

## Sustainable finance: the Federal Government's supporting role

Recommendation from the German Council for Sustainable Development to the State Secretaries' Committee for Sustainable Development on 25 February 2019 on the topic of sustainable finance

Berlin, 8 February 2019

The German Council for Sustainable Development (RNE) welcomes the decision of the State Secretaries' Committee for Sustainable Development to concern itself with the topic of sustainable finance on 25 February 2019. In this policy area, interagency involvement represents a major opportunity for developing contemporary consistent policy structures that support sustainable development and eliminate hindrances to such development. When it comes to sustainable finance, every federal ministry is responsible for a subsegment of the picture, some for smaller ones, some for larger ones. Coherent understanding of the picture as a whole should be embedded throughout, from the leading administrative departments through to the financial instruments themselves.

The Council for Sustainable Development thus recommends to the Federal Government that:

1. it ramp up its efforts towards achieving a sustainable finance system at a European and international level. A sustainable finance system should take the preconditions necessary for greater sustainability in the social market economy into account comprehensively, implement and promote respectively own responsibility for sustainability through institutional structures within the Federal Government, and elevate initiatives in the area of sustainable investing, which has thus far been viewed as a niche segment, as a fully recognised arm of the financial market.
2. The Federal Government advocate an ambitious implementation of the suggestions of the Technical Expert Group on Sustainable Finance. Within its own area of responsibility, the Federal Government should promote development of a sustainability classification system for investments based on standards to be developed within its own remit and, what is more, supplemented by information from the wider international context (for example from the KfW or other financial institutions).

- The reserves in the federal pension fund for civil servants and occupational retirement provision for other employees should be invested sustainably in the sense of the German Sustainable Development Strategy. The same applies for other federal financial reserves and special assets.

Which strategy is pursued in this regard and in particular which climate scenario is used as a basis for the investments should be disclosed within the framework of the 2020 revision of the German Sustainable Development Strategy.

- The fund for nuclear waste management should strive to achieve a role model position for both private and institutional investors and invest according to strict sustainability criteria. It should evidence the greatest possible transparency and work to improve sustainability performance.
- In general, greater transparency and validity is needed with regard to the data from companies that are to be invested in. Here, too, the Federal Government should take an active role.

### 3. Embedding the topic of sustainable finance within the Federal Government:

3.1. The Federal Government take up the Council's example in the area of initiating stakeholder dialogue on the topic of sustainable finance and embedding it institutionally. The Council recommends that a round table be formed involving the Federal Ministry of Finance (BMF), the other affected departments, and stakeholders from industry, civil society and other interest groups. The Council offers its assistance in this regard.

3.2. The Federal Government improve the framework conditions for sustainable finance through the issuance of a federal sustainability bond. To do so, we recommend the following steps be taken:

- The Federal Government should create a federal bond with a long time horizon aimed at risk-averse investors focused on sustainability-oriented projects.
- This sustainability bond would expand the green bond portfolio of the KfW, which we additionally recommend be converted into a KfW sustainable finance portfolio.
- The Federal Government should create a regulatory framework that will enable citizens to invest their savings in, for instance, the electricity grid. This would additionally help ensure national access to the grid. The legal foundations for this must be laid.
- The bond would also allow citizens to participate in such measures as the energetic refurbishment of federal properties and properties owned by the federally owned rail provider Deutsche Bahn.

#### 4. Finance societal change socially

4.1. The Federal Government support corporate initiatives specifically aimed at social and ecological sustainability and with positive transformational impact for people at a regional and rural level. In particular, information measures and model projects would be well suited to motivating private investors to undertake impact investments in social enterprises.

4.2. The Federal Government take a leading role in impact investing by bolstering the framework conditions for private investments that target positive impact. This especially relates to investments and, for example, public-private co-financing of federal funding projects, particularly of non-school-related education, professional education for sustainable development, integration and global start-up partnerships for sustainable development in threshold and developing countries.

#### 5. Sustainability audits of subsidy and funding programmes

5.1. The Council considers it urgently necessary that first approaches to sustainability auditing procedures for subsidy programmes be consistently developed. The BMF should definitively draw on external support in carrying out such subsidy auditing. Only through independent audits can it be assured that all administrative departments review their deployment of funds for efficacy with regard to the goals of the German Sustainable Development Strategy and correspondingly report on the results. The audit requirement should also apply to funding programmes.

5.2. The Council operates the Sustainability Code as a practically oriented, user-friendly instrument for reporting publicly on companies' non-financial performance. We recommend that the Federal Government require of federally owned companies and associated companies that they fulfil the minimum requirement of submitting a Code declaration. It should recommend to governments at state level that they implement a similar procedure for their own interests and state-owned companies.

#### 6. Budget management and sustainability

6.1. The Council recommends that the Federal Government closely evaluate the experience of German experts in Freiburg and other cities in the nation using sustainability indicators as a tool in innovative double-entry bookkeeping.<sup>1</sup> Integrating sustainability criteria into budget planning enables investments to be made that are aimed at sustainable development (e.g. energetic refurbishment). Frequently, investment in sustainable infrastructure faces the structural hurdle that the sum total of invested monies is not to exceed a certain percentage of current costs. The Council recommends that a peer review

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<sup>1</sup> With the introduction of the New Municipal Budget Law (NKHR) on double-entry bookkeeping for 2015/2016, the city of Freiburg became the first city to integrate sustainability goals into municipal double-entry bookkeeping. It has continued this approach with its current 2019/2020 budget.

with specific targeted adjustments be conducted in order to gain insights that can aid in disseminating this approach to other municipalities.

6.2. The federal budget should disclose the amount of its investments in the energy transition, infrastructure projects with sustainability targets and indicators (digitalisation, mobility, rail, and electrical grid, for enhancing resource efficiency and closing the raw-materials cycles). An ex ante and ex post analysis of financial instruments' impact on sustainable development is a prerequisite for this. This budget planning approach is oriented on the example of the EU draft budget for 2021–2027.

## 7. Sustainable finance in professional training and qualification

7.1. The state of knowledge regarding what constitutes sustainable finance, what instruments and methods sustainable investing comprises, should be adjusted swiftly to the current state of forward-looking practice. Advisers and consultants must be able to provide qualified information on which offers can be considered serious and which are more aptly viewed as “greenwashing”.

7.2. The Federal Government take the initiative here by making clear what its minimum standards of disclosure are in the area of sustainability. In doing so, it should assess and analyse current reporting practice in relation to the CSR reporting obligation – in particular with regard to the challenges of reporting on those topics which are material and of reporting in such a way that material risks related to the challenges of sustainable development, oriented on the 2030 Agenda, are presented adequately.