

## Making Germany a leader in sustainable finance

Recommendation re the interim report of the Sustainable Finance Committee dated 05.03.2020

Berlin, 30 April 2020

The German Council for Sustainable Development (RNE) welcomes the interim report of the Sustainable Finance Committee (SFC) and sees it as an important snapshot of the consensus that could feasibly be arrived at within nine months between members of the financial sector, industry, civil society and the sciences. It also describes many things which have been common practice in the financial sector for decades. The RNE supports the wish of the committee to place sustainable finance at the forefront of debate for society, politics and public administration, and points out that the report's reference framework as set by the Sustainable Development Goals and the Paris Agreement requires further explanation and persuasion efforts – within the Federal Government and its administration, among policymakers of all different political orientations and at all political levels as well as among the various lobbies, which often see the individual dimensions of sustainability as absolute and non-negotiable. It is in particular the integration of economic, environmental and social topics with questions of foresighted, good and sound corporate governance that describes sustainable corporate and economic models. The Sustainable Finance Committee's latest statement concerning COVID-19<sup>1</sup> points in this direction. The approach of incorporating incentives for the conversion of stimulus packages to sustainable business models which are compatible with the 1.5-degree target at the end of their term wherever possible is wise.

Following on from its latest recommendations<sup>2</sup> regarding sustainable finance, the RNE is additionally recommending that the Federal Government emphasises/expands on the following points:

**1. Investing state assets sustainably:** The focus here is specifically on the Federal Government's provisions for civil servants' pension funds and occupational retirement provisions for employees as well as other financial provisions and special assets, such as the fund for nuclear waste disposal. The transparency requirements mean there needs to be reporting on the investment strategies, their effectiveness and their climate compatibility based on ambitious standards, among other things as part of the German Sustainable Development Strategy. A timeline for the investments being gradually

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<sup>1</sup> Sustainable Finance Committee of the Federal Government: [Facilitating a targeted transformation with sustainable finance – ensure a future- and sustainability-oriented design of the COVID-19 economic stimulus](#), Berlin, April 2020 [last accessed: 23.04.2020].

<sup>2</sup> German Council for Sustainable Development (RNE): [The Federal Government's sustainable finance strategy must break new ground](#), Berlin, October 2019; [Die Strategie muss liefern! Nachhaltigkeitsrat empfiehlt Bundesregierung kreative Konsequenz](#) (in German only), Berlin, June 2019 [last accessed: 23.04.2020].

reallocated needs to be drawn up and publicly communicated. The Federal Government's Sustainability Action Programme would serve as a suitable framework for annual reporting.

**2. Establishing a focus on impact within the federal budget:** The RNE supports the recommendation made in the SFC's interim report that the SDGs be reflected in the Federal Government's budget in order to create a solid foundation for the issuance of sustainable German government securities. The Federal Government is currently pursuing a policy of input-oriented budgeting. Use of the funds and the impact of the spending would need to be evaluated in the form of a sustainability audit, as is currently the case in the area of regulatory impact analysis<sup>3</sup> and, since 2017, also for subsidies.<sup>4</sup> This would make sustainability a criterion for setting the Federal Government's budget and therefore also a basis of assessment for the German Bundestag's Budget Committee and the Federal Court of Audit. A standardised, practicable sustainability audit of the financial aid and the stimulus packages issued in relation to COVID-19 as outlined by the Sustainable Finance Committee in its statement in April 2020 would promote transformation to a sustainable market economy. The aim of such an audit would be to strike a balance between the three dimensions economy, environment and social affairs and to link them with good governance. Explicitly giving sustainability constitutional status is a matter of great importance to the RNE and would strengthen the legal basis for integration of the concept of sustainability. The incorporation of sustainability into Germany's Basic Law is high on the political agenda within the Bundestag. It would be good if this could be supported by the Sustainable Finance Committee in the interests of the desire to make Germany an exemplary sustainable finance location.

**3. The RNE supports the interim report's recommendations on continued education and qualifications – and proposes a joint initiative.** The second Shareholder Rights Directive (SRD II) points in the right direction of incorporating sustainability into the incentive structures for supervisory boards. It also highlights a difficulty when it comes to regulation implementation, as we most recently saw with implementation of the CSR Directive Implementation Act for the disclosure of non-financial information – the entry into force of a law is on its own not enough to generate acceptance of topics and procedures. Leaving the interpretation of a law to the market players (and ultimately to the courts) slows down the process of companies clearly and ambitiously taking up the complex topic of sustainability. The RNE is offering to establish a broad-based virtual campus for sustainable finance which will bring together public, private sector, scientific and civil society information and training services. The RNE's experience with the *Hub for Sustainable Finance* (2017–2019) could be incorporated here. How and at which level (regional, national or European) such an initiative should ideally be launched would need to be the topic of further discussion. The virtual campus could conceivably be positioned as a flagship project in line with SDG 17 "Partnerships for the Goals" during Germany's Presidency of the Council of the European Union and all areas of sustainable action such as sustainable (private sector and public) procurement could be covered.

**4. Creating a public infrastructure for ESG data – using the *Sustainability Code*:** With the Sustainability Code, the RNE has created an instrument which meets the requirements of the Sustainable Finance Committee regarding a publicly accessible raw database. It was created using XBRL, resulting in maximum compatibility with corporate supply chain management and reporting instruments as well as financial sector analysis instruments. As an instrument with low requirements in terms of getting started with reporting, it also describes ambitious reporting requirements and helps companies on their way to establishing integrated and credible sustainability management without publicly discrediting them. The RNE therefore offers the Code at the European and the international level in order to constructively assist with the implementation of reporting obligations

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<sup>3</sup> Cf. eNAP e-sustainability audit as part of regulatory impact analysis pursuant to Sect. 44 Para. 1 Sentence 4 of the Joint Rules of Procedure of the Federal Ministries (GGO); [<https://www.enap.bund.de>; last accessed: 21.04.2020].

<sup>4</sup> Cf. p. 28 in: [Subsidy Report of the Federal Government](#), Berlin, March 2020 [last accessed: 21.04.2020].

while simultaneously making the most of voluntary initiatives such as industry agreements, voluntary commitments and certification. The Code also takes into account the goal of establishing a small number of standardised performance indicators across all sectors without tying companies' hands in terms of their additional reporting.

**5. Incorporating sustainability into financial reporting:** The RNE uses the Sustainability Code as a space for public feedback on transparency and social dialogue regarding sustainable business at regional, national and European level. In partnership with the fintech company Arabesque, it is championing a *sustainable economy public data space* and supports the objective of achieving comprehensive financial and non-financial accounting, as pursued by the *Value Balancing Alliance*. This is an important step in the direction of costs-by-cause pricing. Digitalisation and the linking of reporting processes with constructive management processes have an important role to play here. The RNE is striving for solution-oriented dialogue during the upcoming mandate period.

**6. With the coronavirus crisis and the likely resultant developments in mind, capital market policy, industrial policy and development financing should be operationally geared towards impacts which contribute to achieving the *Sustainable Development Goals (SDGs)*.** The SFC could advocate the Federal Government making greater use of its co-decision rights within European institutions such as the European Central Bank (ECB) and the European Investment Bank (EIB) as well as within international organisations such as the World Bank, the International Monetary Fund (IMF), the *Asian Development Bank (ADB)* and the *Green Climate Fund* for the purpose of SDG implementation. It should explicitly support the issuing of *SDG bonds*, whose transparency, prevention of corruption, and environmental and social standards set benchmarks and promote the SDG rating of ODA funding (*official development assistance*). Together, Germany, economic cooperation partner countries and trade partners face the task of implementing concepts to fund globally sustainable development – for instance by safeguarding exports of sustainable products, goods and services, and by offering corresponding incentives and export credit guarantees which are linked to compliance with sustainability criteria and transparency requirements, such as the Sustainability Code, as a minimum standard.

**7. Linking sustainability policy instruments and outlining the cornerstones of a socio-ecological market economy:** A series of regulatory initiatives and political measures were decreed in recent years which, taken individually, make sense, but which are sometimes limited in the effect they have due to the interplay of traditional policy structures. The RNE is advocating coherent policy structures that also play a part in dovetailing regulation with various documentation obligations and societal requirements. This can ultimately help lower the time and expense required of companies and contribute to resolving contradictory signals. The RNE wishes to further develop the *licence to operate* granted by society and to establish a *level playing field* for distinguishing between sustainable business models and non-sustainable business models at all levels – national, European and global.