**A hub for sustainable financing in Germany?**

**Discussion paper/living document**by Alexander Bassen, Achim Steiner, Günther Bachmann
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The green economy model is on the rise throughout the world. Renewable energy, environmental technology, decarbonisation, sustainability standards in global value chains 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 sustainable 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 (sustainable 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 for the transformation to low-carbon, resource-efficient economies that are able to adapt to the inevitable climate change, protect biodiversity and at the same time take into account the impact of global environmental changes on food security and human rights to promote fair distribution. These transformations of the economy and of consumption habits are both ambitious and a challenge for which there are no pre-existing blueprints. They presuppose resilient societies open to dialogue and necessitate both constitutional and participatory approaches. With their universal reach, the Sustainable Development Goals (SDGs) summarise these challenges.

Does the financial system have “merely” a service function for the so-called real economy? Many things support the conclusion that this traditional understanding of roles urgently needs to be re-evaluated. Does the financial sector not in fact have an activating role to play that is much stronger in today’s market environment? If so, how can sustainable 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 special considerations play in the discussion about sustainable finance in Germany? What challenges for development going forward result from this, particularly in connection with regional added value, digital networking and customer focus?
2. Pursuing both negative and positive strategies equally: divestment and exclusion criteria provide important starting points, but they essentially adopt arguments from a negative perspective. How can we supplement this with positive approaches and incentive structures? What criteria are used for a social impact investment that focuses on the impact on social cohesion and on conserving natural resources. How can economic, ecological and 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. What criteria does an investment have to fulfil in order to be sustainable? How can access to sustainable 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. Liquidity, security and yield are currently the main parameters governing investment decisions. The golden triangle of asset investment should be expanded to include the aspect of sustainability, making it a golden square. Lawmakers could implement corresponding specifications in existing regulations for investable assets, such as in Section 80 paragraph 1 of the German Social Security Code (SBG IV). By doing so, lawmakers would help increase cognizance in the financial sector of the fiduciary responsibility for the environment, society and corporate governance (ESG).
7. Private and public financial institutions should use or create simple and relevant standards for reporting on sustainable development. Data transparency, exemplary integrated thinking and management in the financial sector that also takes portfolios and the design of financial products into account are potential levers for achieving sustainable business.
8. *Financial literacy:* educational institutions, both formal and informal, should incorporate the topic of sustainability into their curriculum at all levels in schooling as well as the professional context to create basic knowledge about the financial markets. In particular, the effects of specific saving and investment behaviour on the economy and infrastructure would be relevant topics to cover. 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 in making interdependencies within the system clearer. Sustainability and digitisation are the drivers for the future of the financial system.
9. 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?
10. 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?
11. 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? What kind of signal would the German Federal Government issuing a green bond send? Can initiatives at the state level serve as examples here?
12. 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.
13. 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? How can German trade and export financing policy (Hermes cover, direct investment abroad, etc.) bolster positive effects on sustainable development in the countries to which it exports in a targeted manner.
14. Further points to be added...