifice. Knight Commander of the Pontifical Order of Saint Gregory the Great (April 2019).

**Cédric Tille** is Professor of macroeconomics at the Graduate Institute of International and Development Studies in Geneva. Before joining the Institute in 2007 he worked during nine years as an economist in the international research department of the Federal Reserve Bank of New York.

**Christos N. Tsironis** is Assoc. Prof. of Social Theory at the Aristotle University of Thessaloniki. He is member of various research partnerships and associations, member of AIESC and Director of the the Social Research Center for Culture and Religion.

**Oscar Ugarteche**, PhD. History and Philosophy, U of Bergen. Doctor Honoris Causa, U de San Agustin, Arequipa, Peru. UN system consultant on international debt issues 1978-1994. Visiting professor St. Antony´s College, Oxford; Centre for Development, U of Bergen; Institute for Latin American Studies at U. Of London; Free University of Berlin; University of Newcastle; Universidad General Sarmiento de Buenos Aires..

Observatoire de la Finance


## "FROM VIRUS TO VITAMIN" – JOIN THE DISCUSSION

**The Observatoire de la Finance** intends to seize this period of pandemic to step back and take a fresh look at our global economic system, dare to ask new questions which the current crisis brings to the fore and propose innovative ways to rebuild a more resilient and sustainable economy and society. In brief, we want to turn the virus into a vitamin for the future.

**Our Discussion Board** "From Virus to Vitamin" focuses on commenting issues relevant to finance and economy in relations to society, ethics and the environment from a variety of perspectives, of practical experiences and of academic disciplines. It has been designed to share and discuss information and opinions expressed in a short and concise manner.

**Contributors** (Discover the list of contributors) are invited to react on a question/issue that is submitted in parallel to a limited group of experts. This happens on a regular basis, through a dedicated mailing list. After the deadline for submission, the reactions are edited and published with signatures in one document on the website of the Observatoire de la finance and on its Linkedin page. If you would like to join the discussion, you may send an email to the editor, Dr. Virgile Perret <perret@obsfin.ch>.

**OF Discussion Board – Questions addressed so far**

- Question 16 : Universal basic income – an idea boosted by the pandemic?
- Question 15 : Multi-polarity: the best guarantee against falling (again) into the Thucydides Trap
- Question 14 : Special Drawing Rights: a drop of liquidity in an ocean of needs
- Question 13 : Trump's economic heritage: false promises setting the stage for populist disruption
- Question 12 : Will America drive the world again? A whish list for Biden's economic agenda
- Question 11 : Rush for Covid-19 vaccine: bottle-necks require public-private worldwide
- Question 10 : Does robotisation trigger redistribution?
- Question 9 : Scaling up industrial policy at regional level
- Question 8 : Stock markets and the real economy: dangerously skewed allocation
- Question 7 : Realigning international trade according to the full cost principle
- Question 6 : Indulgent creditors and industrial policy

www.obsfin.ch/from-virus-to-vitamin/

**Observatoire de la Finance**

16, chemin des Clochettes
1206 Genève, Suisse
Tél.: +41 22 346 30 35

www.obsfin.ch
E-mail: office@obsfin.ch