Recommendations from the members of the Steering Committee of the Hub for Sustainable Finance on sustainable finance in Germany

Preamble

The finance sector has a central role to play within the fabric of globally interlinked economic relationships and their effects on national economies and society. Through the allocation of equity and borrowed capital, it has a decisive impact on the environmental and social compatibility of the real economy. At the same time, the financial sector is itself influenced by developments in the environment, the economy, politics and society.
These correlations and interdependencies require highly effective and robust structures that will support and ensure sustainable development. Only with such structures will it be possible to enable an efficient interplay between the financial sector, the real economy and the state. In the long term, they will create scope to act and shape the sector, develop future-proof business models and lay the foundation for sustainable development and social cohesion.

These recommendations were developed by the Steering Committee of the Hub for Sustainable Finance (H4SF) with the aim of defining the key areas for action with respect to implementing a sustainable financial system. They are derived from the content overlap between the interim report of the High Level Expert Group on Sustainable Finance of the European Commission, the PRI Roadmap for Germany, the Living Document Sustainable Finance of the German Council for Sustainable Development, the goals of the Accelerating Sustainable Finance Initiative of the Deutsche Börse and the recommendations of the Task Force on Climate-related Financial Disclosures of the Financial Stability Board.

1. Policymakers must take an active role in shaping and guiding these structures to a greater extent than has thus far been the case.

   The federal government is not fully recognising and accepting its role as an initiator and supporter of solutions for financing the Sustainable Development Goals (SDGs) of the United Nations and for reaching its climate targets. Legitimated expectations placed on the financial sector are not communicated with sufficient clarity.

2. The state must fully embrace its function as a role model and guiding force behind the concrete realisation of a sustainability strategy.

   The federal government is cognizant of its special responsibility to promote sustainable development and describes this commitment in the German Sustainable Development Strategy. This strategy is not yet effective enough, however, and has too little impact as a strategy that guides concrete action, neither with regard to pension monies, special assets and state funds nor with regard to the constitution of the public budget. With the aim of creating a coherent policy, current inconsistencies between regulation and sustainability goals should be eliminated so as to provide the business and financial sectors with clear orientation. State-run or government-associated financial sector organisations should function as role models and be a guiding force commensurate with their societal purpose.

3. Sustainable finance requires an entirely new relationship between the state and the financial sector – a relationship that serves societal goals and common integrity. This demands a strategic orientation and management on the basis of indicators and targets.

   The financial sector and the responsibility it has towards society are currently inadequately represented in the German Sustainable Development Strategy. On the part of financial sector players, a sector-specific delineation of their commitment to and contribution towards reaching sustainability goals is also lacking. The German Sustainable Development Strategy offers a practical starting point for continuing to develop with indicators such as debt level, federal deficit as net lending/net borrowing and structural net lending/net borrowing. The indicator “Provision for future economic stability –gross fixed capital formation in relation to GDP” must be expanded to comprise a financial sector component including qualitative elements. Sustainable forms of investment are also important indicators.

4. Suitable instruments need to be identified and developed with a view to financing future infrastructure.

   Future financing of major infrastructure projects, such as digitisation, the energy transition and the mobility transition as well as in the areas of education, healthcare and nursing care require a joint activation and mobilisation of capital via suitable financing instruments on the part of the federal government and the finance/business sector.

   A decisive role for Germany as an advocate of sustainable development also through an improved financial system and with suitable financial instruments is a necessity in an international and multilateral context as well. Germany is tasked with realising concepts for financing global sustainable development in collaboration with economic partner nations and trading partners. This includes, for instance, creating commensurate incentives, guarantees and pledges to support the import and export of sustainably produced products, goods and services and linking these with corresponding sustainability criteria.

5. Knowledge and competence with regard to fiduciary duty and the specific responsibility of the financial sector must be cultivated further.

   All institutional investors and asset managers (both public and private) are faced with the challenge of integrating sustainability into the so-called "magic triangle" of asset management (liquidity, stability and profitability) and taking into account its financial relevance in financial analyses and financial decisions. Sustainability topics desired socially or politically by the beneficiaries are equally important.

   Appropriate laws, regulations, execution provisions, etc. relevant to the financial market must expressly take account of aspects of sustainable development. Systematically considering these throughout the entire investment chain is absolutely crucial and a key task of supervisory bodies. When it comes to education and training for jobs in the financial sector, sustainability must be a central topic and must be stipulated in qualifications requirements for relevant supervisory and leadership positions.

6. Germany's financial sector should make a visible contribution to reaching the global sustainability goals.

   The role of a trailblazer aspired to by the financial sector is to be evaluated primarily based on its specific contribution towards achieving the UN climate targets and the sustainability goals of Agenda 2030. To do so, sustainability standards (for example regarding investments, financial products and bonds) must be disclosed transparently and their competitive standing must be improved; new initiatives and products also have to be developed and marketed.

7. Integrated sustainability management as a component of entrepreneurial practice on the part of all market players should be a matter of course.

   Sustainability issues must be taken into account in all areas of the real economy and the financial sector as well as in business-related activities of social institutions. This requires a comprehensive drive to educate those in positions of responsibility and other market participants in order to orient habits and perspectives towards the correlations and interdependencies between all sectors of the business and financial world, the political arena and the scientific community.

8. Good reporting is a key foundation for assessing the societal contributions of the business sector and finance industry. The quality, availability and comparability of the data must be expanded considerably.

   Publicly available company information on environmental, social and governance (ESG) aspects of sustainability provides orientation and a positive response and entrench self-control and sustainability-oriented thinking. Their quantity and specific quality should be enhanced under consideration of relevance and materiality. Both are necessary above and beyond fulfilling the formal requirements of the EU CSR Directive in order to generate a complete picture of the performance capability of the financial sector. The requirements with regard to transparency apply to investment products as well and their economic, ecological and social impact.

9. Sustainability aspects must become a component of the financial sector's risk culture.

   Systematic integration of environmental, social and governance aspects into risk management practices has a positive effect on the stability of the financial system. If, for instance, an ambitious strategy for reducing greenhouse gases is pursued, this does more than just minimise portfolio risks. It also promotes entrepreneurial behaviour that contributes to helping to overcome this challenge for the whole of society and thus opens up concrete investment opportunities.

10. Institutional investors should actively and responsibly exercise influence on shareholders.

    By acquiring shares in a company, these players receive a right of ownership and a voting right, through which they can apply leverage. These rights are not yet being sufficiently tapped. Conscious exercise of voting rights and active involvement on the part of shareholders, in particular institutional trustees, with the aim of improving corporate governance in the business sector is needed in order to cement and promote sustainability in corporate management and leadership.