German Council for SUSTAINABLE Development

Sustainable finance, reporting and their role in achieving the SDGs

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The key question in my daily work and my contribution today is: How can we activate Sustainable Finance and use the means of reporting and transparency to get the aspired goal of reaching the targets of the Agenda 2030?

On European level we observe the technical discussion about a taxonomy for climate friendly investments to be currently blocked. Is nuclear power climate friendly? Yes or no? This is what happens if you start a discussion on sustainable finance with focus on CO2 , which does not reflect all environmental issues nor the four dimensions of sustainable finance: including the long term economic, the social and the governance perspective. It should make us nervous when - at such an early stage – a discussion gets difficult.

The German Council for Sustainable Development advocated very early on, that all dimensions have to be taken into account in developing a taxonomy for sustainable investments from the very beginning - with the SDGs as guiding star for the transition of the financial system, business and economic policies.

Sustainable Finance is key to achieving the SDGs. We need a lot of money to reach the targets. We face an investment gap of 180 and even 270 billion € p.a. in Europe These are investment and business opportunities, which European policy makers and administration can empower with an enhancing framework.

Here are my

a) observations on the topic of sustainable finance and how the EU Action Plan is impacting discussions in Germany.

Three years ago, the German Council for Sustainable Development began working on the topic of sustainable finance as the Council's members had the impression that we will soon be facing new market bubbles (e.g. carbon, the real estate sector) and that the German government would need support in finding their role with regards to a whole package of ideas on the regulations of Sustainable Finance.

At that time, a High-Level Expert Group at EU level was working out propositions for regulatory initiatives known as the EU Action Plan Sustainable Finance. This plan consists of ten regulatory proposals, which are very likely to fundamentally change the regulatory framework for finance and banking over the next two years.

Some highlights to mention are:

- an EU sustainability taxonomy, initially for only climate criteria, with the other two (social and governance) to follow at a later date; the publication of the next draft was postponed to 2021, as the debate on whether nuclear power is sustainable or not is ongoing
- developing standards and labels as well as a sustainability benchmark
- enhancing sustainable corporate governance, transparency and reporting
- embedding ESG in fiduciary duty and customer communication (with MiFiD II)

This year, the German Federal Ministry of Finance and the Federal Ministry for the Environment institutionalised with support by the Ministry for Economic Affairs a stakeholder dialogue by forming a Sustainable Finance Committee. This committee needs a productive, credible and results-driven governance system for the dialogue. To date, we see a higher interest by stakeholders to get involved and to invest than willingness by the government to commit itself and provide the means in order to equip the Sustainable Finance Committee adequately.

Transparency and stakeholder dialogue is key, if you want to create robust partnerships. Not for show, not just once a year, but in substance and regularly. Transparency and commitment is key to raise acceptance. We learned that a top-down approach needs a bottom-up approach and vice versa if they should be successful.

The HLEG set the transparency benchmark for the Sustainable Finance Committee in publishing all relevant protocols online. Doing this, each and every stakeholder had full transparency – something we would like to see in Germany as well and therefore offer our Hub for Sustainable Finance website to the German Federal Government for a friendly takeover. It couldn't be easier!

Market actors, however, are now waiting on regulation and a taxonomy – as if there would not be the knowledge and applicable standards yet.

They feel overregulated, are waiting to see what will happen and if what was announced by the European Commission will actually be implemented. Maybe some do hope that it will not come. The old-style lobbyists are in part abdicating along with the slowest actors, who are still neglecting the relevance of systemic risks in portfolios and credit management.

A growing number, however, are interested and curious. To some extent, these actors are already taking action, as they see the urgency of raising capacities for dealing with these issues.

Those are the ones, who should be prior dialogue partners for the

- Green New Deal and in the
- Multi-stakeholder platform on Sustainable Finance.

b) As to the analysis of the state of non-financial reporting two years after the implementation of the national CSR Directive Implementation Act. Allow me to showcase the Sustainability Code, a project facilitated by the RNE for seven years now:

4 areas, 20 criteria, focusing on the most relevant. Simple, easy to adopt at no costs we advertise comparable company data based on international standards.

The national implementation act of the CSR Directive clearly boosted the Sustainability Code's relevance and application levels, above all, among companies just starting the journey to sustainability management.

Financial market actors (banks, insurance companies, investors) now constitute the sector with the greatest number of Sustainability Code declarations.

Nevertheless, in the reporting itself, we are still not seeing a clear climate scenario analysis and reference to the SDGs. The Council will continue to make the connections to other systems and standards, provide webinars on "how to report" in order to raise the level of knowledge on the Code. In addition, we will implement third-party assurance allowance given by company reports within the Sustainability Code database. In particular, we have learned that accountants' interpretations of the national implementation act are often much less ambitious with regards to clarifying which issues need to be considered relevant or even what a risk should be.

So what is a risk? Well, a risk is when you define a quantifiable, measurable target to be achieved within a specific timeframe and you are in danger of failing. Aha.

c) Last but not least: how could both policy fields boost achievement of the SDGs?

I am very much a hands-on person and a networker. Thus, I am again trying to knit the diverging ends together: sustainable finance and reporting. Having developed the Sustainability Code as an answer to the last financial crisis with the aim of enhancing transparency on a broader range of elements that make up a company's value, the Code is now returning full circle to the sector that asked for assistance in the very beginning.

The Code provides prospective reporting looking into the future. The Code focuses on the opportunities and risks of EESG and thus is an appropriate answer to many regulatory proposals within the EU Action Plan.

Both policy fields can boost achievement of the SDGs if we truly apply them as the guiding star for sustainable finance and business. I have been personally astonished in our stakeholder dialogues over the last five years how well the SDGs were received in the business sector on an entrepreneurial level – even in the financial sector. My impression is that the private sector is looking for its point of entry, a platform for making companies' contributions through capital expenditure, loans and business activities in global supply networks visible. It would be more than helpful if the administration could support this resonance by:

- implementing stringent, SDG-oriented budget planning and federal spending, and
- using the full range of political instruments (not just regulatory measures) to strengthen the perception that the SDGs are taken seriously.

The Sustainability Code is an open data platform for ESG. In order to set the system on an international level, we cooperate with the FinTech Arabesque S-Ray in order to create an easy access international equivalent.

Just yesterday, the Code won the ISAR Honours award from UNCTAD (ISAR stands for International Standards of Accounting and Reporting).

With doors wide-open, huge interest from Balkan countries, Africa and Asia in applying the Code and the support of our partners we will continue to invest into the internationalisation. The next stepping stone is a webinar on how to adopt the Code in other countries, November 28th, 2019.

Some say: „perception is reality". Let's turn that to our advantage by collaborating with the private sector – supported by a straight communication that conveys that our governments are committed to each and every SDG and that governments welcome companies' efforts to contributions. With joint action and the support of a European public, we will reach them in the next 10 years' time, I am sure!