Sustainable Finance

Sustainable Finance 2034:
effective – integrated – value-enhancing

A FUTURE CONCEPT FOR A SUSTAINABLE FINANCIAL SYSTEM 2034

INTRODUCTION

Let’s talk about money.

1. The financial sector of the future will boost the global competitiveness of Germany’s real economy and make a positive contribution to conserving our environment and natural resources.

2. It will be efficient, digital and resilient. The financial sector will also be key to enabling the adjustments that need to be made to our economic system. In particular, it will mobilise capital for investments in renewable energy, future technologies and social innovations.

3. Tackling the transformation prudently and using the correct approach will benefit society, the planet, the financial sector and the real economy, making them all fit for the future.

In order to modernise our economic system and make it fit for the future, we need to fundamentally align our economic activities within the limits of our planet's ecosystem, while also taking into account social issues and economic challenges. It is not a question of either/or, but about thinking and acting holistically and working together to further develop proven, sustainable models. This requires courage, determination, money, ideas and a clear vision, which shows that:

"This is what we can achieve if we do it well."

There has been a major shift in the economic and financial sector since the European Commission first announced its action plan on sustainable finance in 2018 followed by the EU Green Deal and its implementation in 2019. Environmental, social and governance (ESG) data are collected more systematically, sustainability information is increasingly used in the development of business strategies, transition risks are incorporated into risk management processes, employees are made even more aware of the added value of sustainability, and processes for business and investment decisions are being redefined.

At the same time, we are seeing signs of sustainability fatigue. The focus is shifting to issues of social cohesion, triggered by recent crises as well as trends towards fragmentation and polarisation. Within the world of politics as well as in the financial sector and the real economy, we also see severe tensions arising practically every day between sustainability goals and financial goals. These tensions and trade-offs need to be acknowledged and made transparent. They can only be resolved in dialogue with all key stakeholders in society.

The German government's Sustainable Finance Advisory Committee in the 20th legislative term focuses on various aspects of a sustainable financial system in its work. The Committee makes specific recommendations to the German government on how the financing of the transformation, the regulatory framework and the many different aspects of sustainable finance can be better understood and how they will benefit the economy and society. The Committee consists of 34 experts from the financial and the corporate sector, civil society and academia. It is supported by 19 observers and acts independently.

In the course of our advisory work on specific topics, one thing has become clear: it will take more than concrete suggestions and recommendations to embark on the next development step towards a sustainable financial system.

We need a clear vision with tangible images and an easily comprehensible narrative that shows why this journey is worth taking, and that provides answers to the following questions: What does a sustainable financial system look like in concrete terms, and how will it support economic players in navigating the transition? What are its defining features and what sets it apart from the current system? And what needs to be tackled differently in the future?

In January 2024, we developed and intensively discussed this vision during a future workshop in Berlin. The future we envisaged was one that will offer us and future generations a good quality of life and that – very importantly – is within the realms of possibility.

We assumed that many things will have fundamentally changed in 2034. With its strong financial centre and vibrant ecosystem, Germany's competitiveness will be based on competence, experience and outstanding offerings in the area of sustainable financing. Future-proof financial markets will contribute to financing the transformation and to its success.

Rather than a utopia, we developed a best-case scenario that is within the realms of possibility and that has already been initiated, to an extent, with current laws and projects.

Future scenarios act like a compass and provide orientation. Scenarios like these help advance and prioritise sustainability projects in companies, financial institutions, NGOs and ministries. We decided to focus primarily on Germany at this stage, but in view of Germany's role in a globally networked economy we also took account of the international context. The results of the workshop do not claim to be exhaustive. They provide a systemic perspective rather than a specific focus. The resulting vision of the future is intended to motivate us to continue along this sometimes rocky path, because we know that it's worth it.

We are currently living through turbulent times marked by multiple crises, a complex security situation, huge social challenges and increasingly polarised communication. That’s why we want to take this opportunity to draw a positive picture of a sustainable financial system.

We are convinced that a responsible financial system which actively supports the transformation of the economy can strengthen Germany’s position and competitiveness globally.

This brochure tells you more about our vision.

The Sustainable Finance Advisory Committee

01 —

The financial system

What might a sustainable financial system look like in 2034 and what functions would it take on?

1. Finance is sustainable finance.

A sustainable financial system comprises various elements:

- Germany has a globally competitive, digital and modern financial sector. With a strong focus on future issues, it attracts international capital and an international workforce, thereby boosting Germany's position in the global marketplace.

- The financial sector operates responsibly and sustainably and takes into account planetary boundaries and social challenges. These sustainability criteria are incorporated into all risk management and decision-making processes.

- The social and environmental contribution to the transition is automatically factored into every investment, every financial service and every loan.

- Financial decisions are focused not only on preventing negative impacts on society and the environment, but far more on effectuating positive changes, such as creating affordable and climate-friendly housing and good and secure jobs, and respecting human rights in business activities and supply chains.

- Robust and up-to-date sustainability information is available in the required breadth and quality in the same way as today's key financial data.

- Economic efficiency and sustainability are taken into consideration in equal measure and in an integrated manner.

- Financial services and products are transparent, user friendly and trustworthy.

- Every financial product has a simple classification indicating its social and environmental attributes, which provides useful guidance for private investors, in particular.

- Boards of directors and supervisory boards are competent, diverse, interdisciplinary, agile and participative. Principles of sustainable leadership are implemented in practice.

- Sustainability objectives are consistently integrated into human resources decisions (hiring, initial and further training, development, evaluations, incentives). Expertise in sustainability issues is a key element of all managers' skills profiles.

- Supervisory bodies provide clear guidance on sustainability criteria and consistently check that they are being implemented in the respective institutions.

2. The private and public sectors work hand-in-hand to finance key infrastructure.

- Reliable and viable models exist for how a combination of public and private funding can be used to finance the transformation and have a positive leverage effect. The provision of affordable public services is ensured over the long term.

- Infrastructure that can be privately financed *is* privately financed. Public financial institutions mainly step in where private funding is not possible. Through risk-sharing instruments, for example, they play an active role in maximising investments.

- Measures include a national transformation fund, climate investment options for private investors, a professionally managed risk facility, future-focused cooperative partnership models and direct investments by institutional investors in infrastructure – for example in a sustainable energy supply, forward-looking mobility and secure data infrastructure.

- These specific measures which enable private and institutional investors to be part of the transformation are supported by monetary and tax policies that promote climate and environmental action and penalise non-sustainable activities.

3. Financial market participants support the transformation of the real economy in an ambitious and responsible manner.

- Financial market participants are competent and active partners in supporting companies in the transformation process. This support includes more than just the provision of capital, but also know-how, networks and sector-specific expertise. Companies draw on this support while still being free to make their own decisions.

- For small and medium-sized business in particular, banks offer uncomplicated and effective products and advice on the transformation.

- An integrated European capital market finances Europe’s transformation with equity and debt, venture capital and impact products in the areas of social responsibility, climate action, the circular economy and biodiversity.

- Robust, clear and convincing transition plans in the real economy that focus on decarbonisation as well as biodiversity and resource efficiency are starting points for collaboration and dialogue with the real economy and form the basis for financing solutions.

- Access to capital markets is difficult for companies that do not comply with due diligence obligations as defined in the UN Guiding Principles on Business and Human Rights (UNGP) or that commit or are involved in human rights violations as defined in the UNGP without providing appropriate remedy.

- Financial products that contribute to inefficient allocations, thereby contradicting the UN Sustainable Development Goals, and which pose a threat to the stability of the financial markets have not been issued for a number of years.

- Financial service providers are tax compliant and their products and advice do not contribute to tax evasion.

- Negative externalities and the direct impact of business models are recognised in practice and are measured in accordance with international standards and externally reported.

- Investors integrate evaluated externalities in their assessments and investment decisions, and use reliable climate scenario models.

02

The real economy

What would a transformed economy in 2034 need to look like in order to enable a good quality of life for everyone on this planet?

1. Germany is characterised by companies that act responsibly and sustainably and that are fully digital.

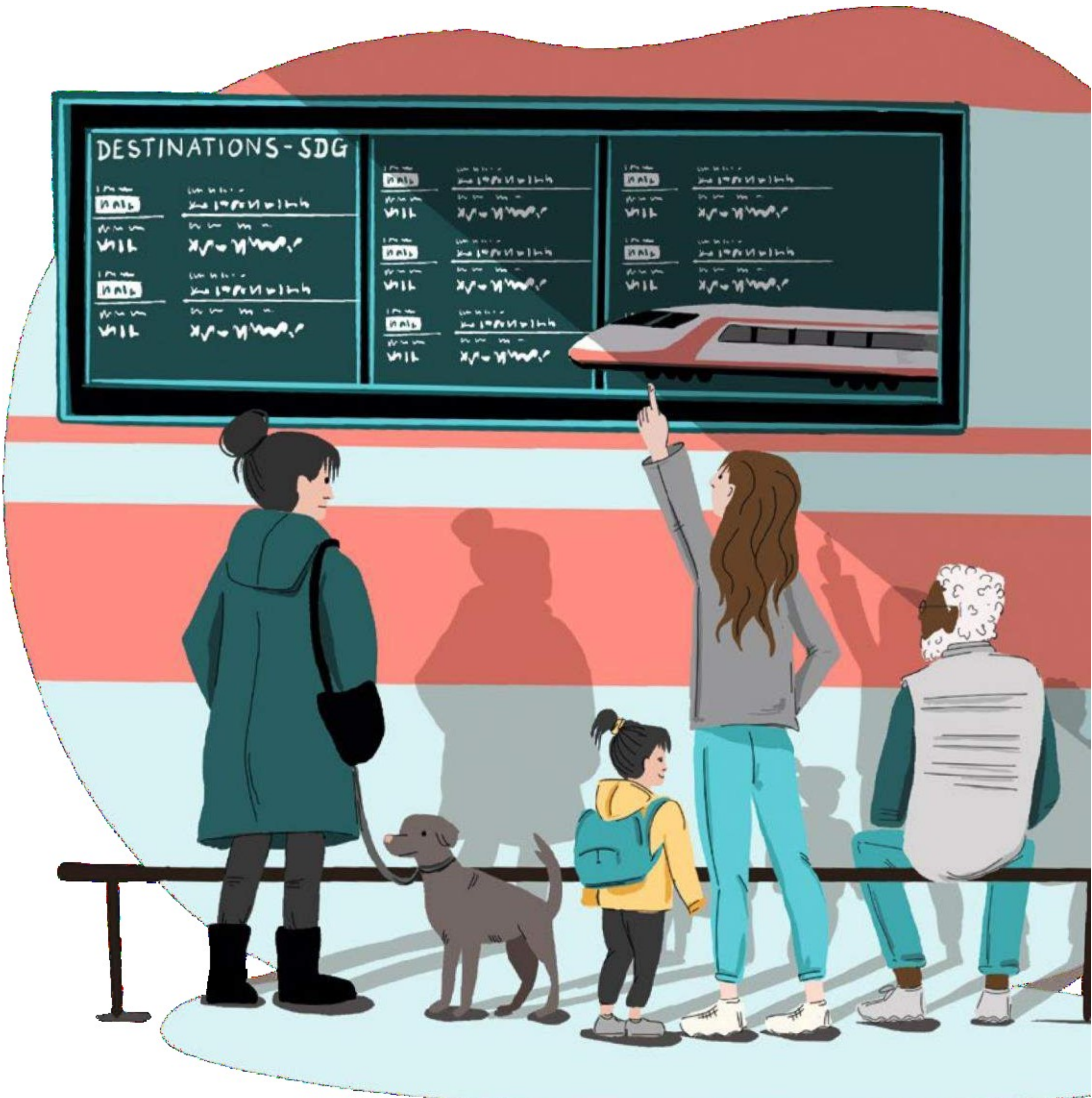
- Germany is a world leader in resource-conserving and competitive innovations and new, sustainable industries.
- Companies operate responsibly and sustainably and take into account planetary boundaries and social challenges.
- Sustainability is also manageable for small and medium-sized businesses.
- Sustainability criteria are integrated into all risk-management and decision-making processes.
- Corporate cultures build on respect, diversity, participation, entrepreneurship, sustainable governance and agility.
- International supply chains are robust, broadly diversified, efficient and marked by a high degree of cooperation and fair relations with business partners along the value chain. This has a positive impact on working conditions in the supplying companies and on their local communities.

2. Companies develop transition plans and the progress of these plans is made transparent.

- All of the required data is available. The data is relevant, robust, valid and comparable and, among other things, provides the basis for companies' long-term transition plans (including future scenarios) in relation to decarbonisation, but also with regard to other areas of sustainability such as biodiversity and resource-efficiency.

- Corporate reporting includes integrated financial and sustainability reporting. Sustainability considerations are given the same weight as financial considerations in strategic decisions.

- Digitalisation and artificial intelligence support data collection and analysis, which leads to efficient and professional reporting systems.


DESTINATIONS - SDG

3. Companies make a relevant contribution to qualitative growth and overall prosperity.

- Companies incorporate sustainability criteria into every aspect of their business models. With their products and services, they deliver real added value from the perspective of the United Nations' Sustainable Development Goals.
- The circular economy has fundamentally changed design, production, calculation and usage processes.
- Jobs offer flexibility and variety and include basic and further training, participation schemes and pension plans.
- Companies contribute to qualitative growth and value that is measured not only monetarily, and boost prosperity throughout society.

03

Policy

What targets and guidelines are set by the government to support the economy on its transformation path in 2034?

1. The internalisation of externalities and a globally rising CO_2 price have been driven forward to a significant extent by the German government.

- Germany is firmly on the path towards decarbonisation and is achieving its climate targets.
- The federal government is pushing for a global CO_2 price, which leads to greater profitability of sustainable projects and investments.
- Companies report on their CO_2-relevant expenditures and income in their annual reports.
- Nature-related dependencies are taken into account in a risk and opportunities report which is integrated into the federal government's Annual Economic Report.

2. Public finances on the revenue and expenditure side contribute to achieving Germany's sustainability goals on an ongoing basis.

- All public funding programmes and government subsidies are implemented with a view to their environmental and social impact. Germany's system of taxes and social security contributions is designed to securely finance the provision of public services, and the steering effects support the national sustainability goals.

- All public investments and pension reserves are aligned with principles of economic efficiency, the Paris Agreement climate targets and planetary boundaries, and also comply with and respect human rights.
- Investments with a social objective – such as investments in affordable housing, education, long-term care and healthcare – include significant investment incentives to ensure that the desired financial, environmental and social effects are achieved.

- The sustainable transition takes into account the social impact at every level, mitigates negative effects and creates attractive long-term prospects for everybody in terms of a just transition.

3. The education system has been fundamentally reformed and incorporates sustainable finance.

- The training and re-qualification measures necessary for a just transition have been implemented.
- Economic and financial literacy, in the broadest sense, is firmly integrated in life-long education and training.
- Knowledge and understanding of the finite nature of our resources, the protection of human rights and the necessity of the transformation are deeply rooted in society at large and form an integral part of education, training and vocational qualifications.

OUTLOOK

“As for the future, your task is not to foresee it, but to enable it.”

Antoine de Saint-Exupéry

This vision of a sustainable financial system is based on a number of assumptions that may not hold true in the future. However, a solid foundation has been laid by the current implementation pathways and strategies of the European Commission, the German government, companies and financial institutions, which already contain many elements of this vision.

It is clear that the ongoing global crises will continue to put those in positions of responsibility in politics and business under extreme pressure to act. The climate crisis and extreme weather events, the rise in nationalism and far-right extremism, migration due to a lack of prospects in migrants' home countries, and the transgression of planetary boundaries require swift and targeted action.

These challenges are of a social, economic and environmental nature. We need to take early action to create prospects for the future, in particular together with those who feel most threatened by the transformation. Only in this way can we achieve our goal of a just transition for all. It's time to get the ball rolling.

In order to integrate this vision of the future into the Sustainable Finance Advisory Committee's ongoing work and future recommendations, we will refer to it regularly and use it as a benchmark.

For decision-makers in politics, business and society, this vision of the future is designed to serve as a compass in order not to lose sight of the goal in our often busy day-to-day lives.

It is not carved in stone but is designed to spark discussion and critical thinking.

We would like to invite you, as critical and constructive readers, to give us feedback on our vision of the future. What is missing from the vision we have presented? What would you formulate differently? Where would you set different priorities?

Get in touch with us: SFB-Geschaeftsstelle@ bmf.bund.de

We look forward to exchanging ideas with you.

The Sustainable Finance Advisory Committee

The Sustainable Finance Advisory Committee

The Sustainable Finance Advisory Committee advises the German government on sustainability issues in the financial system. The Committee consists of 34 experts from the financial sector, the real economy, civil society and academia. It is supported by 19 observers from associations, public institutions and NGOs and acts independently. It supports the German government in the implementation and further development of the German Sustainable Finance Strategy and advises relevant stakeholders on how to position themselves and implement and further develop requirements in the area of sustainable finance.

The Sustainable Finance Advisory Committee's work is conducted in working groups comprising members, observing organisations and external experts. The outcomes of the working groups are then discussed and agreed on by the entire Committee before being published. The Sustainable Finance Advisory Committee's working groups focus on the following three areas:

1. Transformation financing – how can private capital best be mobilised for the transformation of our economy?

2. Sustainable finance rules – what kind of rules do we need to support the transformation and how can these be developed coherently and effectively?

3. International engagement – how can we develop good framework conditions to sustainably finance the transformation together with our European and international partners?

Further information on the Sustainable Finance Advisory Committee, including all working papers and recommendations, can be found at: www.sustainable-finance-beirat.de

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