

A hub for sustainable financing in Germany?

Discussion paper/living document

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The green economy model is on the rise throughout the world. Renewable energy, environmental technology, decarbonisation and the goals of the Agenda 2030 for Sustainable Development are issues that economies increasingly need to focus on if they aim to be modern and innovative. What does that mean for green finance?

A new environment

The financial sector has a strategic role to play as it is expected to successfully support the transformation in production and consumption, foreign trade and the domestic market, the service sector and industry. A sustainable financial sector (green finance) can make a key contribution to the transformation towards a sustainable society. At the same time, the transition towards sustainability also poses a challenge for business models and how a sector sees itself. Challenges entail both risks and opportunities. They involve new, sustainable business models and the development of standards and rules in low-carbon and resource-efficient economies that are able to adapt to the inevitable climate change; these standards and rules must also protect biodiversity while taking into account the impact of global environmental changes on food security and human rights, thereby promoting fair distribution. With their universal reach, the Sustainable Development Goals (SDGs) summarise these challenges.

How can green finance help drive the sustainability agenda? For Germany's financial sector, it is still a largely unresolved question as to what sustainability means specifically and how the sector should position itself on the national and international stage. The need for transformation itself has not yet fully become the basis for shaping opinion among stakeholders. The particular feature of the German financial system with both a regional foundation and global connections means that it offers an important alternative to one-sided large-scale structures. However, in our opinion, it requires a clearer and more ambitious profile on sustainability. Comparisons at an international level suggest the same thing. Similar ambitions are also being pursued by the United Nations through the UN Environment Programme Finance Initiative, by the European Commission, on Responsible Investment and in financial centres such as Paris, London (LSE), Zurich and Singapore, for example.

The debate

The German Council for Sustainable Development is initiating a debate about whether and how forces can be developed and pooled in a hub for sustainable financing (H4SF) in Germany and in Europe as a whole. We imagine the H4SF as a common structure of all interested parties from the financial sector that serves as a forum to network stakeholders, facilitate the exchange of experience, encourage self-organised standards and provide a platform for partnerships. The H4SF does not replace the stakeholders' 'normal' business activities.

What possibilities and options do the stakeholders see for this kind of hub? What can be learned from the situation in other countries and financial centres? Which good practices at project level can be scaled up? What are the essential principles of a roadmap for a sustainable financial system? Who will convene the hub and create the necessary infrastructure?

The starting point

An open debate is designed to explore future-oriented opportunities for all stakeholders for sustainable development at both national and international level. The following main issues serve as starting points:

1. Each country in the world has its own fiscal characteristics. Due to their mandate, business model and size, Germany's savings banks and cooperative banks, and to some extent the private banks, are a particularly stable part of the financial system with a special focus on small and medium-sized family businesses. What role do these general conditions play in sustainable finance, particularly in connection with regional added value, digital networking and customer focus?
2. From negative to positive strategies: Divestment and exclusion criteria provide important starting points, but they essentially adopt arguments from a negative perspective. How can we move beyond that? What criteria are used for a social impact investment that focuses on the impact on social cohesion and on conserving natural resources. How can social impacts be evaluated, quantified and (counter)funded?
3. Practical obstacles for sustainable investments are to be removed in order to allow fair access to ambitious investments. In many cases, very simple measures are suitable for raising awareness and enhancing the quality of information, while on the other hand the tax and fiscal framework conditions need to be improved. How can access to green finance be facilitated for trading companies and the production economy?
4. How can digitisation and the networking of supply chains be harnessed for evaluation as part of a sustainable investment decision? What information do stakeholders need from one another? How can the quality of investments be guaranteed in light of the contribution they make to achieving the SDGs?
5. What information about social and environmental effects improves how they are taken into account in investment decisions (impact investment)? What hotspot data, for

example about the costs of climate change mitigation or water purification, can be generalised beyond the specific circumstances of an individual case and can hence be used for major issues?

6. Private and public financial institutions should use or create simple and relevant standards for reporting on sustainable development.
7. Financial literacy – knowledge about the financial market – should also incorporate the topic of sustainability into formal and informal education at all levels. Finance ministers, banking supervision and regulation officials, ‘systemic’ banks and development banks, the financial technology sector, the savings banks and the cooperatives should all become involved. Sustainability and digitisation are the two drivers for the future of the financial system.
8. Sustainability as a budget principle: Sustainability must play a greater role both on the revenue and on the expenditure side of the state budget. How can government fiscal strategies promote the goals of sustainable financing? How can subsidies and support structures benefit sustainability requirements? How can the sustainability audit in the Sustainability Report on Germany's federal budget include the goals and indicators of the sustainability strategy?
9. The German Government, federal states and local authorities have large amounts of reserves and special assets for civil service pensions. Unlike the situation in Norway and Anglo-Saxon countries, however, pension funds do not play such a large role in Germany. Nevertheless, considerable sums are involved. How can these assets be invested and audited gradually and systematically in accordance with established sustainability criteria? What is needed to make progress with this restructuring?
10. Green bonds are suitable as a topic-related source of funding for the German Government and the federal states, and highlight the transformation process. The initial bonds have already met with considerable demand. What needs to be done to develop both the demand for and supply of green bonds?
11. Financing for development should be consistently geared towards sustainable development. The German Government should support international organisations such as the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Green Climate Fund and the UN's green finance agenda by promoting the process of issuing SDG bonds that set benchmarks in terms of transparency, corruption prevention and environmental and social standards.
12. How can funding for German foreign trade promotion support and promote these standards? How can financing for the export of German goods through development cooperation with partners be strengthened, and how can the fiscal surplus be reduced using new cooperation models, for example in the recycling sector?
13. Further points to be added...