German Council for SUSTAINABLE Development

H4SF
Hub for Sustainable Finance Germany

Insights, impressions, outlook

Documentation of the second German Sustainable Finance Summit by the Hub for Sustainable Finance

26 September 2018

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Finance
Germany

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1 Political input

An excerpt from the video message by Federal Minister Dr Helge Braun, Head of the Office of the German Chancellery

"Greetings from the German Chancellery! The issue of sustainable finance is very important to me too – as is working together to take it to the next level.
The German government has given the Chancellery responsibility for the topic of sustainable development as a whole. I personally head up the State Secretaries' Committee for Sustainable Development, the central steering body for Germany's sustainability policy.
Sustainability is also embedded in the coalition agreement as the yardstick for our government's actions because we have to set a course today that will ensure our prosperity, our quality of life and our coexistence in the future. To achieve this, we have to take a holistic view of the economy, the environment and society as they are inextricably linked.
We will look at sustainable finance within the context of the German Sustainable Development Strategy as well. This issue was also a focus of Germany's G20 presidency, when we concentrated in particular on improving environmental risk management in the financial industry.
Sustainable finance has now become a key issue at EU level as well, as the European Commission's Action Plan on Sustainable Finance shows.
The German government largely supports this Action Plan. What matters is the exact form which the measures take. It is important to us to engage in comprehensive stakeholder dialogue on this subject. The Sustainable Finance Summit is a crucial forum in this regard.
Taking sustainability criteria into account within the financial system will improve the management of long-term environmental risks, thereby contributing towards financial stability. A prime consideration for me in this regard is making the risks relating to climate change transparent for the financial market. Furthermore, integrating sustainability criteria will help to highlight opportunities. It will foster the shift towards more sustainable business practices and contribute to implementing the Paris Agreement and the United Nations' 2030 Agenda for Sustainable Development – because that provides the framework for international transformation processes."

Excerpt from the welcome by patron Svenja Schulze, German Federal Minister for the Environment, Nature Conservation and Nuclear Safety

"The record temperatures we experienced in summer 2018 – the fifth once-in-a-century summer within just eight years – once again underlined the need to take decisive action now. We have established a binding framework for this with the Paris climate protection goals and the sustainability targets set out in the 2030 Agenda. We have resolved to reverse the trend in emissions and resource consumption on this basis.

All sectors need to do their part in order to bring about this transformation – including the financial industry. It offers a crucial lever for effecting the necessary change in the way we do business and live. Sustainability, transparency and responsibility must play a much bigger role in shaping the financial sector's key business activities. The EU Action Plan "Financing Sustainable Growth" and the legislative proposals deliver important food for thought and calls to action in this regard."

Excerpt from the welcome by patron Olaf Scholz, German Federal Finance Minister

“In the fight against climate change and for the protection of our environment, the finance sector has an important role to play. One of three central goals laid out in the Paris Agreement is, for instance, to bring global finance flows into alignment with the climate goals.

Here in Germany, we have already achieved a good deal where sustainability is concerned. With issuances to date of 13.5 billion euros, the KfW bank is one of the largest issuers of green bonds. Major German financial service providers have developed strategies for more sustainable investing. The Sustainable Finance Cluster and the Hub for Sustainable Finance are places where key expertise is consolidated.”


Florian Pronold


Location

Comments made at the Second German Sustainable Finance Summit

State Secretary Florian Pronold, German Federal Ministry for the Environment (BMU)

“Sustainability issues must become a fundamental consideration for businesses. Companies have a duty to uphold the common good, even if that seems to have disappeared from view in this globalised world. We must take political action to demand more strongly that this responsibility is upheld. In specific terms, this means:

- sophisticated environmental and sustainability management systems at firms
- transparent, credible environmental and sustainability reporting
- incorporating supply and value chains into companies’ sustainable approaches

It goes without saying that these requirements do not just apply to ‘traditional’ business enterprises: the financial market must play a part as well. The majority of financial investments and loans are not compatible with the internationally recognised climate targets or criteria for the environment, a sustainable society and ‘good’ corporate governance.”

“The EU is a community of values. It is therefore both desirable and logical for it to play a leading role and be a credible player in the field of sustainable growth. If social, ecological and climate risks really are valued appropriately in financial terms, this sends out a signal to financial markets and investors. Our shared objective is nothing less than protecting the resources essential to life: a stable climate, clean air, clean water and an intact natural world. I firmly believe that we can only succeed in doing this if we adopt a sustainable approach in economic, financial and budgetary policy as well as elsewhere.”


Levin Holle

Levin Holle, German Federal Ministry of Finance (BMF)

"Sustainability itself and taking sustainability criteria into consideration is part and parcel of analysing financial service providers' opportunities and risks. It helps financial service providers to manage their risks better, but that is not all. Above all, it also helps to identify future-proof investment and lending opportunities."

"In five years' time, we think the following progress will have been made in sustainable finance:

1. The whole financial industry will perceive and manage sustainability risks and opportunities appropriately. This will play a part in making the financial system more stable, transparent and efficient five years from now.
2. At the same time, the financial system will support achieving the SDGs and the shift towards an economy which protects the environment and the climate through corresponding investments.
3. Germany will be a major global hub for sustainable finance.

We have a lot to do in order to achieve this."


Stephan Bredt


Molly Scott Cato

Stephan Bredt, Hessian Ministry of Finance

“A key question is how sustainability can be linked with economic success. Different players need to come together to address this. There needs to be a direct dialogue between EU legislators and corporate players.”

Molly Scott Cato, MEP

“The European Parliament would like to support and work on sustainable finance. We should move away from unsustainable finance completely and gradually integrate sustainability across the board. The existing resources must be used, but also protected. We are a long way off doing this, so the change has to happen now.”

Martin Koch, DG FISMA European Commission

“In addition to climate and environmental components, sustainable finance comprises two additional components: namely a social component and one summarised under the term ‘governance’. These two components – which relate, for instance, to maintaining acceptable social and labour standards and the manner in which companies are managed – are also important. Not giving them adequate attention can result in material risks. Any policy which aims to promote sustainable finance must therefore cover all of those components belonging to the climate and environment, social affairs and governance.”

Martin Koch

“The European Union has set itself concrete climate and environmental protection targets for its climate and energy policy applicable until 2030. In addition, the EU supports the aims of the Paris Agreement as well as the Sustainable Development Goals of the United Nations. Realising these European and international sustainability and climate targets will require substantial investment of capital. Simply achieving our climate targets in the EU by the year 2030 – improved energy efficiency, more use of renewables and lower harmful emissions from transport – will require some 180 billion euros in additional investments – every year, until 2030. This goes to show the sheer magnitude of the efforts we will have to mobilise. The investments needed in energy efficiency, renewables, sustainable infrastructure and new ‘green’ technology are only in part public funds. The lion’s share of this will have to come from private investors, e.g. companies, private households. [...] In the budget proposal for 2021 to 2027 comprising a total volume of 1.279 trillion euros, the European Commission suggests earmarking 25% of funds – across all policy areas – for investments that will help achieve the EU’s climate targets. This will enable the EU budget itself to also support sustainable finance and investment.”

2 Key messages from the Second German Sustainable Finance Summit

Consolidated outcomes of the 11 round tables and labs

1. Policy makers can – and should – demand transparency and compliance with principles and legal requirements along with good corporate governance as defined in both the Sustainable Development Goals and an action framework for sustainability. To do this, a logical system needs to be developed and targets need to be set (politically) to sort and evaluate the instruments (ESG integration, reporting, etc.): how do they need to be structured in order to have a transformative effect?

2. The state should act in its capacity as investor as a role model. Public institutions and policy makers should live out values and see sustainability as a top priority (for the elite, associations); the BMU and BMF should work together more closely; the 1.5 °C climate target should be supported by reliable climate policy.

3. Skills should be developed at all levels: in vocational training, academia and day-to-day work – all the way up to supervisory board level – but also at federal bodies, such as BaFin and other market supervisory authorities. The aim for the next four years is to orchestrate and facilitate processes in the field of skill building and in the transformation of industrial and financial policy.

3 Other comments made at the Second German Sustainable Finance Summit

Dr Joachim Faber, Chairman of the Supervisory Board at Deutsche Börse

“Sustainability is one of the most important questions concerning the future. However, not enough is being put into practice. A lot of people and companies talk about sustainability and what could be done, but too little action is being taken. [...] In the financial industry, for instance, key approaches include improving loans and investments for sustainable projects and products. The issue of sustainability is not yet properly integrated into the financial industry and there are no recognised general standards. It is important to lay down a framework which everyone has to adhere to.”

Marlehn Thieme, Chairwoman of the RNE

“By 2021/2022, a roadmap should be created showing how the sustainability goals will be achieved. The financial market and civil society need to reach a consensus regarding sustainability. As a financial centre, Frankfurt has an advantage, which should be utilised and must remain vital. Transparency is a very important feature of this process and fosters the innovative market.”

Kristina Jeromin, Green and Sustainable Finance Cluster Germany

"The Düsseldorf-based company Gerken has withdrawn its cherry pickers from Hambacher Forst. The financial market needs to think about where its cherry pickers are!"

Michael Schmidt, Deka Investment

"The Federal Ministry of Finance should spear-head sustainable finance. The ministry needs to send clear signals so that other players will follow suit."

Nadine-Lan Hönighaus, Econsense

“Though it results in additional work, the CSR Directive Implementation Act supports the goal of achieving greater sustainability in Germany. More companies than ever are reporting on sustainability and in doing so are concerning themselves more strongly with the topic. Our study shows, too, how large the differences are in terms of implementation. We will need to wait and see what develops over the next few years to be good practice in respect of handling the requirements of the act. Which topics and risks are material for the respective company and with which approach the materiality of topics is determined have to fit in with each company’s own wider context. For many companies, active engagement with numerous stakeholder groups is today already a central component.”

Ralf Frank, DVFA

"A lot of books and texts barely touch on the topic of sustainability, so it is not discussed during vocational training. This in turn means that the financial industry is still far from achieving the sustainability targets."

Prof Dr. Alexander Bassen, German Council for Sustainable Development

"Germany is lagging far behind other EU countries. It is difficult to reconcile the basic idea of sustainability with that of finance, but that is an important step."

Lothar Rieth, EnBW

"In reporting, industry and the real economy need to concentrate on aspects of financial materiality which can be used and generate real value added for investors."

4 Challengers' statements

Max Zahn, Mensch Bank e.V.

"As a young person, I simply cannot understand why banks are anything other than sustainable. They talk about the future and tell us we should save for the future, but at the same time they're destroying the world that we young people will live in. [...] It's our future that banks and politicians are playing Monopoly with – where are the children and young people at the sustainability conferences?!"

Dustin Neuneyer, PRI

"The problems are plain to see and there are scarcely any sustainability indicators. Progress made in one sphere is cancelled out or superseded elsewhere. I would like to see a constantly renewed awareness of what we need to work on. Five points to remember when tackling these challenges:

1. **The right balance between rationality and emotionality must be found**
   We mustn't be naive and make the greatest possible demands. However, we mustn't carry on with 'business as usual' either. We mustn't forget what it's really about, namely sustainability.

2. **Responsibility** – We must accept a minimum of responsibility.

3. **Implementation is needed in the financial sector as well** – The capital markets form an important centre here and must be ready for sustainable investments.

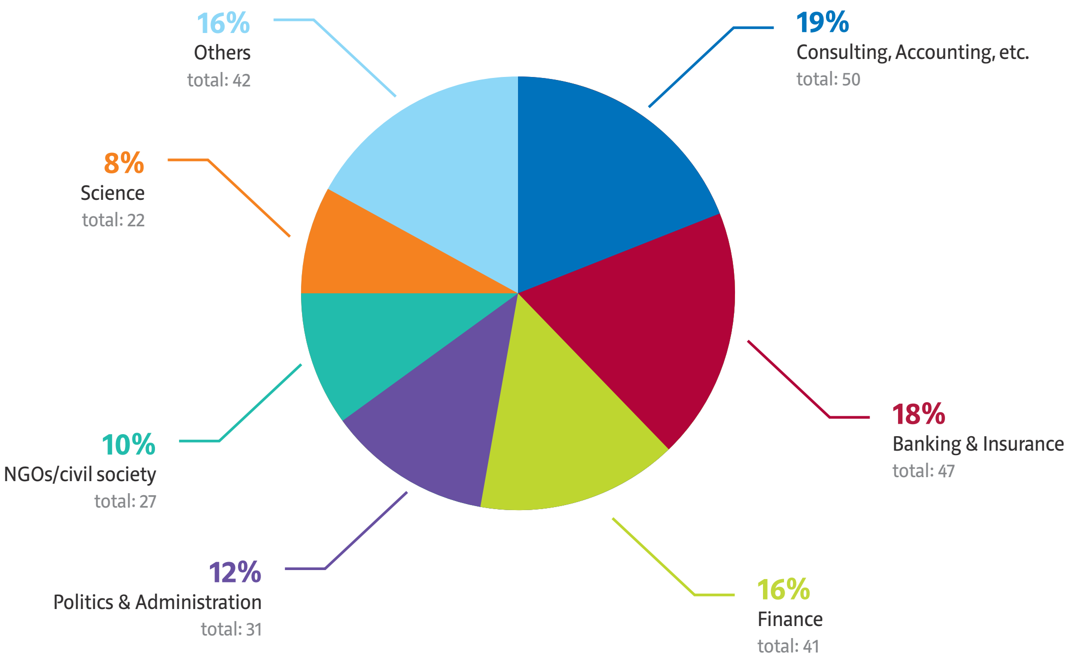
4. **Regulation** – Some is good and some is bad. We need to talk more about good role models. The state needs to set a good example here too.

5. **Let's work together to find a solution!"**

5 The Second German Sustainable Finance Summit at a glance

- Two-part event consisting of the Sustainable Finance Dinner on 24 September 2018 and a large public event on 25 September 2018
- The speeches and discussions covered content chosen by policy makers with reference to the EU Action Plan and the European Commission's legislative proposals
- "Summit of Doers": via online submissions, H4SF network players had the opportunity to present themselves and contribute content. 27 of the 42 initiatives took part in the discussion in this way.
- Delegate structure: a total of 260 guests attended, with 309 having registered

EVALUATION OF PARTICIPANTS



6 Thanks to partners and sponsors of the Second German Sustainable Finance Summit

We would like to thank everyone who helped to make the Second German Sustainable Finance Summit a success by contributing content, such as Kristina Jeromin, Dr Joachim Faber, Prof. Dr Alexander Bassen, State Secretary Florian Pronold, Dr Levin Holle, Martin Koch, Dr Stephan Bredt, MEP Molly Scott Cato, Member of the Bundestag Lukas Köhler, Dr Martin Granzow, Dr Ingeborg Schumacher-Hummel, Will Martindale, Dustin Neuneyer, Juliane Hilf, Karsten Löffler, Edward Baker, Ben Pincombe, Klaus Hagedorn, Prof. Dr Volkmar Liebig, Dr Bernd Bartels, Anna Schirpke, Dr Thomas Schulz, Frank Ackermann, Patrick Mijnals, Florian Koss, Nina Roth, Dr Martin Vogelsang, Dr Andreas Rickert, Prof. Dr Harald Bolsinger, Silke Hohmuth, Max Zahn, Karsten Löffler, Nadine-Lan Hönighaus, Ralf Frank, Dr Urs Bitterling, Ingmar Jürgens, Franziska Schütze, Prof. Dr Marco Wilkens, Henrik Ohlsen, Prof. Dr Timo Busch, Dr Max Weber, Robert E. Bopp, Dr Axel Hesse, Christine Majowski, Silke Stremlau, Angela McClellan, Volker Weber, Andreas Fiedler, Ralph Thurm, Gyslain Perissé, Ralf Breuer, Marlehn Thieme, Michael Schmidt, Dr Esther Wandel, Dr Lothar Rieth, Prof. Dr Timo Busch, and the documentation team Vanessa Pütz, Nils Hums, Katharina Schmitt, Ilan Momber, Leticia Adam who provided press support, Thomas Tratnik who took the photographs, Liane Hoder who did the graphic recording, and Janine Köhler, Nicole Wuttke and Finn Dejoks, Johanna Roxlau and the team from Gesellschaftshaus Palmengarten who created such a wonderful ambience.

Many thanks to the sponsors and supporters who made the Second German Sustainable Finance Summit possible.

Published in **Absolut|impact** 03 2018

EU Action Plan on Sustainable Finance – reflections and questions

With consultations on the EU Action Plan under way, it is worth asking whether its implementation still has the necessary, consistent link to the actual objective of a sustainable finance system. Matthias Stapelfeldt from Union Asset Management and Dr Helge Wulsdorf from the Bank für Kirche und Caritas reflect on the EU's planned measures and raise constructive questions to prevent the discourse from becoming bogged down in details.

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Introduction

There is a consensus within the sustainability community and beyond that the EU Action Plan "Financing Sustainable Growth" delivers impetus for the future of finance which is both significant and correct. Various industry associations and initiatives have set up expert committees and are actively involved in concrete opinion-shaping processes. We are seeing the emergence of numerous policy papers on policy queries and consultations. There is no question about it: this development represents progress which very few experts would have considered possible not long ago. In other words, moves to make the financial world more sustainable are gathering pace considerably. An EU expert group now faces the task of working out details for the purpose of operationalising the strategic objective of sustainable finance via concrete measures.

It is also time to take a step back, reflect on the activities to date and formulate the questions which arise from them. Does the EU Action Plan really address the right issues, considering the objective of sustainable finance? And – perhaps much more importantly – are these issues approached in the right way when it comes to the details? After all, it is about doing the right things in the right way because that is the only way to bring about a lasting, positive impact on sustainable development in a European and global context.

Especially with regard to complex projects which set out to operationalise strategic, visionary objectives for (global) society, it should come as no surprise that the various building blocks do not initially fit together in practice. It is necessary to make readjustments and continuously check whether the planned rafts of measures still tie in with the original aim: mobilising investment capital on behalf of addressing the challenges of sustainable growth. Achieving consistency between the objective and its implementation is critically important, especially during the current transformation phase. With that in mind, it is crucial to examine very carefully which interests are to be served or exercised, for instance, under the EU proposal.

The thoughts set out below by no means question the objective of sustainable finance (see FIGURE 1) and the current developments. Instead, their aim is to examine the EU's goals, motives, instruments and measures both critically and constructively so as to help take them to the next level.[1]

1 Purpose of the EU Action Plan: sustainable or green finance?

According to the title of the EU Action Plan, it is aimed at financing sustainable (and inclusive) growth. If we consider the three pillars of sustainability – society, the environment and the economy – the latter is the initial thrust of the Action Plan. It centres on "finance for a more sustainable world" (p. 2, EU Action Plan),[2] which means "reorienting capital flows towards a more sustainable economy" (3). Although "sustainable finance" (2) means taking account of environmental and social considerations, the Action Plan is subsequently dominated by ecological issues such as climate change, resource-related problems and energy.

This is astonishing given that right at the start of the document, under the heading "Setting the scene" (1), it cites the UN 2030 Agenda with its 17 Sustainable Development Goals (SDGs) and the Paris Agreement with its two-degree target as carrying equal weight in the policy rationale. However, the SDGs address a significantly broader range of issues than the two-degree climate target. They cover the whole sustainability debate at global level. Climate is just one target within this – albeit a key one and doubtless a priority – alongside the other 16. This means, for instance, that a high-quality climate risk management sys-

1| The European Commission's sustainable finance strategy

Reorienting capital flows towards a more sustainable economy

- To achieve the EU climate and energy targets by 2030, Europe has to close an annual investment gap of almost EUR 180 billion
- The EU and the European Fund for Strategic Investments (EFSI) are already investing in energy, environment and resource efficiency projects and social infrastructure
- However, further steps are needed to channel even more investment into sustainable sectors

Mainstreaming sustainability in risk management

- Environmental and climate risks are currently not always adequately taken into account by the financial sector
- Social factors can have concrete consequences for financial institutions, including legal risks

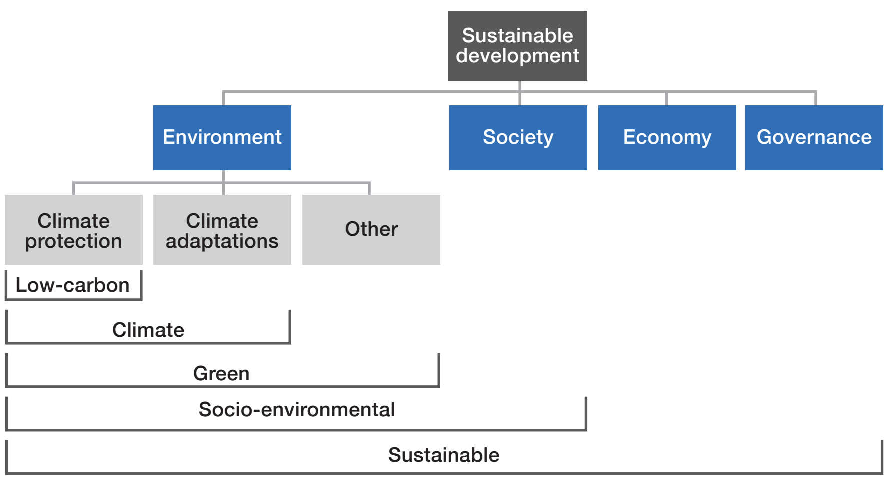
Fostering transparency and long-termism

- Sustainability and long-termism go hand in hand
- Strengthening transparency by improving disclosure

Source: public speech by Martin Koch: European Commission Action Plan: Financing Sustainable Growth; given at the BVI Sustainability Day in Frankfurt am Main on 19 April 2018 (slide 7)

tem at a company can and must not release the firm from its obligation to tackle the other environmental and social sustainability challenges just as earnestly.
In 2011, the European Commission itself encouraged all member states to develop national action plans to implement the UN Guiding Principles on Business and Human Rights. However, these are not mentioned. Likewise – and interestingly – European sustainability goals and strategies are not explicitly mentioned in the policy rationale. Instead, they are gradually elaborated upon and defined in their various individual guises – as was recently the case during the climate discussion. Is the EU Action Plan even compatible with the global SDGs and, consequently, what is the justification for using European sustainability indicators to measure non-European investments? The political sustainability goals must be aimed primarily at the real economy, yet the question of which building blocks and implementation strategies can be used – and in which order – to translate them methodically 1:1 into products, services and investment processes on the financial market also remains unanswered. This is extremely important for the intended efficacy, but it is not examined at any point. Capital markets have a way of developing momentum which often far outstrips a political time frame.
The general debate surrounding sustainability in the world of finance holds that a comprehensive ESG approach which pervades every aspect of sustainable investments is a key component of sustainable finance. If ecological issues are primarily addressed – as in the EU paper – this gives rise to an imbalance to the detriment of S and G criteria. In the worst-case scenario, the result would be a decoupling or, worse still, an arbitrage of the latter. Consequently, the EU Action Plan on Sustainable Finance would become so eclipsed by green issues that it would be more honest and more credible to talk about green finance from the outset.

2| The European Commission's understanding of sustainable finance



Source: public speech by Martin Koch: European Commission Action Plan: Financing Sustainable Growth; given at the BVI Sustainability Day in Frankfurt am Main on 19 April 2018 (slide 4)

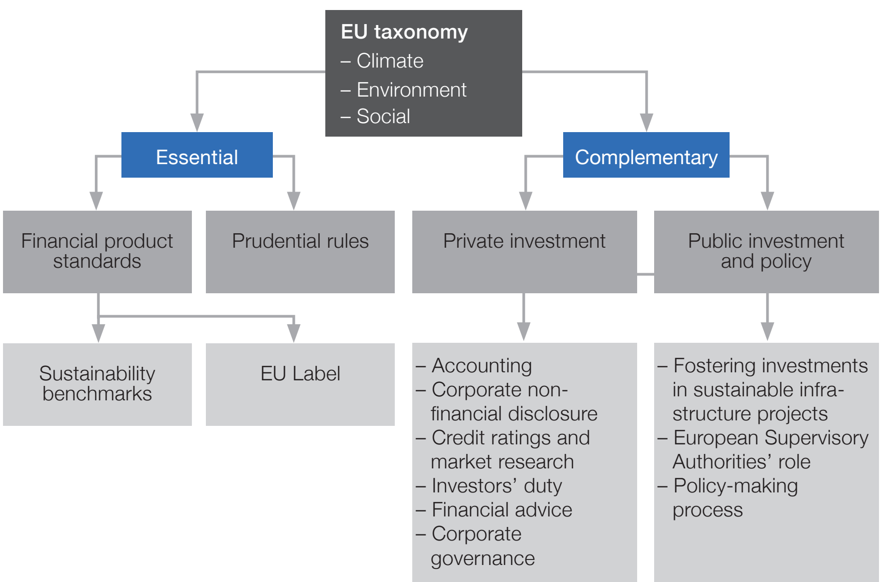
Consistency with the objective: The European Union's understanding of sustainability should be clarified right at the start. Sustainable finance is more than green finance (see FIGURE 2) because E, S and G criteria are given equal weight, although they are developed gradually within the process instead of being addressed simultaneously. The lack of a clear definition of the term is a common complaint. However, tackling this by means of a universally known but incomplete standard neither serves the matter in hand nor enhances its acceptance. Ultimately, the only way to support other EU goals and projects – e.g. those targeting social sustainability aspects in the fields of human and labour rights – is by integrating these instead of having to treat them separately. After all, investors can only be sure that choosing sustainable finance means their investments are providing funds for "an environmentally and socially sustainable economic system" (3) if an all-encompassing approach is taken to sustainability. It must also be possible to integrate future policy requirements into this approach. Market figures and surveys show that the majority of investors are not interested in financial products focusing solely on climate-specific issues. Further-reaching sustainability products which they can integrate into their portfolios in line with comprehensive risk management hold greater appeal. It is therefore justified to ask whether it is consistent within itself to reduce efforts to steer the financing of sustainable growth solely to climate-related aspects.

2 EU taxonomy: disorienting or illuminating?

According to the EU Action Plan, creating a "unified EU classification system – or taxonomy" (5) is "at this stage the most important and urgent action of this Action Plan" (5). The Action Plan argues that "a shared understanding of what 'sustainable' means" (5) paves the way for a clear definition of what can and cannot be deemed "sustainable". A unified, "fully-fledged EU sustainability taxonomy" (5) is thereby identified as a crucial issue which should make it possible to classify – or identify – what will qualify as "sustainable" on the financial market in the future. This is a very ambitious goal which is certainly worth examining more closely provided that individual taxonomies for "climate change, environmentally and socially sustainable activities" (19) are available one day.
It should be borne in mind that a taxonomy can be viewed at various levels. Firstly, it relates to capital investment projects in the real economy

because it must be possible to reflect the desired climate standards within concrete investments and for them to be pushed through or even sanctioned in the political arena. Furthermore, the question must be raised as to whether projects funded using EU or nation-state resources will also meet the desired taxonomy criteria in the future.
At the second level, the taxonomy standards must then form part of comprehensive reporting by both companies and states (EU and non-EU alike). This is the only way in which comprehensive data can be gathered on the relative valuation of capital investment projects, which the financial industry can utilise as internal decision-making parameters. As a consequence, the data must be incorporated into the revision of the CSR reporting obligation.
Only then will it be meaningful and possible to adopt the taxonomy fully in terms of implementing investment strategies on the capital markets – probably in the form of a modified or aggregated version.
Annex I to the official EU communication, which deals with the “Role of the EU taxonomy in the Action Plan” (17, see FIGURE 3), is misleading in that it suggests that an EU taxonomy has a merely “complementary” (17) effect on the real economy, but is absolutely “necessary” (17) for financial products. The view within the financial sector is that the opposite is true. With this in mind, it is crucial that a joint understanding of the role of the financial industry and the public authorities for their respective investments be developed.
According to the Action Plan, the three aspects of climate, environment and social must be covered equally in a comprehensive EU sustainability taxonomy. However, the paper itself shows that the ecological aspect of the sustainability paradigm is already setting the tone. A look at the “Workplan of the initiatives set out in this Action Plan” (19, Annex III) confirms this view. Although “socially sustainable activities” (19) are initially mentioned explicitly alongside climate change and environmentally sustainable activities for the legislative proposal, the technical expert group is required to submit reports on both a “taxonomy for climate change mitigation activities” (19) and a “taxonomy for climate change adaptation and other environmental activities” (19) in 2019. There is no explicit call for a report on a taxonomy for social activities. No further mention is made of the social dimension anywhere in the workplan (Annex III). It is treated cursorily at best.
The keywords green bonds, EU Ecolabel, carbon impact, low-carbon benchmarks and climate-related risks sum up the main thrust of the EU’s approach. This begs the question of whether the EU sustainability taxonomy really sets out to cover all the classification features of sustainable investment. If climate and environmental issues are the only universally accepted criteria, S and G aspects will fall so far behind that financial market players will be able to continue taking whatever approach they like to the unclassified S and G issues, or simply omit them. The EU would thereby fall short of its own aim of creating a unified classification system for sustainable investment. It would neither provide investors with comprehensive or necessary guidance nor would it pave the way for ESG to become established as a standard. In line with the reference system used by the Task Force on Climate-related Financial Disclosures (TCFD), the question must also be raised as to how far a taxonomy can even contain forward-looking data which make emissions reduction potential visible and encourage investment in this field.
However, there is a far broader issue to be addressed with regard to the taxonomy. Assuming the taxonomy for investment strategies is to become an informative source of guidance for capital investments, it must cover all the existing asset classes and regions around the world as comprehensively as possible. Only a small portion of investment capital is used exclusively to back companies and invested solely within Europe. For the system to become credible for investors and relevant to their decision-making, the financing of European states would then also have to take the EU’s own requirements relating to the taxonomy and its transparency into account. Of course, this also raises the question of whether non-Euro-

3| Role of the EU taxonomy in the Action Plan



Source: Annex I of the EU Action Plan: Financing Sustainable Growth pean states and companies would provide taxonomy-related data, without which there can be no meaningful global portfolio classification. Lastly, a European taxonomy would have no significance for the USA's current political aims, for example, with respect to the meaningfulness of allocating capital there. It would still lack significance even if it were aggregated at global portfolio level and had to be communicated to a German investor as an indicator.

Consistency with the objective: The EU Action Plan sets out to define a universal quality standard to mobilise investment in products which are truly sustainable. This is a meaningful way of linking political aims and measures with investments and invested capital. However, it is essential to clarify the interaction between the real economy and the financial industry – specifically which one influences which – and the roles of those involved. For the taxonomy to be transferred to the investment markets, it will have to have a "second level" which is geared towards global investment strategies and comprises a separate set of information with respect to asset classes and issuers. The standard should also point the way for all other sustainability-related transparency obligations for specific products bearing the sustainability label. Due to its limited regional significance, a standard of this kind should take the form of guidance and not, for instance, an obligation for investment strategies. Furthermore, the SDGs which serve as the rationale for this action should be cited in the taxonomy debate if they are to show the financial sector at European and global level the way to a more sustainable world.

3 Transparency: overwhelming or comprehensible?

Transparency ranks alongside long-termism as one of the key prerequisites for the success of sustainable investments. With this in mind, the EU Action Plan aims to "reduce the undue pressure for short-term performance in financial and economic decision-making, notably by increased transparency, so that investors, whether corporate or retail, can take better informed and more responsible investment decisions" (4). So which (additional) data would be used to bring about "increased transparency" on the market for sustainable investments?
Transparency is not a panacea for a lack of sustainability. Furthermore, it must not be confused with comprehensibility – a mistake which is often made in our age of over-informing consumers. Neither does it pertain solely to the data situation: it also relates to structures, processes and instruments as these only facilitate sound assessments of issuers' sustainability when they are used together. Moreover, questions are raised concerning the financial materiality and pinpoint accuracy of the individual criteria for sustainable development. The requirement for individual materiality carries great weight in sustainability reporting, and with good reason. The concept of impact – i.e. the effect of capital investments – is only just emerging. A clear distinction is often not made between genuine impact investing and the provision of data on relative ESG impacts. Although the latter concept in particular is already helpful, it is far from mature.
Nevertheless, there is justification to ask who should ultimately benefit from this wealth of data, some of which is abstract. More data quickly results in data graveyards which do not generate value added and would complicate investment consulting in such a way that the opposite of the desired effect would probably be achieved, making sustainability products even more niche because consultancy is too laborious and there are not enough adequate products.
It is important to consider which data clients need for investment decision-making and/or which data they can be expected to digest. The data quality – not quantity – is the critical factor in enhancing transparency in the financial sector.
The data needed to evaluate sustainability – i.e. the yardstick for the EU sustainability taxonomy – must be provided to a quality standard which makes it accessible and comprehensible for everyone. Complete (data) transparency is just as much a utopia as the consistent interpretation of defined criteria sets. However, should the current plan be implemented, the aim of integrating as yet immature impact data into product descriptions at the same time as requiring taxonomy details to be published would prove truly problematic.

Consistency with the objective: Transparency is not an end in itself. It should enable consumers to understand and assess a product. If transparency is to become a key feature of sustainable investments, it will be necessary to consider carefully which transparency requirements have to be fulfilled to give consumers an accurate picture of the sustainability of all available sustainable financial products, both at investment fund level and beyond. Graded transparency requirements would be helpful here as a means of disclosing the sustainability quality of an issuer at various transparency levels in a comprehensible, comparable way, using different criteria depending on the intended target audience – from sustainability research agencies to asset managers and consumers. Of course, it is also worth asking whether it helps consumers if they are expected to digest both sustainability transparency and the climate and impact transparency contained within it. A comprehensive taxonomy which is easy to understand, straightforward and consistent would be very helpful with respect to transparency for the intended beneficiaries of this Action Plan.

4 Steering sustainable growth or sustainable development?

The aim of the planned EU sustainability taxonomy or classification system is to make more capital investments available to fund sustainable growth. This means the sustainability taxonomy is expected to have a key steering effect. However, the question remains unanswered as to how and via which mechanisms this kind of steering could be effected using a taxonomy. Furthermore, no incentive structures or paths are laid out which would direct investments towards sustainability. A steering effect is usually achieved by setting standards for the real economy via legislation and norms. The financial industry then has the task, for instance, of quantifying the implementation of these legal requirements or, if applicable, putting a figure on the cost of non-compliance, when it assesses investments' risk. It is then possible to differentiate between financing models using a quantification of this kind, allowing a steering effect to emerge.

Closing a "yearly investment gap of almost EUR 180 billion" (3) for sustainable growth in Europe is and remains an extremely ambitious target when no mention is made of how the necessary capital will flow into the right channels and where it is supposed to come from. Without the backing of real-economy targets and measures, such as a consistent climate strategy – i.e. without a workable analytical and material basis for investors – it will be impossible to implement a capital allocation, especially among investors with fiduciary duties, fully and in accordance with the EU's aims. The experience of the last few years and decades confirms this.

The public investment and policy measures cited in the Action Plan (see FIGURE 3) are therefore fundamental to enabling private investment. It is thus contradictory that they are labelled as "complementary" (17) in the corresponding Annex I to the EU Action Plan.

Furthermore, it should be borne in mind that investments – particularly in Germany – are still largely financed by borrowing. Merely steering the funding of sustainable growth via the capital markets therefore neglects a major control or steering mechanism if it disregards borrowing. Considerations relating to creditworthiness and repayment capability of loan exposures are also leading lenders to include social and environmental sustainability criteria in their credit assessments as a result of enhanced risk assessments at various banks.

In addition to steering, the EU Action Plan is aimed – at least implicitly – at having an effect on companies as well. As well as disclosing significant sustainability data, they are to "take the strategic steps necessary to develop new technologies" (13), thereby strengthening their business models and improving their performance. "This would in turn improve their risk management practices and competitiveness, thus creating jobs and spurring innovation." (13) In the view of the EU, a more sustainable economy is therefore committed to the notion of efficiency and/or optimisation from a purely economic perspective. Sustainable economic growth is thus uppermost on the agenda. Meanwhile, social aspects which are given equal status in the SDGs – such as the "Decent work and economic growth" called for in Goal 8 – are neglected, for example. This begs the question of whether efficiency criteria serve primarily the objective of a green economy.

It is not enough to prioritise more sustainable economic growth ahead of the other sustainability goals; indeed, it will probably lead to more conflicting aims. What impact really means for sustainable development and how it can be measured comparably must remain open, like so many things which are currently in a state of flux. Is it not – and will it not remain – an open flank if impact is not monetised and probably cannot be monetised in the foreseeable future? If sustainability is to become a compulsory consideration in the financial sector via investment or lending guidelines, the quality of both investment products and processes and that of lending relies fundamentally on the relevant risk statements and monetisable impact measurements.

Consistency with the objective: Asset owners and managers need fundamental principles and corresponding tools with which they can verify and improve the sustainability impact of their investments. In addition to financial returns – which remain fundamental considerations – they must be aware of the importance of the "sustainable" impact and a means of transitioning towards its measurability with a view to establishing a quality standard for their investments. Sooner or later, they will make this impact public as a key indicator – comparable with similar products – and come to appreciate the possible consequences. If it does not have a positive effect on sustainable development in the real economy, sustainability remains largely intangible with regard to investment. To achieve the intended influencing and steering effect, it is therefore crucial that the targets set out in the EU Action Plan are compatible with real-economy goals and measures and are embedded accordingly. Only then will pricing and risk measurement have a steering effect on the financial market.

5 Mainstreaming: niche or norm?

The term 'mainstreaming' is currently enjoying buzzword status in the sustainability discussion. This may be because certain circles hope that the EU Action Plan will transform the financial sector in such a way that sustainability becomes the norm for investments. There is no doubt that the EU Plan sets out to mobilise extensive funds for a more sustainable economy. However, when and whether this is achieved on the financial market by means of permanent mainstreaming depends on a large number of – as yet unresolved – defining features. Although the Action Plan sets out a clear target figure of EUR 180 billion, it does not mention the sources from which these funds are supposed to come. Is the goal of mainstreaming achieved when more than 50% of monetary capital is invested strictly sustainably, for instance, as the Action Plan seems to suggest? And does this refer solely to capital market investments or also to funds derived from lending and deposits, the scope of which cannot even be measured at present?

From the capital market's perspective, the largest financing leverage consists of placing the majority of trust investments, for example, on a real-economy footing. This would enable professional investors in particular to implement sustainability aspects comprehensively in their investment strategies. In this respect, the steering effect of the EU Action Plan will depend to a large extent on whether the EU adopts political realism by making the taxonomy genuinely economically quantifiable for all possible asset classes, however sustainable they are.

Many of the measures cited in the Action Plan are currently aimed primarily at explicitly sustainable investments, which make up the smallest segment of the investment market in the German-speaking countries, accounting for an approximate share of just 3%.[3] The aim is to achieve the ambitious total of EUR 180 billion via a large number of measures.

However, incorporating an obligatory sustainability check into investment advice, for instance, could create additional hurdles – especially in the traditional banking business – instead of tapping the true financing potential of sustainable growth on a large scale. There can be little doubt that sustainability advice is yet to be implemented in a client-friendly fashion. Given the very modest level of investment by retail customers in the first few years, it would be appropriate to avoid a knee-jerk response and proceed measuredly. Advisers must be able to provide principle- and demand-based advice flexibly and it must not lead to them deliberately circumventing the issue of sustainable investment in their "required script" because they want to avoid going through the additional details. It should also be ensured that there is a corresponding range of sustainable products spanning the various asset classes which offers a broad selection in terms of investment horizon, expected return, security and customer needs. It would be helpful if the state were to take the lead here by supplementing the range of products offered by financial service providers with a state anchor product.

The reality is that sustainable investment is still a niche and will remain that way for some time to come. The EU Action Plan does not go into whether the mainstream should reach a threshold value and, if so, which. Is it not far more important to raise awareness by sensitising individual asset owners and managers to the issue, bringing them on board and offering them enough attractive investment products and proposals to implement existing investment strategies? If European political organisations and businesses really were to use a sustainability taxonomy and associated limits for all their future investments, the debate about sustainable finance would probably become superfluous in the foreseeable future.

German investors in particular are very risk-averse. Investor-friendly advice in the sense of a suitability check must therefore be able to draw on a wide range of appropriate investment products in all risk classes, which go far beyond investment funds. Only then will sustainable investments be seen as a serious alternative. However, apart from green bonds, which are growing very dynamically, there are no concrete plans for (or references to) additional product types to be established for the private investors who are being targeted and the resulting segment of retail deposits. There is a real need for action here – both by financial institutions and by the German government in its capacity as a role model. The idea of an earmarked sustainable savings bond issued by the German government, for example, would certainly have considerable catalyst potential, especially for risk-averse retail customers.[4]

In addition, it should be mentioned that public authorities and central banks also invest extensive funds on the capital markets. By doing so, they finance investments which must comply with the same rules concerning taxonomy and transparency integration as per the capital investment regulations. This is relevant for both investment risk management and the capacity of public authorities to steer other market players and lead by example.

Consistency with the objective: Mainstreaming is difficult to link to figures or threshold values of any kind. A number of other factors are likely to be far more crucial to the success of financing sustainable growth on a permanent basis. The first is clearly explaining the importance of ESG integration for existing investment products in both the institutional and retail segments and promoting such integration. The second is aligning public authorities' and central banks' monies with the taxonomy requirements, explicitly incorporating them into transparency obligations if applicable. The third aspect is expanding the range of sustainable investment products and other sustainable financing models offered by both financial service providers and state issuers. When doing so, the parameters must be designed in such a way that sustainable financial products and capital investment projects can be incorporated into institutional and retail clients' respective investment and risk profiles with ease. Fourthly, bridge-building is needed to include ethical products in the spirit of ESG integration instead of drawing new boundaries – or amplifying existing ones – between existing investment products and explicitly sustainable offerings.

The investment shortfall of EUR 180 billion per annum will not be met by putting up challenging obstacles and unilaterally promoting a 3% niche in which the necessary funds could not be invested anyway due to a lack of investment alternatives. There is even a prospective risk of a bubble forming and valuations becoming distorted on the capital markets if large volumes of assets are only compatible with a small number of capital investment projects in accordance with the EU taxonomy. If the necessary funds are to be mobilised in the foreseeable future, all available sources of finance must be examined to see whether they could realistically be utilised to meet the targets of the EU Action Plan.

Summary – Insights – Outlook

There is no doubt that the EU Action Plan and the implementation process, which has been initiated also, raise numerous other questions, which should be considered from a certain distance. The five thrust areas dealt with here do not therefore reflect all the problems thrown up by the paper. However, they show that scope for various possible interpretations exists, which indicates the need for readjustments in a number of places. In particular, it is important to drill down on categories and roles (especially in the financial industry), prioritise, and specifically address the full range of sustainability challenges. The SDGs cited at the beginning as the rationale for the paper provide the suitable normative framework for this. It would be fatal if, sooner or later, the shift towards a more sustainable financial world were to lose pace or grind to a halt and the objective of subsequently expanding the taxonomy to include "social sustainability" (14) were no longer achieved because the players one day made do with general environmental issues or more specific climate-related considerations and were no longer able to agree on qualitative social aspects. If the Action Plan were ultimately to result in nothing more than an EU Ecolabel for retail products, this would send the wrong signal and foreseeably lead to a loss of confidence among investors, especially as a number of EU states have already established corresponding sustainability badges as quality standards on the market, such as the FNG mark for sustainable retail funds. Taking a close look at the financial market through the lens of sustainability reveals that the latest big thing is probably responsible investment. This is where the strongest growth can be observed. In part that is because, with hindsight, the German Investment Funds Association (BVI) embedded material ESG integration in its code of conduct in 2017 with voting and engagement as a result of fiduciary due diligence obligations. A large proportion of investments which were previously managed conventionally were consequently transformed into responsible investments. In some cases, this may already have happened earlier, but their volume had not been recorded before. This might be the start of a trend towards mainstreaming. Responsible investment could therefore be one of the keys to making sustainable investment a success: volumes have been rising steadily since the 1990s and various building blocks and ESG implementation strategies have been developed, which serve as a verifiable basis for the investment products and processes. Looking at the FNG market report also shows that qualitative progress has been made in the development of investment strategies as well, for example by linking ESG data with key financial indicators or incorporating ESG aspects into asset managers' engagement activities. In methodological terms, the EU Action Plan is taking the right approach, although it is indisputable that a great deal still needs to be done. Looking ahead we must, of course, wait to see when the EU expert group presents the sustainability taxonomy and how its content can be transformed qualitatively into investment products and processes. Ultimately, only investments which can be shown to have a positive impact on sustainable development represent a more sustainable financial market. With that in mind, the shape of things to come one day will be impact-oriented investment as an extension of responsible and sustainable investment and a further stage of development. In this context, the financial industry in particular will have to take the financial materiality of the various ESG criteria into account over and above a pure sustainability evaluation. From the industry's point of view, this is the only way to integrate sustainability into the investment process systematically as a strategic risk approach with various building blocks and implementation strategies.

The thoughts set out above centre on the idea of looking from a macroperspective at selected thrust areas which could be critical to the Action Plan's success. Everyone involved will have to take a pragmatic approach given the large number of parallel insights which will emerge over the next few years. The standards which are now being defined by the EU must not become bogged down in the microcosm of details as it is essential that they remain open to change and innovation. At present, it is neither prudent nor constructive for the financial industry to wait for the EU Action Plan to be worked through in a purely sequential fashion. There is simply not the time for that. Instead of lamenting, what we need now is for everyone to act within their own sphere of responsibility. In that spirit, all those in positions of responsibility will have to put up with certain shortcomings, identify them critically and pinpoint them. At the same time, however, we all need to approach the issue as such constructively and take it to the next level in a targeted, impact-oriented manner.

Footnotes

1) The following reflections and questions concerning the further development of the sustainable finance market draw on the findings of the recently published anthology "Greening Finance. Der Weg in eine nachhaltige Finanzwirtschaft" and current political developments. Stapelfeld, Matthias, Granzow, Martin, Kopp, Matthias (ed.) (2018): "Greening Finance: Der Weg in eine nachhaltige Finanzwirtschaft." Logos Verlag, Berlin.

2) The figures in brackets after quotations refer to the page numbers of the German-language text of the EU Action Plan: Financing Sustainable Growth. The full English-language text can be found here: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN (last accessed on 28 August 2018).

3) Re market data for sustainable investments in the German-speaking countries, cf. Forum Nachhaltige Geldanlagen e. V. (ed.) (2018): "Marktbericht Nachhaltige Geldanlagen 2018", p. 23.

4) Re breakdown of the market for sustainable investments by mandates, investment funds, proprietary investments and retail deposits, cf. ibid., p. 24 ff.

* This is an English-language version of an article originally published in German. The translation has been prepared for informational purposes only. All references to the wording of the Action Plan and corresponding inferences relate to the German-language text of the Action Plan.

8 Literature

Would you like to read around the subject, but you don't know where to start? Listed below is selected literature and empirical research relating to sustainable finance ...

... RE THE ECONOMIC VIABILITY OF SUSTAINABLE FINANCE

Friede, G., Busch, T. and Bassen, A. (2015): "ESG and financial performance: aggregated evidence from more than 2000 empirical studies". In: Journal of Sustainable Finance & Investment, 5(4), pp. 210–233.

Bauckloh, T., Klein, C. and Zwergel, B. (2017): "Sustainable and conventional mutual funds: Do they really differ?". In: Corporate Finance [online] (03-04), pp. 86–89. Available at: *https://cf-fachportal.owlit.de/document/zeitschriften/corporate-finance/2017/heft-03-04/kapitalmarkt/aufsatze/sustainable-and-conventional-mutual-funds-do-/MLX_e946?authentication=none* [accessed 15 Oct. 2018].

... RE THE SITUATION IN GERMANY

Berensmann, K. and Lindenberg, N. (2016): "Green Finance: Akteure, Herausforderungen und Politikempfehlungen". [online] Die-gdi.de. Available at: *https://www.die-gdi.de/analysen-und-stellungnahmen/article/green-finance-akteure-herausforderungen-und-politikempfehlungen/* [accessed 12 Oct. 2018].

Forum Nachhaltige Geldanlage (2018): Marktbericht Nachhaltige Geldanlagen 2018. [online] Available at: *https://www.forum-ng.org/images/stories/Publikationen/fng-marktbericht_2018-online.pdf* [accessed 15 Oct. 2018].

Forum Nachhaltige Geldanlagen (2017): "Green Economy – Recherche Ist-Stand nachhaltige Finanzwirtschaft".

Heinemann, K., Zwergel, B., Gold, S., Seuring, S. and Klein, C. (2018): "Exploring the Supply-Demand-Discrepancy of Sustainable Financial Products in Germany from a Financial Advisor's Point of View". In: Sustainability, 10(4), p. 944.

Stapelfeldt, M., Granzow, M. and Kopp, M. (2018): Greening Finance. Berlin: LOGOS VERLAG BERLIN, pp. 118, 123, 128.

… RE THE EUROPEAN AND GLOBAL SITUATION

Efama European Fund and Asset Management Association (2018): Report on Responsible Investment. [online] Available at: *https://www.efama.org/Publications/EFAMA_Responsible%20Investment%20Report_September%202016.pdf* [accessed 15 Oct. 2018].

Eurosif (2016): European SRI Study 2016. [online] Available at: *http://www.eurosif.org/wp-content/uploads/2016/11/SRI-study-2016-HR.pdf* [accessed 15 Oct. 2018].

European Commission Technical Expert Group on Sustainable Finance (2019): Report on Climate-related Disclosures. [online] Available at: *https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190110-sustainable-finance-teg-report-climate-related-disclosures_en.pdf* [accessed 25 Jan. 2019].

You can find a dossier on sustainable finance in Europe with regulatory proposals, European Commission directives and other documents along with recommendations on the website of CRIC e. V. *https://cric-online.org/index.php?option=com_content&view=article&id=343:dossier-zu-sustainable-finance-in-europe&catid=50:news&lang=de* [accessed 26 Nov. 2018]

… RE FIDUCIARY DUTIES AND OTHER KEY FACTORS

UNEP FI (2017): "Fiduciary Duty in the 21st Century". [online] Available at: *http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf*

Busch, T., Bauer, R. and Orlitzky, M. (2016): "Sustainable Development and Financial Markets: Old Paths and New Avenues". pp. 305, 318 [online] Journals.sagepub.com. Available at: *http://journals.sagepub.com/doi/abs/10.1177/0007650315570701* [accessed 10 Oct. 2018].

Bouma, J., Jeucken, M. and Klinkers, L. (2017): Sustainable Banking: The Greening of Finance.

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Ladaria, L., Turkson, P., Morandi, G. and Duffé, B. (2018): "Oeconomicae et pecuniariae quaestiones. Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System" (6 Jan. 2018). [online] Vatican.va. Available at: *http://www.vatican.va/roman_curia/congregations/cfaith/documents/rc_con_cfaith_doc_20180106_oeconomicae-et-pecuniariae_ge.html* [accessed 22 Oct. 2018].

FURTHER READING

Report on the Second German Sustainable Finance Summit in sustainability news:

https://www.nachhaltigkeitsrat.de/en/news/brussels-adds-momentum-to-sustainable-finance-in-germany/

Link to the delegate pack including the programme of events:

https://www.h4sf.de/en-GB/Downloads/Sustainable-Finance-Summit_final-agenda_EN.aspx

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Responsible: Prof. Dr Günther Bachmann
Editor: Yvonne Zwick
Proofreading: Scholz & Friends NeuMarkt

Photographs: © RNE / Thomas Tratnik,
Portrait of Svenja Schulze © BMU / Sascha Hilgers,
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Graphic design: Carina Schmitt, DRILLING GmbH


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Was denken Sie? Was muss heute noch geklärt oder verabredet werden, damit sich der Tag gelohnt hat und sich wirklich etwas ändert?