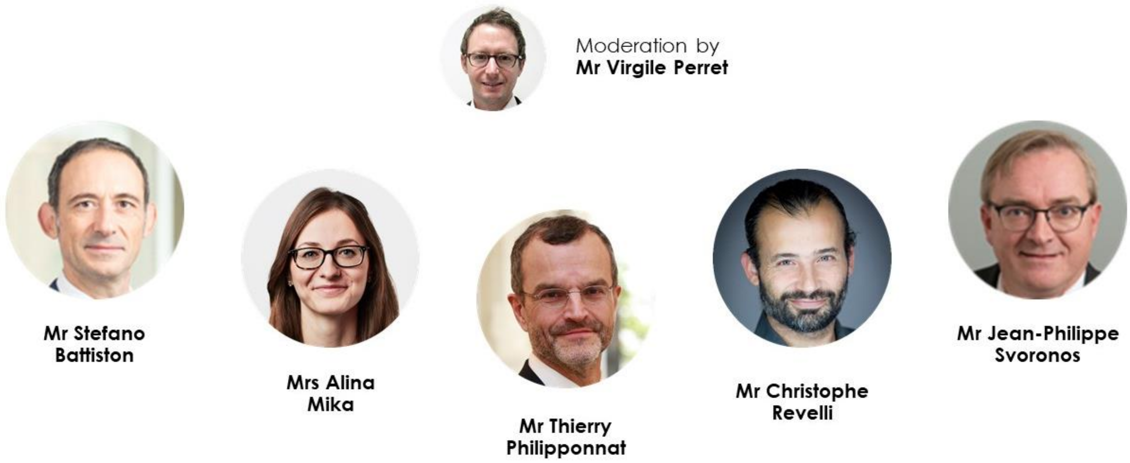
Can sustainable finance break the “tragedy of horizons”?

Wednesday, December 1, 2021 – Geneva

Participants



Session Summary

Sustainable finance is a combination of acknowledged responsibility for world’s future with traditional financial techniques. Because of its dependence on traditional financial techniques sustainable finance is at risk of being caught in what is called ***tragedy of horizons***. This notion refers to the looming mismatch between the short-term horizon of the classical investment reporting and commitments to the long-term horizon of climatic challenges.

In order to prevent it being trapped in the ***tragedy of horizons***, sustainable finance needs to rapidly overcome some of its congenital weaknesses. First, sustainable finance needs clear definition of its investments criteria, without it its agenda is not sharp enough to pretend to make a real world difference. Second, sustainable finance claims both performance and good for the planet are simultaneously achievable. However, what happens if this is not feasible – what comes first performance or planet? Neutrality of finance or the social and political project? Third, sustainable finance needs to develop a technical toolbox of its own geared to the long-term externalities. These efforts should materialize in adapting valuation techniques – namely low discount rates, diversification criteria, churning limits. Fourth, incentive and commissioning structure has to be transparent for all levels involved.

Sustainable finance, even if numbers grow rapidly, is to weak and too dispersed to make a difference alone, it needs leveraging by (global) public policies and financial regulators. The classification criteria (EU taxonomy) will be an important step forward. In addition, three directions should be mentioned: public commitment to carbon price steep increases, globally; mandatory use of these prices in credit assessments, generalisation of sustainability criteria in stress tests with long term horizons for banks, insurance companies and possibly also asset management firms. Finally, much is expected from the revised standards for financial reporting, provided a compromise is found in the current transatlantic “single or double materiality?” debate.

A failure to address today the perspective of ***tragedy of horizons*** will shortly have severe consequences, especially on low-income countries that have many different competing priorities in the short and long term. Some countries are still very much struggling not only with distant sustainability issues, but also with imminent challenges such as poverty eradication and the consequences of the pandemic. There is no easy solution but the role of development institutions and donors is crucial as 80% of funds committed at Glasgow are public; in order to attract private sustainable finance more “bankable” projects are needed.