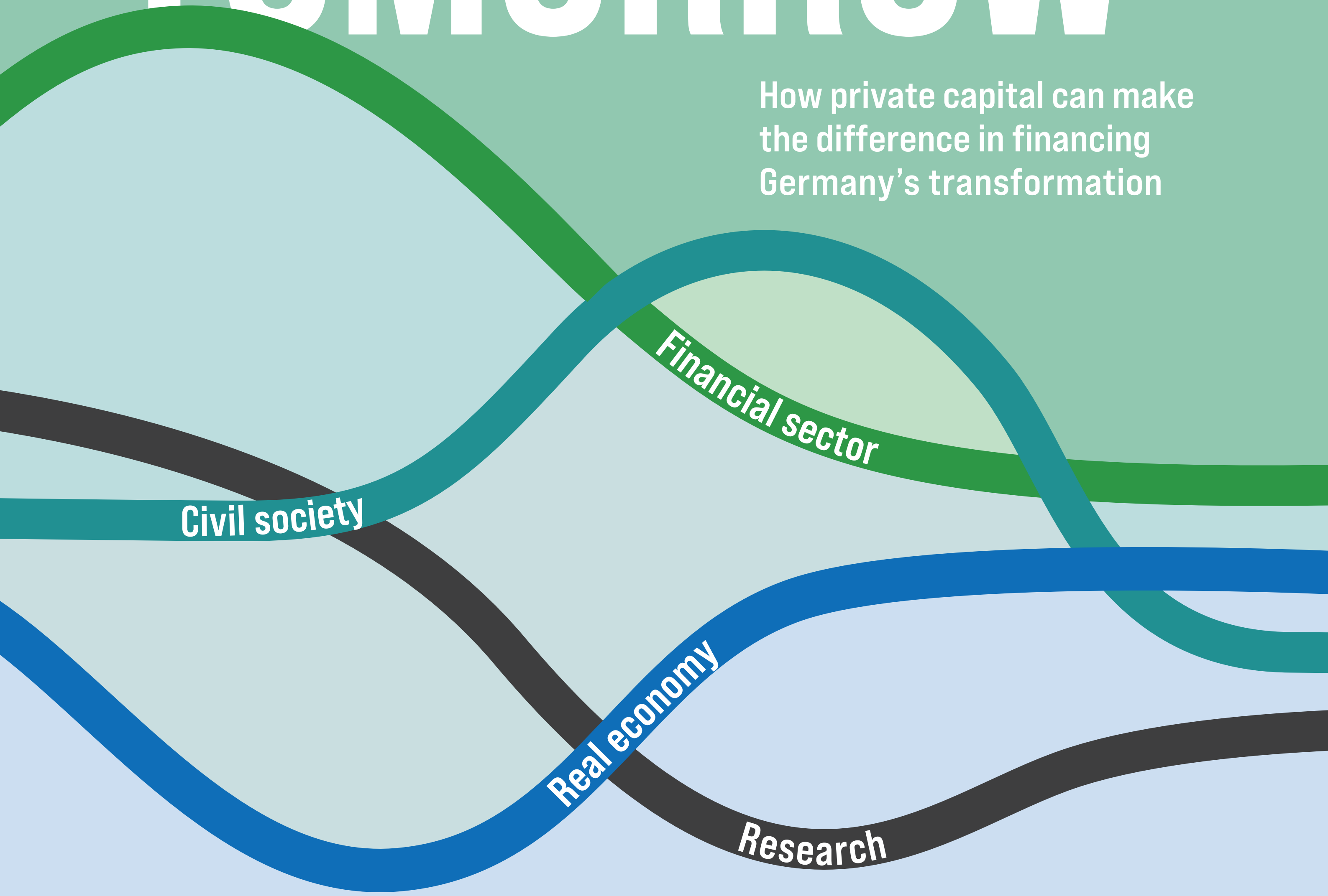
FUNDING OUR TOMORROW

How private capital can make the difference in financing Germany's transformation



Recommendations of the German government's Sustainable Finance Advisory Committee

Sustainable Finance

General information about the
Sustainable Finance Advisory Committee

Chairs: Silke Stremlau (Chair) and
Christian Heller (Deputy Chair)

Constituent meeting: 10 June 2022

Duration of mandate: 20th legislative term

34 members (representatives of four areas:
financial sector, real economy, civil society, research)

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Executive Summary

We live in times of rapid change. It is our joint responsibility to find sustainable solutions to the many challenges of our time. Social cohesion, a rule-based interplay between our global economic and financial structures, intact climate systems and ecosystems, social stability and peace – these are basic prerequisites for our future prosperity and quality of life.

That is why we need to redefine value creation. We must systematically integrate nature, social issues and people into political, economic and commercial thinking and decision-making patterns. That is the only way to create a resilient and prosperous society and economy. **It is up to us to transform the risks of our time into opportunities by harnessing innovation.** Above all, this means making it financially viable to invest in technological leadership and in the transformation towards a sustainable future.

We, the members of the Sustainable Finance Advisory Committee (SFB), want to contribute to this process. The SFB has been commissioned by the German government for the second time. The committee, whose motto is **"Shaping the future together",** is unique worldwide – it advises the German government and other stakeholders on the regulatory framework in the area of sustainable finance as well as on private financing for the transformation of our economy and infrastructure. Together, we – the financial sector, the real economy, civil society and the research community – are developing recommendations and pragmatic solutions to ensure that Germany and Europe remain competitive in the global market economy. Initial suggestions can be found in the final report of the first SFB, entitled "Shifting the Trillions".[1]

Since then, there have been numerous positive developments:

- **Germany was by far the largest issuer of green euro bonds in 2023,** with a total volume of €55.75 billion by the end of the year. The funds were used to finance transformation projects across Germany.[2]
- A major research project of the Federal Ministry of Education and Research has been launched, featuring **extensive research into sustainable finance, transformation drivers and challenges.** Its findings are of practical relevance.
- According to the International Energy Agency, global **investments in renewable energies** have exceeded total expenditure on fossil fuels such as oil, gas and coal since 2021.[3]
- **EU-wide sustainable finance rules** are coming into force, taking effect and being improved continuously.
- Banks, insurance companies, pension funds and other financial market players are systematically working on **integrating transition-related and physical climate risks** into their risk and pricing models.
- At the national, EU and global level, **transparency and reporting instruments** are seen as essential prerequisites for depicting financial and economic risks and improving the transformative impact of investments. The EU is working hard on making these instruments more coherent.

[1] https://sustainable-finance-beirat.de/wp-content/uploads/2021/03/210319_SustainableFinanceCommiteeRecommendations.pdf
[2] https://www.deutsche-finanzagentur.de/en/federal-securities/types-of-federal-securities/green-federal-securities
[3] https://www.iea.org/reports/world-energy-investment-2024

The second SFB is also operating in a very dynamic environment in which the larger part of the transformation process still lies ahead. Mario Draghi's report "The future of European competitiveness" and the Federation of German Industries (BDI) study "Transformation paths for Germany as an industrial nation" both show that it is **crucial for stakeholders in the (German) economy to invest in the future.**[4, 5]

According to the BDI study, **nearly two-thirds of the investments needed for the transformation of German industry will come from the private sector.** These investments include the electricity and digital infrastructures, large parts of the charging infrastructure, building refurbishments, and the expansion of renewable energies.

We need to address the following key questions: How do we mobilise private capital for these urgent investments? What efficient and effective incentives do we need to put in place? How do we develop the skills that will be needed in the future, and how do we create the necessary regulatory framework in Germany and in Europe? And finally, **how can the transformation generate competitive advantages for our companies?**

The SFB's core competency is its ability to take a multi-layered look at these questions from a range of different perspectives.

The SFB has identified the following key areas of action:

- **Enhance the coherence, efficiency and effectiveness of the regulatory framework in the area of sustainable finance,** e. g. through more coordinated reporting requirements for the financial sector and the real economy and outcome-driven measures to cut red tape in order to improve the cost-benefit ratio.
- **Improve transparency regarding the sustainability of companies and financial products** in order to support sustainable investment decisions, e. g. through a clear categorisation of financial products.
- **Create stronger incentives for private and institutional investors,** e. g. in the form of tax-privileged "climate savings products" and a transformation fund.
- **Put in place financial guardrails,** e. g. a rising carbon price as well as effective and focused transformation funding from development banks.
- **Empower key players,** e. g. by creating regional sustainable finance hubs, especially for small and medium-sized enterprises (SMEs), and engage in capacity-building in financial institutions.
- **Ensure that the state acts as a role model,** e. g. when it comes to public-sector capital investments.

This report contains the SFB's recommendations for these fields of action. Where possible, they are backed up with concrete, practical implementation proposals. This document gives a summary of our work in the areas of sustainable finance regulation, transformation financing and collaborative action, as well as an outlook for the future. A list of the SFB publications on which this document is based can be found on p. 45. **Let us work together to successfully shape the transformation of our economy!**

[4] https://english.bdi.eu/media/publications#/publication/news/transformation-paths-for-germany-as-an-industrial-nation
[5] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

Core recommendations

Regulatory framework for sustainable finance

We recommend that the German government advocate at the EU and international level for a further harmonisation and simplification of the existing regulatory framework in the area of sustainable finance. The aim is to significantly increase the transformative impact of the regulatory framework.

Specifically, our recommendations are:

1. **Consistency** should be achieved between the Sustainable Finance Disclosure Regulation (SFDR) and other EU sustainable finance rules.[6] In addition, concentrated sets of uniform and relevant **sustainability information** should be established for all funds, regardless of whether they take sustainability into account.

2. The **EU taxonomy** should be adjusted, including the way in which the Green Asset Ratio (GAR) is calculated. In addition, a **framework for socially responsible investments** should be developed.

3. It should be made easier for retail customers' sustainability preferences to be taken into account, e. g. by **introducing an ESG scale** for the classification of financial products.

4. The corresponding reporting and auditing could be simplified, for example by **aggregating data points** regarding the European Sustainability Reporting Standards (ESRS). A small number of material **benchmarks** for companies should be defined **that are relevant for decision-making.** We recommend starting this on a trial basis in the area of climate action using sustainability accounting methods (among other things).

5. **ESG data points** for companies should be **provided in a way that is internationally standardised,** especially in the previously underdeveloped area of biodiversity. In combination with financial benchmarks, this will facilitate consistent integration into financial institutions' risk assessments and into their transition plans.

[6] These include the Corporate Sustainability Reporting Directive (CSRD), the European Sustainability Reporting Standards (ESRS), the Corporate Sustainability Due Diligence Directive (CSDDD), the EU taxonomy, the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD).

Transformation financing

We recommend that the German government deploy public funds as efficiently and effectively as possible for the transformation of our economy. The objective should be to mobilise the necessary levels of private investment, not least in order to maintain Germany's competitiveness.

Specifically, our recommendations are:

6. **Uniform sustainability standards** should be applied when granting loans and funding at the federal level.

7. There should be a **clear alignment and consolidation of existing funding instruments** and objectives towards sustainability, resilience, transformation and digitalisation.

8. **Government-supported climate savings products** for private investors should be introduced.

9. A tax-incentivised **"German Transformation Fund"** should be established in order to include high-net-worth private investors in transformation financing.

National and international engagement

We recommend that the German government play an even more active role at the national and international level when it comes to shaping sustainable finance and financing the transformation.
The aim is to create an internationally viable framework to finance the transformation towards a fair and sustainable future while at the same time maintaining the market economy's competitive basis.

Specifically, our recommendations are:

10 **General sustainable investment principles** for public-sector investments **should be established,** and greater use should be made of different implementation instruments, e. g. over- and underweighting, stakeholder engagement and transparency.

11 The SFB should continue to provide **practical advice to the German government** in the area of sustainable finance and transformation financing.

12 The **dialogue** between relevant German and European stakeholders in the area of sustainable finance should be continued, and Germany should position itself in the European and international debate.

13 A **"Finance Facility against Climate Change"** should be created with the aim of mobilising private capital by issuing green bonds, thus helping to finance emission reductions in low-income countries.

Future concept for a sustainable financial system

The SFB has developed a "Future concept for a sustainable financial system 2034" in which sustainability is fully integrated.[7] **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.** It will be efficient, resilient and largely digitalised. In particular, it will mobilise capital for investments in renewable energy, future technologies and social innovations. In this way, the financial sector will be key to enabling the adjustments that need to be made to our economic system.

In the course of the SFB's consultations, it regularly became clear that it would take more than concrete suggestions and recommendations to embark on the next step in the development towards a sustainable financial system. People need a clear vision with tangible images and an easy-to-understand narrative that shows how a sustainable and equitable future can be achieved. If we tackle the transformation process correctly and judiciously, this will benefit society, the planet, the financial sector and the real economy, helping them all to become fit for the future.

With this in mind, the SFB developed its "future concept" at a workshop in Berlin in January 2024. The starting point was to **envisage a future that will offer us and future generations a good quality of life and that is within the realms of possibility.**

The plan can be broken down into three key areas of change: financial system, real economy and policy. The following are the key points, which are described in more detail in the "future concept".

Financial system

- "Finance is sustainable finance."
- The private and public sectors work hand-in-hand to finance key infrastructure.
- Financial market participants support the transformation of the real economy in an ambitious and responsible manner.

Real economy

- Germany's companies act responsibly and sustainably and are fully digital.
- Companies issue transition plans and transparently communicate their progress.
- Companies make a relevant contribution to qualitative growth and overall prosperity.

Policy

- The German government makes significant efforts to drive forward the internalisation of externalities as well as a globally rising carbon price.
- Public finances contribute to achieving Germany's sustainability goals, both on the revenue and expenditure side.
- The education system has been fundamentally reformed and incorporates sustainable finance.

[7] https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/SFB_Zukunftsbild_EN.pdf

The SFB's concept was not developed as a utopia. Rather, it represents a best-case scenario. Some parts of it have already been initiated.
However, when envisaging the future, it is also clear that **social, economic and environmental crises and challenges will continue to put decision-makers in business and government 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 increasing transgression of planetary boundaries require swift and targeted action. We need to create prospects for the future, especially in cooperation with those who face specific negative consequences as a result of the transformation. Only in this way can we achieve our goal of a just transition for all.
The future concept acts as a compass for the SFB and other stakeholders in the economy, society and politics. It is intended to provide guidance and allow projects to be ranked in order of priority.
The following recommendations and results of the SFB's work during the 20th legislative term will contribute to achieving the vision set out in the "future concept". The 13 core recommendations listed above are not exhaustive. Rather, they represent the outcome of the SFB's work in the various areas in which it operates. The SFB believes that, by taking these recommendations into account, the German government and other relevant stakeholders can contribute significantly to achieving the envisioned future.

Cluster 1

Regulatory framework in the area of sustainable finance

In 2018, the European Commission presented its sustainable finance action plan and the EU Green Deal and started to implement them.

Since then, the business community and the financial sector have made great strides towards greater sustainability. ESG data is collected more systematically and sustainability information is increasingly being used when developing business strategies. Transition risks are incorporated into risk management processes, employees are made aware of the added value of sustainability, and business and investment decisions-making processes are being redefined.

These measures are tying up significant financial and human resources, especially in companies that have not previously addressed the social and environmental impacts and risks of their work. Most stakeholders in the financial sector and the real economy agree with the goal of making the EU climate-neutral by 2050. They want to do their part and meet the Sustainable Development Goals (SDGs).

Prior to 2018, many pioneering companies operated in the sustainable investment market. They developed numerous innovative approaches, ranging from funds to direct holdings. However, the momentum we are seeing today did not emerge until the European Commission recognised the financial market's role in the transformation and put in place specific rules. We are now seeing debates about the right level of regulation, the interplay between different rules, and the effectiveness of the regulatory framework.

One of the SFB's main roles is to enrich these debates by providing specific information and practical recommendations and to help develop pragmatic solutions. We want to help lawmakers gear the regulatory framework more effectively and efficiently towards the main goals of decarbonisation and financial market stability from the point of view of practitioners working in small and large businesses.

The move towards a regulatory framework for sustainable finance that features the right guardrails, sensible minimum standards and room for innovation cannot be completed within a single legislative term. Decision-makers need to change the way they think. This will take patience and perseverance. The SFB is proactively supporting this process. **Ultimately, we want to achieve a situation where sustainability in companies is not driven by rules, but is pursued for strategic reasons.** This intrinsic view of sustainability means seeing opportunities, being innovative and shaping our economy with a view to the future.

Coherence of EU legislation

Challenges and context

The "regulatory coherence" working group examined the various aspects of the EU's sustainable finance architecture. It set out to address a number of questions: How can the coherence of EU sustainable finance rules be improved? How can their implementation be facilitated? How can the regulatory framework better support the aim of mobilising private capital for the transformation?
In 2023 and 2024, the working group published a number of papers containing recommendations and participated in EU consultations. Some of the recommendations were picked up by the European Commission for the purpose of reviewing the respective legislation.[8]

Challenges in connection with the EU taxonomy

The implementation of the EU taxonomy presents substantial challenges. In some cases, preparing the data involves a great deal of effort for companies. The European Commission has addressed some uncertainties regarding the implementation and application of the taxonomy by issuing FAQs, but other doubts still remain. For many economic sectors, there are still no suitable definitions of sustainable economic activities. In particular, this applies to social services. Another problem concerns the assessment of "enabling activities". These are activities that are not classified as sustainable under the EU taxonomy, but which nonetheless make a vital contribution to sustainability. Examples include electric motors for electric cars and rotor blades for wind turbines. In addition, the Green Asset Ratio (GAR) as currently defined in the EU taxonomy is not suitable as a steering instrument. The GAR is intended to show the proportion of banks' investments that are already dedicated to sustainable activities. However, since the calculation only includes the activities of companies subject to reporting obligations, the GAR covers only part of a bank's portfolio.

Regulation of ESG rating agencies

ESG rating agencies have been providing guidance to providers of sustainable financial products and to sustainable institutional investors for many years. However, there are unresolved questions about their methodologies, transparency and potential conflicts of interest. The European Commission has started tackling these issues by regulating ESG rating providers.

Revision of the SFDR

The EU's Sustainable Finance Disclosure Regulation (SFDR), which has been in force since 2021, applies to financial market participants and financial advisors and imposes company- and product-based disclosure obligations. A key element are indicators that show companies' principal adverse impacts (PAIs) on sustainability factors. Various problems have emerged in applying the PAIs and in conjunction with other disclosure requirements. The European Commission has conducted various consultations in which it solicited opinions and suggestions from users. The forthcoming revision of the SFDR will simplify reporting requirements and the sale of sustainability products, both of which are closely linked to increasing the availability of capital for the economy's transformation.

[8] See the recommendations and working papers on the EU taxonomy, on the SFDR consultation, on rules relating to ESG rating agencies and on the ESG scale: https://sustainable-finance-beirat.de/en/publications/

Potential solutions

The working group has identified a range of potential solutions to help tackle these challenges.

EU-Taxonomie

The SFB recommends adding further economic activities to the EU taxonomy and making reporting obligations less burdensome for companies. One option is to facilitate access for "enabling activities". Substantial positive contributions that companies make to social sustainability should also be taken into account. At the same time, the EU taxonomy's aim of identifying sustainable activities should be maintained. The European Commission has already implemented some of these recommendations by issuing FAQs and criteria for the four additional environmental objectives as well as a clarification of "enabling activities". However, no progress has been made with the definition of social sustainability.

Regarding the way in which the GAR is calculated, the SFB recommends including only issuers for which verified EU taxonomy figures are available. This would give a realistic picture of the share of sustainable investments of banks. In addition, the focus should shift to the ratio of investments in sectors that are included in the EU taxonomy (e.g. because they contribute significantly to greenhouse gas emissions) to investments in activities from these sectors that are already sustainable because they fulfil the taxonomy's strict criteria. If the share of taxonomy-aligned investments were calculated in this way, it would offer significantly more clarity than the current GAR regarding a portfolio's sustainability.

Regulation of ESG rating agencies

The EU's regulatory framework for ESG rating agencies contains many of the elements proposed by the SFB. **The SFB further recommends that, in addition to rating agencies, ESG data providers should also be subject to regulation,** minimum quality standards should be set and potential conflicts of interest should be ruled out.

Revision of the SFDR

The SFB responded to the consultations of the European Securities and Markets Authority (ESMA) regarding PAIs and of the European Commission regarding the SFDR revision. In both cases, the SFB recommended that the rules be simplified and made more specific. In addition, the SFB developed a proposal for an **ESG scale with which financial products can be categorised** into various sustainability levels. This proposal was picked up in the European Commission's consultation on the SFDR revision and discussed in the recent papers of the European Supervisory Authorities (ESAs).

Moreover, the SFB recommended that the criterion for the currently obligatory PAIs 10 and 11 should focus on the UN Guiding Principles on Business and Human Rights in order to achieve coherence with European due diligence legislation, the CSRD and the EU taxonomy. The SFB is also in favour of **mandatory reporting for all financial products –** regardless of whether they take sustainability into account – for a limited number of relevant core indicators.

With its work on the SFDR revision, the SFB wants to work towards a more straightforward process for ascertaining and taking into account sustainability preferences in the investment decisions of retail customers.

Recommendations

Based on these potential solutions, the SFB has issued the following recommendations:

EU taxonomy

- The **EU taxonomy** should be simplified and expanded to include further economic activities.
- The **Green Asset Ratio** should be redefined.
- Investments in **social activities** should also be embedded in a European framework (either within the EU taxonomy or elsewhere).

Regulation of ESG rating agencies[9]

- Alongside ESG rating agencies, **ESG data providers** should also be covered by the existing rules.
- Legally **binding minimum standards** for ESG rating methodologies should be introduced.
- To enhance the credibility of ESG rating agencies, **regulatory provisions on how to deal with conflicts of interest** should be introduced.

Revision of the SFDR

- **ESG product categories** should be introduced for funds. In addition, an **ESG scale for all financial products** should be established in order to contextualise these products for retail customers.
- **Coherence** should be achieved between the SFDR and other European sustainable finance rules.
- In order to give retail customers easier access to sustainable products, it should be easier to **take sustainability preferences into account.**
- A clear set of consistent **sustainability indicators** should be implemented for all financial products – whether or not they are sustainable.

[9] These recommendations informed the German government's position during the EU consultation process.
[10] Global Reporting Initiative, International Financial Reporting Standards, International Sustainability Standards Board, Greenhouse Gas Protocol and Task Force on Climate-related Financial Disclosures

Sustainability accounting – speaking a common language

Challenges and context

Given the impacts that companies have on society and the environment (external effects), the rising levels of dependence on natural, social, human and financial capital and the significantly increased importance of intangible assets, we need to expand our understanding of value creation. Currently, our economy is geared towards business owners and investors. We need to open it to other groups.

The financial report or financial statement in its current form has evolved over more than 100 years and quantifies a company's financial performance. However, the world has changed, and financial statements now offer only limited information about a company's performance as well as its risks and opportunities. Investors and other stakeholders, both internal and external, need more information in order to gain a comprehensive view of a company, make well-founded decisions and enable sustainable value creation.

Sustainability information needs to be integrated more effectively into the decision-making processes of companies and their stakeholders, and it needs to become easier for data providers to use. There is currently a lively debate about how sustainable value creation can be measured in a way that is as holistic and relevant to decision-making as possible. Solutions are already being developed. These include regulatory revisions in the area of sustainability reporting, including the GRI, the IFRS, the ISSB, frameworks such as the GHG Protocol and the TCFD,[10] but also newer methodological approaches such as sustainability accounting.

Potential solutions

Sustainability accounting has the aim of measuring companies' sustainability performance in a way that is as holistic as possible. This includes a company's positive and negative externalities on society and nature, but also the ways in which society and nature affect the company's value and resilience. Translating non-financial aspects into their financial consequences makes sustainability information more tangible, meaningful and compatible with classic accounting and corporate governance factors that are linked to social policy objectives and transition plans. The implementation of sustainability accounting can also bring together existing disclosure requirements from different sustainable finance provisions in one place. This can reduce the regulatory burden on users. **Dovetailed financial and sustainability reporting allows sustainability aspects to be taken into account in strategic decisions in the same way as financial aspects already are.** A broader and more inclusive understanding of accounting can thus become a catalyst for qualitative growth and sustainable value creation.

Sustainability accounting cannot replace the collection of physical data (e.g. CO_2e) with its associated challenges, strategic measures (e.g. net-zero), "red lines" (e.g. human rights) and political aspects. Also, the value added of sustainability accounting and the limits to what it can achieve vary significantly depending on the application and user group. However, based on external accounting, certain sustainability aspects can be presented in a tangible and comparable way and in monetary terms, analogous to (consolidated) financial statements.

As for monetisation, the advantages and disadvantages have to be weighed up carefully before any definitive conclusions can be drawn about the transformational benefits.

One argument in favour of monetisation is that it translates sustainability aspects into financial impacts and thus into the language of the economy. In this way, it facilitates discussions on the subject. Ascribing a monetary value also allows the context to be taken into account, e. g. the cost of water pollution in arid regions vs. non-arid regions. By transitioning towards a common unit or common metrics, the various different aspects of sustainability can be compared and reassessed. However, it is important to ensure that monetisation does not cause physical metrics that cannot (yet) be monetised to become less relevant in decision-making processes. Similarly, the aggregation of individual aspects must not result in them being weighed up against each other. For example, a company or institution should not be able to buy its way out of climate emissions by paying its employees living wages. Finally, ethical reservations and contexts that are largely non-negotiable should also be taken into account, such as the loss of entire species.

There are already some initial innovative approaches showing ways in which sustainability accounting can add value in decision-making and reporting. However, there is no broad consensus on which method should be used in which cases, or what value should be applied to monetisation. Before a definitive recommendation can be made, these questions must be discussed in detail with the involvement of as many stakeholders as possible.

Recommendations

This subject was addressed in the coalition agreement for the 20th legislative term: **"We want to integrate ecological and, where appropriate, social values into existing accounting standards in dialogue with the business community, starting with greenhouse gas emissions."** In this way, the government initiated a debate on whether and how sustainability information should be integrated in existing (financial) accounting, including financial statements, and what (legal) consequences this could entail.

On the basis of external accounting, sustainability can be presented in a tangible and comparable way and in monetary terms, analogous to a company's (consolidated) financial statement. The basic assumptions are that sustainability performance would be presented in a way similar to a company's classic financial statement or integrated in the financial statement, that double materiality would be taken into account, and that compatibility with socio-political objectives would be ensured (e. g. SDG, Paris Agreement).

The SFB therefore recommends that the German government:

- Continue to engage with the subject of **sustainability accounting** intensively at the national and international level on the basis of existing reporting
- Look into the possibility of **including monetised sustainability indicators** in companies' reporting and assess the transformative impact on the basis of initial practical experience

Biodiversity as a key element of sustainable finance

Challenges and context

Our economic and financial system depends on biodiversity and an intact natural environment. At the same time, every single economic and financial transaction affects the environment, either directly or indirectly. The objective of the Kunming-Montreal Global Biodiversity Framework (GBF) is to halt and reverse the loss of biodiversity, nature and ecosystem services by 2030 or 2050. This creates an overarching framework for eco-friendly economic activities, financial flows and investment flows. However, these factors are often even more difficult to quantify than climate issues. Carbon equivalents can be assessed in the same way across the world, but land use, water consumption and the emission of pollutants are context-dependent and not usually mutually comparable. **There is an urgent need for action across the economic, financial and political spheres in order to counteract the rapid loss of biodiversity and the restriction of ecosystem services.** However, many decision-makers have not yet grasped the urgency or complexity of the problem.

By financing economic activities, the financial sector is a major contributor to biodiversity loss, but it can also play a key role in maintaining biodiversity. To be able to channel the real economy towards a more eco-friendly path, financial institutions need to improve their understanding of the interactions between business and nature. To do this, they need data from and about companies and their supply chains. The availability of sufficient valid and comparable data is an even greater challenge in this area than it is in the area of climate. Key stakeholders need to work together to develop and support potential solutions for the protection of biodiversity and ecosystem services. Through their supply chains, real-economy companies are in direct contact with nature. Financial institutions finance these companies, data ecosystems provide the necessary data, and the regulatory framework creates suitable conditions.

Potential solutions

The role of real-economy companies

For companies, dependencies on ecosystem services create material financial risks, especially if the entire value chain is taken into account. There are already various laws, voluntary frameworks and other tools that offer guidance for companies seeking to make their business practices more eco-friendly.[11,12,13] Sector-specific analyses are also important for risk assessment, since certain industries are highly dependent on intact ecosystems (e. g. agriculture, forestry and fishing), while others have especially strong negative impacts on nature (e. g. energy production, chemicals, constructions and mining). Many companies have already started analysing their relationship with biodiversity, but they face challenges such as a lack of expertise, insufficient data and inadequate resources.

[11] NRL (Nature Restoration Law), CSRD (Corporate Sustainability Reporting Directive) / ESRS (European Sustainability Reporting Standards), EU taxonomy
[12] Sector guidance issued by Business for Nature
[13] TNFD (Taskforce on Nature-related Financial Disclosures) and SBTN (Science Based Targets Network)

The role of the financial market

The loss of biodiversity also poses risks for financial market participants, who in turn bear some responsibility for negative impacts on biodiversity. They play a key role in financing companies and their business models and thus in reducing and avoiding negative consequences. **With the help of suitable financial instruments, however, ecosystems can also be restored.** Here too, the starting point of biodiversity approaches is to collect and analyse data, which currently still involves certain challenges. For financial market participants to be able to act appropriately, they need to build the necessary expertise, for example by taking part in international initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Network (SBTN).

The importance of data, metrics and analysis tools

Financial institutions and companies need comprehensive data and information on mutual effects and dependencies in relation to biodiversity. Numerous disclosure standards, aggregated metrics and analysis tools have emerged in recent years.[14,15,16] These tools already provide important information for market participants and civil society. However, they need to become better aligned with each other and more consistent in order to produce measurable success when it comes to protecting biodiversity and ecosystem services.

The role of regulation

Regulation can support economic stakeholders in their efforts to protect and restore biodiversity and ecosystem services with the help of various measures. One possibility would be a **stronger integration of biodiversity in the (international) financial markets** by taking positive contributions to the transformation into account in regulation and by ensuring regulatory consistency. **Improving data availability** by promoting public-access data would directly support market participants. Other suitable framework conditions could be created by further enhancing market instruments and measures, such as certificates trading (e. g. eco-points and habitat value points).

[14] European tools such as ESRS E4 and international tools such as GRI 101 and the TNFD
[15] For example MSA (Mean Species Abundance) or PDF (Potential Disappeared Fraction of Species)
[16] For example ENCORE, Forest IQ, WWF Water & Biodiversity Risk Filter, IBAT and the Natural Capital Protocol

Recommendations

To enable the use of private capital for nature restoration, conditions need to be improved in various ways.

The SFB therefore recommends:

- The **German government and other market regulators** should increase their commitment to the standardisation of biodiversity data (ideally in the form of a global minimum standard) and the integration of biodiversity in risk assessments.
- **Real-economy companies** should capture and quantify risks and opportunities in a more systematic way, make greater use of biodiversity initiatives featuring climate action measures, and integrate biodiversity into their business strategies.
- At the same time, **financial institutions** should tie biodiversity risks more closely into their risk management structures and formulate strategies to reduce and avoid negative impacts on biodiversity. During engagement activities and loan conversations, greater efforts could be made to directly address the subject of biodiversity with companies seeking financing, investments or insurance services.
- Simultaneously, the **data ecosystem** should be developed further. The subject of biodiversity should be captured in a more holistic and granular way (including more precise local data). The building of expertise should be supported in order to enable stakeholders to translate biodiversity risks into financial risks.

Cluster 2

Transformation financing

Europe aims to become carbon neutral by 2050, which would make it the first continent to achieve net-zero. The Kreditanstalt für Wiederaufbau (KfW) estimates that approximately €5 trillion will need to be invested for Germany to reach net-zero by the middle of the century.[17]

Most of this will have to be private capital or be provided by companies. The public sector must lead by example with its investments and create incentives for private investment.

This gives rise to two central questions: **How can we mobilise private capital to finance decarbonisation?** What incentives do we need to put in place for which stakeholders?

Currently, about one in four companies are investing in climate action and environmental measures. Companies fund most of these investments (more than 50 %) using their own capital. Approximately 13 % come from bank loans, 12 % from mezzanine capital or private equity and approximately 20 % from government funding (development loans and grants). To safeguard companies' contribution to reaching net-zero targets, we need to **ensure the ample availability of own capital, significantly expand all financing options, and provide efficient support for the economic transformation,** including suitable incentives and a focus on effectiveness. KfW also points to a **gap in the supply of mezzanine capital and equity.** There are **further investment needs** for the transition to a circular economy, the conservation of biodiversity and the implementation of social objectives that have largely remained unheeded up to now. These increase the need for investment.

This section identifies various approaches and challenges facing different types of entities (SMEs, energy-intensive companies, local authorities and infrastructure investments as well as start-ups). In addition, it presents two specific **financing vehicles** that use tax-based approaches to mobilise capital belonging to citizens and higher-net-worth individuals in order to finance the transformation of the economy.

[17] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-Fokus-Volkswirtschaft/Fokus-englische-Dateien/Fokus-2021-EN/Focus-No.-350-October-2021-climate-neutrality.pdf

[18] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-KfW-Mittelstandsatlas/Mittelstandsatlas-2024/KfW-Mittelstandsatlas-2024.pdf (available only in German)

[19] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-KfW-Klimabarometer/KfW-Climate-Barometer-2023.pdf

[20] https://www.bdew.de/presse/presseinformationen/fortschrittsmonitor-von-bdew-und-ey-investitionsvolumen-noch-deutlich-zu-niedrig-um-energiewende-ziele-zu-erreichen/ (available only in German)

[21] https://sustainable-finance-beirat.de/wp-content/uploads/2023/12/PR_SFB_Transformationfinancing_Startups_20231201.pdf

Financing instruments for the transformation

Challenges and context

The transformation towards a sustainable economy requires substantial investments and technological innovations in all industries and in businesses of different sizes. **Small and medium-sized German businesses** will play a key role in reaching the sustainable development goals. However, they face high investment needs and challenging sustainability reporting requirements. In 2022, SMEs accounted for only 15 % of total investments in climate action (€36 billion of €240 billion).[18] According to KfW, SMEs would have to quadruple their annual investments to €120 billion in order to meet climate targets.[19]

For **energy-intensive industrial companies,** the focus is on decarbonising production processes. They need a renewal of their capital stock, but are usually unable to take on the necessary investment risks alone. In addition, the shift to carbon-optimised plants requires early decommissioning of profitable production sites, while the switch to sustainable energy sources involves higher costs.[20]

In the area of infrastructure, maintenance and climate-friendly expansion are at the top of the agenda. Here too, annual investments totalling approximately €120 billion are needed for regenerative energy production, the expansion of electricity grids, the hydrogen economy, heating and transport.

Climate-tech start-ups face particular challenges due to the necessary investments in plants, the capital intensity of projects in this area, and the long development times until business models are scalable. There is a financing gap of at least €1.8 billion per year.[21] Start-ups and private financial stakeholders (venture capital, infrastructure investments and credit institutions) have proposed potential solutions.

Potential solutions

Funding programmes at the federal and Land level

It is recommended that standardised and uniform sustainability criteria be established as minimum standards for loans and funding. This will make calls for tenders more transparent and less complex for companies.

To increase the leverage and reach of the limited amount of government funding and thus enhance its mobilisation effect, it is recommended that, instead of the grants that are currently provided, reduced-interest or repayment-subsidised loans be granted or – upwards of specific volumes – equity be provided (with repayments and interest). It would also make sense to grant repayment subsidies once certain funding prerequisites (e. g. climate targets) have been met. The SFB explicitly recommends that the effectiveness of public funds deployed be measured in relation to sustainable development goals. In addition, duplicate structures in funding programmes should be avoided and non-sustainable funding criteria eliminated. It is recommended that an independent research institute be commissioned for this purpose.

A simplified proof-of-use procedure for **SMEs** must be put in place in order to further cut red tape. In this context, a manageable, nation-wide set of sustainability requirements would be helpful. These should be documented digitally rather than in paper form. In the case of **energy-intensive industry,** the storage of greenhouse gases should (alongside carbon reduction) be the focus of financing in order to reach climate targets. In this context, potential depreciation instruments should be considered. When it comes to financing infrastructure measures, it is crucial to include the local authority level in addition to cutting red tape. Local authorities run municipal utilities and need to support the latter in making the substantial investments needed for the energy transition. This will require guarantees, liability waivers and a stronger equity base in order to continue to enable loan financing. In addition, a transformation fund can help to generate incentives for private investors (see “National transformation fund”, p. 28).

Co-financing programmes for venture capital funds are one way of supporting **start-ups** that have the capabilities to develop the necessary technological innovations. Risk assumptions could be an option, especially in the case of start-ups that are pursuing larger, capital-intensive projects based on new technologies. We need financing models featuring equity and debt components that do not correspond to the usual market conditions for any of the stakeholders. For this reason, guarantees are particularly important in this area – issued by both strong industrial companies and public banks. The European Investment Bank (EIB) has already provided guarantees for very large projects.

The SFB’s detailed recommendations for each individual area are set out in the following publications:[22]

- Transformation financing in the SME sector
- Transformation financing for industrial companies
- Expansion of sustainable infrastructure in Germany
- Climate tech start-ups as a key to transformation financing

[22] Links to the publications can be found on p. 45.

Recommendations

- The main focus should be on a clear alignment of **financing and funding activities** towards sustainability in Germany and Europe. This will require measures ranging from uniform sustainability standards for granting loans and funding to a reworking of funding instruments and objectives.
- **All funding programmes at the federal and Land level should be reviewed independently** in order to achieve transparency regarding the diversity and volume of subsidies, their effect on sustainable development goals and potential overlap or synergies. On this basis, a group of experts from the Federation and the Länder should make proposals for achieving greater sustainability in funding.
- All promotional banks in Germany should develop a uniform **impact assessment** system under KfW's leadership. To deploy the limited budget resources more efficiently and effectively as a lever for the mobilisation of private capital, it is also important to make greater use of revolving instruments, reduced-interest and/or repayment-subsidised loans, public loans, loans with pro-rata indemnity or public risk coverage/guarantees as well as equity instruments such as pari passu investments.
- To develop new, **forward-looking technologies,** there is an increasing need to use public-private fund structures with equity and debt components for targeted investments in promising, capital-intensive climate technologies. We need suitable growth financing options for the scale-up of start-ups in capital-intensive sectors to get them through the "first-of-a-kind phase" (first large-scale industrial plants).
- A strong equity base needs to be created in order to enable the necessary enormous investments in (energy) **infrastructure.** Municipal utilities, most of which are run by local authorities, need equity in order to make the necessary investments or borrow from banks. As well as guarantees to enable loan capital and subordinated debt, equity can be strengthened – e. g. via temporary reductions of profit distributions to shareholders. In addition, local authorities should, for a limited period of time, be permitted to take out earmarked loans for investments that yield medium-term returns and for the purpose of strengthening the equity of municipal enterprises. This should be accompanied by an energy transition fund that uses government incentives to raise private capital. Public private partnerships (PPPs) and cooperative partnership models can also support the bundling of resources.

Provision of private financial resources for the transformation via capital markets

Challenges and context

In 2023, households had financial assets totalling approximately €7.7 trillion.[23] Cash and low-interest time deposits and demand deposits accounted for the largest share of this (more than 40 %).

That is many times higher than the estimated amount that needs to be invested in Germany in order to achieve net-zero by 2045. A 2021 KfW study puts the investment needs at €5 trillion by the middle of the century.[24] The government will have to finance 10 % and the private sector 90 % of this sum.[25]

Against this background, the capital markets and the assets of private investors need to be mobilised. This means creating incentives to invest in the transformation of our economy.

According to numerous studies, private investors are generally interested in sustainable investments, but they tend to be cautious in practice. This is partly because sustainable investments often involve additional effort, especially when it comes to analysing and assessing specific risks. Private investors tend to prefer straightforward, widely-known investment opportunities. As a result, providers currently gear their products more towards institutional investors in terms of the investment volumes and minimum subscription amounts, especially in the case of infrastructure projects.

Against this background, the SFB investigated what investment opportunities would have to look like in order to mobilise private capital for the transformation more effectively while also meeting the needs of private investors (straightforwardness, transparency, low risk, competitive returns).

Potential solutions

The SFB suggests a **climate savings plan** for small savers that is open to all citizens as well as a **transformation fund** for higher-net-worth private investors. In particular, these measures can take into account the different levels of risk that different private investors are able to take on.[26]

Climate savings plan

The idea is to give **all citizens** the opportunity to take out tax-privileged climate savings plans. The earnings on the first €25,000 of deposits should be exempted from capital income tax. Climate savings plans should have a maturity of at least ten years. For people above the age of 60, the minimum maturity should be reduced to five years. In addition, parents should have the option of taking out savings plans for their children under the age of 18. Early termination should be possible only under strictly defined conditions.

In terms of the investment volume of the allocated funds, the requirements should be based on the existing EU regulatory framework, such as the EU Green Bonds Standard or other recognised market standards. The investments should include green bonds for the financing of long-term corporate investments in sustainability, but also shares in particularly sustainable companies.

National transformation fund

The SFB suggests a new national transformation fund for **higher-net-worth private investors.** It should be modelled after open-ended real-estate or infrastructure funds. The allocated financial resources should contribute primarily to financing sustainable infrastructure, such as pipeline networks, charging stations or storage systems. It should also be possible to finance sustainable start-ups. For investments of up to €100,000, the earnings should be exempt from capital income tax.

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[23] https://www.bundesbank.de/en/press/press-releases/acquisition-of-financial-assets-and-external-financing-in-germany-in-the-fourth-quarter-of-2023-930018

[24] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-Fokus-Volkswirtschaft/Fokus-englische-Dateien/Fokus-2021-EN/Focus-No.-350-October-2021-climate-neutrality.pdf

[25] https://www.kfw.de/stories/kfw/bilder/wirtschaft/innovation/interview-lindner-wintels/kfw_stories_magazin_april2023.pdf (available only in German)

Regulatory framework

Government regulation will play a key role in implementing both projects. A government framework merely defines the required level of sustainability. In this context, EU legislation should act as guidance, especially the EU Green Bonds Standard and the SFDR. In areas where there is no regulatory framework, other recognised market standards can be used. The government should provide tax incentives in the form of capital income tax exemptions up to a certain amount, thus significantly enhancing the attractiveness of the new forms of investment. The aim of government intervention would be to establish a green investment option for private investors on a sustainable and long-term basis. However, this will only be possible if the financial products are attractive and easy to understand. Unless the products gain broad acceptance, no significant volumes can be expected. **In the long term, the investments will not require government assistance.** To put the associated tax revenue losses into perspective, it is worth considering that public infrastructure investments would have to be financed via the capital markets, which would also involve certain costs. Moreover, some of the sums invested would come from no-interest or low-interest savings or demand deposits, which account for approximately 40 % of households' assets. These already generate low capital income tax revenue.

Financial market

Financial market participants – banks, savings banks, cooperative banks, insurance companies and fund management companies – would issue climate savings plans and the transformation funds and market them. This would ensure broad-based competition. Providers of climate savings plans could decide whether to offer capital guarantees and/or guaranteed returns. In the case of the transformation fund, no capital guarantee or guaranteed returns are envisaged. The climate savings plan should be promoted under a joint label. In the long term, it is expected that the tax incentives can be reduced and ultimately discontinued once sustainable finance is taken into account as a matter of course in all investment decisions.

Investors

Private investors are at the focus of the proposed measures. Climate savings plans are designed to encourage all citizens to invest in sustainable finance products. The minimum duration should be set at ten years, or five years for people above the age of 60. Early termination should be possible only under strictly defined conditions.

For the transformation fund, an initial minimum holding period of 24 months should apply. To encourage investments in the fund, earnings should receive favourable tax treatment in the form of full or partial capital income tax exemptions, e. g. up to € 100,000. This would increase the transformation fund's attractiveness significantly and open up additional potential.

Once a year, the holders of the financial products should be informed about the performance of the climate savings plan and the transformation financing status. In this context, sustainable finance literacy measures should be taken into account.

[26] The two strategy papers can be found here (available only in German):
https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/AG_Kapitalmarkt_Klimasparplan_final.pdf and
https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/AG_Kapitalmarkt_Transformationsfonds_final.pdf

Recommendations

To mobilise private capital for transformation financing and achieve the net-zero target by 2045, the SFB proposes two specific tax-privileged financial products for the general public.

- **Climate savings plans** and the German **transformation fund** should be provided by the private sector. The federal government should merely define conditions that must be met in order to receive tax benefits. This is expected to result in competition for the best products, but also a variety of products within the defined framework to meet the different needs of investors.
- In particular, the proposed **capital income tax exemption** up to a certain investment amount would increase the attractiveness of the new climate savings plans, thus creating significant potential to mobilise private investments for the transformation.

However, making it easier to invest and attracting more private investors would not just increase the investment volume. A further aim is to make sustainable investments a fixed part of investment portfolios. This would promote the transformation in all three areas – the financial markets, the real economy and the political sphere.

[27] https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans
[28] https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Disclosure-Framework.pdf

Standardised transition plans and their potential for a credible transformation

Challenges and context

Climate transition plans are an important instrument to show investors, suppliers, customers and other key stakeholders that a company is committed to the transition towards a 1.5°C pathway and that its business model will remain relevant (and profitable) in a carbon-neutral economy.[27] *A transition plan is an integral part of a company's overall strategy. It sets out the specific considerations and measures that the company is pursuing in order to contribute to and prepare for a quick global transition to a low-greenhouse-gas economy, for example.*[28]

Transition plans are crucial for companies on the path towards greenhouse gas neutrality. They play a central role in identifying and managing risk. They act not only as guidelines for the transition towards climate neutrality, but also as a basis for investment decisions on the financial markets. Transition plans can help to **direct capital flows towards sustainable projects** in a targeted way. They also offer added value for different stakeholders, including the real economy, civil society, research, supervisory institutions and policy-makers.

Not least, transition plans are a response to the increasing number of regulatory requirements and international standards under which companies must present their decarbonisation strategies in a way that is transparent, convincing and understandable.

As part of these requirements, companies also need to analyse risks comprehensively and recognise dependencies on political frameworks and infrastructures. To ensure their long-term competitiveness, companies must ensure that their transition plans are understandable and transparent both internally and externally.

For financial market participants in particular, transition plans offer clear advantages, allowing them to analyse the progress of their investments towards lower greenhouse gas emission and measure companies' advances in achieving climate targets. This supports the allocation of capital to less greenhouse-gas-intensive companies or to companies with low transition risks. In addition, they enable a better assessment of the credibility and quality of the transition strategies of companies with comparable transition plans. This makes them a valuable instrument for investment analysis and risk assessment.

Potential solutions

To provide optimal benefits, transition plans should follow certain principles. These should be defined in a way that is consistent with current EU disclosure requirements and provide clear added value for investors and companies. They should contain concrete measures and be internationally compatible. A harmonised approach at the European level, in combination with international compatibility, is key in order to facilitate the practical application of existing frameworks. The various existing frameworks and standards need to be standardised even further to ensure that transition plans are coherent and comparable. They should also be flexible enough to take account of the specific needs and challenges of different industries. That is the only way for them to facilitate an effective dialogue between the real economy and the financial markets about the risks and opportunities of the transition. Research-based, generally accepted scenarios such as that issued by the Network for Greening the Financial System (NGFS) play a key role in this context. Finally, transition plans should be designed to be machine-readable and procedurally efficient in order to meet the requirements of different stakeholders while at the same time minimising administrative burdens.

This often still causes uncertainties for small and medium-sized companies in particular – for which a smooth transition is just as important as it is for large companies. Clear guidelines and specific support measures are needed to mitigate these uncertainties.

Recommendations

To ensure a successful transition of the real economy, transition plans need to be viewed not only as a regulatory requirement, but as a strategic instrument that actively supports companies in their transition. Transition plans should be established as an **integral part of corporate and financial market governance.** They need to contain clear, science-based decarbonisation targets as well as transparent, standardised measures. As well as outlining the company's long-term strategy for achieving climate neutrality, the plans must also serve as a basis for assessing investment and funding decisions. Incorporating transition plans in supervisory and regulatory mechanisms can also help to ensure that companies and financial institutions are well-prepared for the challenges of the climate transformation and can manage risks more effectively.

The SFB recommends the following aspects for further regulating transition plans:

- **Standardised targets:** Transition plans should contain clearly defined, standardised decarbonisation targets that are transparent for companies and investors.
- **EU harmonisation:** Transition plans must be consistent with current EU disclosure requirements, contain concrete measures and be internationally compatible. It is important to ensure a harmonised approach at the EU level in combination with international compatibility.
- **Standardisation of frameworks:** The various existing frameworks and standards need to be further standardised in order to ensure coherence and comparability of transition plans.
- **Aggregation and risk analysis:** Transition plans should be standardised in order to enable a consistent analysis of the transition paths of individual sectors and of the economy as a whole. This is crucial for identifying risks and evaluating consistency with climate targets.

- **Assessment basis for funding:** Transition plans should be used as a basis for the design and assessment of funding programmes in order to ensure coherence with decarbonisation steps.
- **Integration in supervision:** Transition plans should be integrated in micro- and macroprudential supervision so that challenges in the area of financial market regulation can be addressed, especially when it comes to climate-related financial risks. In this context, it is essential to maintain a clear focus on proportionality in connection with relevant risks.

Cluster 3

National and international engagement

Germany is one of the world's biggest economies, and thanks to its many internationally active companies it is also highly globally interconnected. This opens up opportunities but also comes with responsibilities. Germany is also a role model when it comes to the energy transition, technological solutions and the welfare state.

In a globally interconnected economy, international cooperation is as important for the successful implementation of sustainable projects and financing as steering a course at national level. **Sustainability does not stop at national borders;** it requires joint, coordinated efforts across countries and continents. This is particularly the case in the area of sustainable finance, with its focus on financing and supporting environmental and social transformation. It is vital that countries pool their efforts to effectively tackle global challenges such as climate change.

We need to address the following key question: **How can we work together with our European and international partners to develop good framework conditions that will enable us to sustainably finance the transformation?** At the national level, taking transformation and innovation into account in public investment plays an important role alongside sustainable finance rules and transformation financing, which are discussed above. When making investments, the Federation and Länder need to take into account risks and opportunities in the same way that private-sector actors do in their financing decisions. The state leads by example in this respect and actively implements its transformation goals in its investments, for example by means of stakeholder engagement. Furthermore, cooperation at the European level – as seen in the cooperation between Germany and France – plays a key role in developing a coherent and effective regulatory framework. As two of the most influential EU member states, Germany and France play a crucial role in creating a uniform and stable level playing field that not only fosters competitiveness on the European market but also sets international standards. The initiatives described below illustrate the importance of close cooperation at the European level to drive forward sustainability goals. It is also clear that **ensuring sustainable financial flows to the global south is a task that needs to be tackled internationally.** In this respect, the international community faces the challenge of closing the financing gap to achieve global climate targets. This involves not only mobilising private and public funds but also supporting developing countries in creating the necessary conditions to enable sustainable investments.

This international perspective and fostering cooperation are crucial in order to accelerate the transformation towards a more sustainable global economy. Only by working together and sharing knowledge and resources can we meet global challenges and ensure a sustainable future for all.

Sustainability in public investment

Challenges and context

Complex challenges call for role models with innovative ideas and actions. In this respect, the public sector and its investments send a very important signal by efficiently supporting the socio-ecological transformation of economic value creation. Future-oriented federal investments are important incentives to promote private capital flows in Germany, as a centre of business and industry, and to make the country fit for the future.

Combining public and private investments in a strategic and forward-looking manner, with an appropriate distribution of opportunities and risks, is essential to ensure the transformative impact of the deployed funds. The SFB's 31 recommendations in the 19th legislative term placed great emphasis on including the transparency and traceability of sustainability goals in the principles underlying public-sector investments.[29] The previous federal government's German Sustainable Finance Strategy, which draws on the SFB's recommendations, recognises that sustainability opportunities and risks must be taken into account in public-sector investments.[30]

With the proposal for a "generational capital fund" to expand the funding base for the statutory pension insurance system, implementing the Sustainable Finance Strategy will involve (a) incorporating sustainability criteria in the investment strategy in the form of appropriately formulated investment principles and (b) reporting regularly on these criteria.

With the recommendations presented in this report, the SFB wants to help the Federation align its actions (partly in cooperation with the *Länder*) with the Paris Agreement climate targets, Germany's Climate Action Act (*Klimaschutzgesetz*), the UN's Sustainable Development Goals and the scientific concept of planetary boundaries.

[29] https://sustainable-finance-beirat.de/wp-content/uploads/2021/03/210319_SustainableFinanceCommiteeRecommendations.pdf

[30] Measure 19: "The German government will take sustainability risks and opportunities into account in connection with its investments in the same way as institutional investors"; "German government reporting on federal investments will also be improved in terms of its coverage of sustainability aspects."

Potential solutions

At the federal level, the following reserves and special funds are important:[31]

- The federation's civil servant pension fund *(Versorgungsfonds)* and civil servant pension reserve fund *(Versorgungsrücklage)*
- Pension fund of the Federal Employment Agency *(Versorgungsfonds der Bundesagentur für Arbeit)*
- Long-term care reserve fund *(Pflegevorsorgefonds)*

Furthermore, significant long-term investments are managed by legally independent foundations and institutions, for example the Nuclear Waste Management Fund *(Fonds zur Finanzierung der kerntechnischen Entsorgung, KENFO)* and the occupational pension fund for the public sector *(Versorgungsanstalt Bund und Länder, VBL)*.

Recommendations

In relation to the sustainable investment of public funds, in particular, the SFB sees room for improvement. This can be achieved by means of:

- A more formal basis for **taking account of sustainability aspects** in investment decisions
- Defining general sustainable **investment principles**
- More **dialogue regarding the sustainability preferences** of future pensioners
- Direct and indirect **engagement**[32]
- Taking more opportunities to **exclude or underweight** companies that are known to be not sustainable

Making sustainability an additional investment principle

"Sustainability" should be added as a fourth principle in relevant legislation alongside the three investment principles of "security", "liquidity" and "yield". In particular, adding it to section 80 (1) sentence 2 of Book IV of the Social Code *(Sozialgesetzbuch)* would have a multiplier effect in the area of public insurance and beyond. At the same time, using the word "sustainability" in a general sense – similar to the general terms "security", "liquidity" and "yield" – allows it to be more precisely defined in specific investment guidelines and to be applied appropriately when conflicts between these four objectives arise. By **legally expanding the investment principles** with a fourth principle, it would no longer be just the public sector that has to take account of sustainability as part of its fiduciary obligations. Other asset trustees, including private ones, would gain legal certainty if taking account of sustainability goals in their investment activities were compatible with their fiduciary responsibilities.

Portfolio allocation – exclusions and weighting

We recommend exclusions on the basis of the UN Guiding Principles on Business and Human Rights in combination with other exclusions, especially relating to fossil fuels. In addition, **the same exclusions should be recommended for all public-sector investments** so that they can be communicated in a uniform manner. Since these principles still need to be translated into actual exclusions of companies, we suggest creating a blacklist of companies whose exclusion from all public-sector investments is obligatory or recommended as a minimum requirement.

[31] The term "special funds" is not used here to refer to funds from the federal budget earmarked for a specific purpose.
[32] Engagement" refers to an active dialogue between shareholders and the company management. In the area of sustainable finance, in particular, engagement is aimed at steering the portfolio company towards responsible management of the investment portfolio and achieving concrete ESG improvements.

With regard to over- or underweighting specific companies in a portfolio, our recommendation is that the public sector underweights those companies that – even after engagement activities have been carried out – show no sign of transforming in line with the requirements for a socio-ecological economy. The opposite applies to companies that perform positively with regard to the transformation. Compliance with scientific requirements for a 1.5°C pathway should be taken into account in this respect, for example in line with the "1.5°C with no or limited overshoot" scenario of the Intergovernmental Panel on Climate Change (IPCC).

Engagement

We recommend that the public sector pursue **clear stakeholder engagement activities,** either directly or indirectly via appropriate mandates for asset managers or intermediaries, **based on clear goals for real-economy companies.** The goals to be achieved should include climate neutrality on the basis of scientific findings and set out in transition plans, as well as the fulfilment of other requirements, such as compliance with human rights obligations that the federal government has committed itself to. In this regard, it would make sense and be desirable if the engagement activities were pursued across the different investments in an aligned and coordinated manner. Furthermore, the framework and objectives of the engagement should be defined. Portfolio companies that repeatedly fail to reach the goals and adjust their strategies should be divested from in line with the relevant investment strategy.[33]

Transparency

We recommend that the public sector's sustainable investment strategies are communicated clearly and transparently. In this way, information can be shared with other investors, the real economy and, ultimately, society at large, and guidance can be provided to the financial sector and the real economy, in particular. This is the best way to leverage the expected strong multiplier effects. Information regarding specific steps towards implementation should be communicated on a regular basis and in adequate detail.

Transparent and regular reporting is a key success factor for credible, transformative and effective public investment. Against this background, the SFB recommends that as part of its transparent and comprehensive reporting, the public sector regularly publishes the sustainability goals, investment strategy and current sustainability profile of its portfolios, for example with regard to carbon emissions and compatibility with the Paris Agreement.

In addition, the reports submitted by the public sector's various legal entities should be collated in a central location, such as the Federal Ministry of Finance. This would provide an overview of all of the Federation's investments and provide a basis for a comprehensive impact assessment. It would also make it possible to trace adjustments that have been made to investment principles and mandate requirements for managers, and facilitate consistent reporting.

[33] A well-known and successful example is the Government Pension Fund of Norway, with its detailed sustainable investment policy, clear engagement goals and transparent reports on the achievement of these goals.

Franco-German cooperation in the context of European sustainable finance

Challenges and context

The regulatory framework for sustainable finance that is relevant for Germany is for the most part defined by EU initiatives. **EU rules that are as uniform as possible serve to provide a precompetitive level playing field but are often unable to take country-specific factors sufficiently into account.** Due to their size and their very close bilateral relationship, France and Germany play a decisive role in the European political process. To enable an efficient, bundled exchange with as many stakeholders in France as possible, the SFB entered into a cooperation project with the Institut de la Finance Durable (IFD), part of the financial market network Paris Europlace, in 2023.[34,35]
An important milestone of this cooperation was a joint position paper on the ongoing revision of the SFDR which was published in June 2024 and sent to the European Commission.[36]
As well as creating impetus for European rules, an ongoing focus of the cooperation project is the standardisation of transition plans and linking these to financial benchmarks and company valuations.
The **Charlemagne working group** straddles the other SFB working groups and plays a cross-sectional role.[37] It follows political and regulatory developments on sustainable finance at the EU level and in the EU's neighbouring countries to identify issues that might be relevant for the SFB's work and to provide relevant leads.
It engages in intensive discussions with relevant stakeholders in France, sometimes with the support of the federal ministries and the German Embassy in Paris. In particular it aims to help shape common European framework conditions and initiatives. It incorporates other relevant SFB working groups into discussions on specific issues at the European level and between France and Germany. This prevents duplication of work and ensures that the SFB's position is represented consistently.

A complex multi-stakeholder approach is achieved within the SFB. The cross-sectional role of the Charlemagne working group involves the challenging task of coordinating with the SFB's important French partner, the IFD, which in turn brings together a wide range of stakeholders. However, the complexity of sustainability and sustainable finance makes this form of collaboration worth the effort to achieve target-oriented results, to highlight important common issues and to enable focussed solutions.

Potential solutions

In order to find concrete solutions that can have an impact in Brussels and beyond, an important first step in the Franco-German cooperation project between the SFB and the IFD was to identify common issues and goals.
The following key areas were identified:

- Coherence of EU sustainable finance rules
- Transition plans and transformation financing
- Impact investing
- Biodiversity

The publication of a joint statement on cooperation with the IFD in October 2023 gave the cooperation project the necessary visibility.
The revision of the SFDR initiated by the European Commission in the fourth quarter of 2023 provided an opportunity to exchange views about the European regulation. The SFB and the IFD initially presented their positions separately in the consultation stage of the SFDR revision in December 2023 (see Revision of the SFDR, p. 16). Both papers made similar points that were particularly important for German and French stakeholders. Subsequently, the SFB and the IFD agreed on a joint position paper to underscore fundamental requirements. This paper was sent to the Commission and published in June 2024. The Commission reacted positively

to the offer to discuss specific points together in more depth.

Transition plans are an important issue in Germany and France as well as internationally (see Transition plans, pp. 31-32) and bilateral discussions on this topic between the SFB and IFD and the UK's Transition Plan Taskforce (TPT) led to the development of a trilateral workshop format with meetings in Paris in early July 2024 and in Frankfurt in September 2024. The aim was to find joint solutions to key issues relating to the development and implementation of transition plans, to create impetus for new rules as well as for market players, and to develop a basis for international standardisation. It became clear while addressing transition plans on the French side that transition plans must be linked to financial benchmarks and company valuations (see "Sustainability accounting", p. 19). This is why the trilateral workshops also addressed the use of transition plans in financial markets.

Recommendations

Based on past experience, the SFB recommends:

- **Promoting European cooperation:** A dialogue with other ambitious European countries and financial centres is important for developing a coherent European framework for sustainable finance and creating impetus for market players. Cooperation projects of this kind also result in valuable feedback loops and synergies for work at the national level. As a starting point, Franco-German cooperation in the area of sustainable finance should be further strengthened and the group of cooperation partners should be expanded beyond the main partner IFD. In addition, expert dialogues and cooperation projects on specific issues should be established with other partners in the European Union and the whole of Europe to help shape sustainable finance with a view to the future. Finally, regular communication with the UK, as an important international financial centre in Europe, would be beneficial for global harmonisation.
- **Regular communication and joint position papers:** Regular communication and joint results increase trust and the effectiveness of cooperation across national borders. An ongoing dialogue and developing common positions with European partners should therefore be a priority and should be expanded on. Joint position papers increase the visibility of the SFB's positions as well as its influence on European and international regulatory and standardisation processes.

[34] https://sustainable-finance-beirat.de/wp-content/uploads/2023/10/Pressemitteilung_SFB_IFD.pdf (available only in German)
[35] https://institutdelafinancedurable.com/en/
[36] https://sustainable-finance-beirat.de/wp-content/uploads/2024/06/SFDR_review_joint_statement_IFD_SFB_final_20240613.pdf
[37] The Charlemagne working group derives its name from the European affairs column in The Economist. Charlemagne, an important figure in both German and French history, often referred to as the father of post-Roman Europe, symbolises the special relationship between Germany and France in European integration.

Challenges and context

Countries in the global south (excluding China) face a **financing gap of around $3 trillion** to finance sustainable development goals and climate targets.[38] This financing gap is likely to grow further: the impact of climate change is felt most acutely in countries in the global south. At the same time, loss and damage caused by climate change as well as the costs of climate adaptation are constantly increasing. Furthermore, dozens of countries in the global south are facing debt crises that make investments in sustainable development and climate action impossible. Previous attempts to mobilise private capital to finance the 2030 Agenda had limited success. Public budgets in advanced economies are also under pressure. An increase in public funding for development assistance and climate financing therefore seems unrealistic; rather, further cuts are feared.

Against this background, the SFB is developing proposals to strengthen **approaches to sustainable finance in the global south** and to mobilise funds to finance sustainable development. This is important, since conserving our environment and natural resources can only succeed globally if the majority of countries develop their economies sustainably and if they act within our planetary boundaries. In a globally interconnected world, the sustainable development of Germany's economy is possible only if our partners in the global south are also able to invest in sustainable economic and social development.

Potential solutions

Like countries in the global north, countries in the global south face the challenge of developing sustainability frameworks in the financial sector and in the real economy. Through technical support and capacity building, international cooperation can contribute to (further) developing sustainable finance approaches in the global south. Developing and strengthening regulatory frameworks can support market growth over the long term. These frameworks should cover disclosure requirements such as transition plans, taxonomies, risk assessments (for example, climate stress tests), prudential measures and – where appropriate – the adaptation of global standards. In this regard, it is important to take into account the interoperability of standards, for example between the standards of the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG), and the proportionality of regulatory measures.

Mobilising private capital will be crucial for establishing resilient and sustainable projects and infrastructure in the global south. This can be through sustainable securities (green or social bonds) or other financing mechanisms that – if they have an appropriate risk/return profile – are aimed specifically at institutional investors in Europe. Other options include funds supported by the public sector as well as strengthening local development banks in different countries to mobilise national savings and to invest in sustainable infrastructure. The use of digital technologies to automate data collection and to facilitate the mobilisation of private capital is another potential lever.

[38] https://www.bmz.de/de/agenda-2030/sdg-17 (available only in German)

It is also clear that many countries in the global south will need their debt to be cancelled in order to overcome the debt crisis. This will rebuild fiscal space for climate-related and other sustainable investments. **The federal government should commit to a debt relief initiative** for poorer countries in particular that links debt cancellations to sustainability goals.

To this end, it can build on the past experiences and work of various stakeholders. These include the Federal Ministry for Economic Cooperation and Development and its implementing organisations, which are already very active in the area of technical support and capacity building, working together with the likes of central banks, regulatory authorities and finance sector associations.

The Federal Ministry of Finance and the Bundesbank are also working on this issue within the framework of the G20 Sustainable Finance Working Group. In addition, the Bundesbank is globally active as a member of the NGFS. These activities should be intensified.

KfW and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) have already gained considerable experience in supporting local public development banks in developing countries. This experience should be built on.

The German government's development agency Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) is already working with the ISSB, central banks, finance ministries and other stakeholders in countries in the global south to integrate sustainability criteria into financial sector products, processes and risk management systems and to expand the capacities of financial market participants in the area of sustainable finance.

Recommendations

The following recommendations are directed at the relevant ministries involved in the SFB's work. These are the Federal Ministry of Finance; the Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection; the Federal Ministry for Economic Affairs and Climate Action; the Federal Ministry of Justice and the Federal Ministry for Economic Cooperation and Development, as well as the Federal Foreign Office.

- Technical and capacity-building support should be provided to further develop sustainable finance approaches in the global south.
- A net zero fund and a "financing facilitator" should be created and supported with public funds.
- Local public development banks in countries in the global south should be supported in mobilising domestic savings and financing sustainable infrastructure investments.
- Digital technologies should be used for automated data generation and for mobilising private capital.
- A "Finance Facility against Climate Change" should be established to mobilise private capital to finance emission reductions in low income countries. This could be done by issuing green bonds, for example.
- All relevant stakeholders should commit to a debt relief initiative linked to sustainability goals.

Outlook

From “whether” to “how”

We live in very dynamic times. Our economy and society are facing the most fundamental changes of the last 250 years. Some of the current global developments could not be foreseen when the SFB began its work at the start of the 20th legislative term. We are firmly in the grip of the polycrisis of the war in Ukraine, the conflict in the Middle East, floods and droughts, the energy crisis and rising inflation. This is fundamentally affecting Germany’s and Europe’s economic competitiveness. In addition, the many elections in 2024 will lead to changes at the municipal, national and supranational level. Against this turbulent backdrop, a variety of stakeholders and associations are now presenting their analyses on Germany’s and Europe’s competitiveness. None of them question the necessity of decarbonisation and the transformation. **It is clear that up to 90% of the capital needed to finance this transformation needs to come from private sources.[39]**

The recommendations set out in this document do not claim to be exhaustive. For the most part, they are the result of numerous discussions with people in positions of responsibility from industry, the financial sector, civil society, academia and government.

Germany can continue to be a successful industrial nation in the future, but to achieve this it has to transform large parts of its current value creation. Transitioning to a sustainable, competitive, innovation-driven economy is one of the biggest challenges Germany has faced since the end of the Second World War. This transformation cannot be achieved by one generation. It is a multi-generational task that urgently requires an up-to-date narrative involving close and solution-oriented cooperation between relevant actors and stakeholders. A new, democratic social contract is needed for an economy that aligns prosperity and increasing competitiveness with the boundaries of our planet.

A comprehensive transformation of Germany as a business location involves adapting to the dynamic, volatile world in which we live. This can only be achieved if companies, the financial sector and public stakeholders stand shoulder to shoulder. That is why we, like all stakeholders in the sustainable finance ecosystem, will have to keep reviewing the viability and relevance of our recommendations. All of our recommendations are based on the premise that **it is now no longer about** *whether,* **but only about** *how*.

[39] See the KfW (2021) (https://www.kfw.de/stories/kfw/bilder/wirtschaft/innovation/interview-lindner-wintels/kfw_stories_magazin_april2023.pdf (available only in German)); the Federation of German Industries (BDI) study (2024) “Transformation paths for Germany as an industrial nation” (https://english.bdi.eu/article/news/transformation-paths-for-germany-as-an-industrial-nation-article-study); and the Draghi report on the future of European competitiveness (2024) (https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en)

Members of the Sustainable Finance Advisory Committee


Martina Bentele
Siemens Energy AG


Uwe Bergmann
Henkel AG & Co. KGaA


Stefan Brunnhuber
Lancet-Kommission/ Club of Rome


Isabelle Canu
Green European Tech Fund


Fridtjof Detzner
Planet A Ventures


Michael Diederich
FC Bayern München AG


Michael Dittrich
Deutsche Bundesstiftung Umwelt


Markus Duscha
Fair Finance Institute


Julia Haake
EthiFinance


Christian Heller
Value Balancing Alliance e. V.


Cornelia Jahnel
COM3 group


Kristina Jeromin
Made in Germany 2030


Christian Jöst
Jöst abrasives GmbH


Matthias Kopp
WWF Deutschland


Katrin Leonhardt
Sächsische Aufbaubank


Kerstin Lopatta
Universität Hamburg


Michael Menhart
Munich RE


Wiebke Merbeth
Deloitte


Ndidi Nnoli-Edozien
International Sustainability Standards Board


Gerald Podobnik
Deutsche Bank AG


Henrik Pontzen
Union Investment


Lothar Rieth
EnBW


Anja Rivera
De la Cruz Schaeffler AG


Melanie Sack
Institut der Wirtschaftsprüfer


Frank Scheidig
DZ Bank


Michael Schmidt
LAIQON AG


Antje Schneeweiß
Arbeitskreis kirchliche Interessen


Georg Schürmann
Freiberuflicher Unternehmens-berater


Bettina Storck
Commerzbank AG


Silke Stremlau
Multi-Aufsichtsrätin


Rolf Tegtmeier
Kreissparkasse Köln


Ulrich Volz
Centre for Sustainable Finance (SOAS, University of London) / Deutsches Institut für Entwicklungspolitik


Alexander Wellerdt
J.P. Morgan SE


Klaus Wirbel
REWE Group

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Observing organisations

B. A. U. M. e. V. – Netzwerk für nachhaltiges Wirtschaften
Bundesanstalt für Finanzdienstleistungsaufsicht
Bundesverband der Deutschen Industrie e. V.
Bundesverband Investment und Asset Management e. V.
Deutsche Bundesbank
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Deutsche Gesellschaft für nachhaltiges Bauen e. V.
Deutsche Kreditwirtschaft
Deutscher Gewerkschaftsbund e. V.
Deutscher Industrie- und Handelskammertag e. V.
Deutsches Rechnungslegungs Standards Committee e. V.
Forum nachhaltige Geldanlagen e. V.
GermanWatch e. V.
Gesamtverband der Deutschen Versicherungswirtschaft e. V.
KfW Bankengruppe
Rat für Nachhaltige Entwicklung
Umweltbundesamt
Wissenschaftsplattform Sustainable Finance

SFB publications

Month/year of publication	Title of publication	Link to document	English version?
Sept 2024	Recommendations of the Sustainable Finance Advisory Committee on sustainable public-sector investments	https://sustainable-finance-beirat.de/wp-content/uploads/2024/09/SFB_Stellungnahme_zu_nachhaltiger_Kapitalanlage_der_oeffentlichen_Hand.pdf	No
July 2024	Concept paper on improving the green asset ratio under the EU taxonomy by the Sustainable Finance Advisory Committee's working group on "regulatory consistency"	https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/SFB_AG_Regulierungskohaerenz_GAR_EN_final-1.pdf	Yes
July 2024	Concept paper by the "sustainability accounting" working group on how sustainability information should be reflected in accounting and reporting	https://sustainable-finance-beirat.de/wp-content/up¬loads/2024/07/SFB_AG-SA_Konzeptpapier_final.pdf	No
June 2024	Discussion paper by the "capital markets" working group on "Climate savings for everyone – participation of private investors in transformation finance"	https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/AG_Kapitalmarkt_Klimasparplan_final.pdf	No
June 2024	Discussion paper by the "capital markets" working group on "Creating a German transformation fund for the participation of private investors in transformation finance"	https://sustainable-finance-beirat.de/wp-content/up-loads/2024/07/AG_Kapitalmarkt_Transformations-fonds_final.pdf	No
June 2024	Joint statement by the Sustainable Finance Advisory Committee of the German Federal Government (SFB) and the French Sustainable Finance Institute (IFD) on the review of the Sustainable Finance Disclosure Regulation (SFDR)	https://sustainable-finance-beirat.de/wp-content/uploads/2024/06/SFDR_review_joint_statement_IFD_SFB_final_20240613.pdf	Yes
June 2024	A future concept for a sustainable financial system 2034	https://sustainable-finance-beirat.de/wp-content/uploads/2024/07/SFB_Zukunftsbild_EN.pdf	Yes
March 2024	Final report of the "engagement platform" working group	https://sustainable-finance-beirat.de/wp-content/uploads/2024/03/SFB_AG_Engagement_Plattform_Abschlussbericht_final.pdf	No
Feb 2024	Opinion of the Sustainable Finance Advisory Committee on the CSDDD	https://sustainable-finance-beirat.de/wp-content/uploads/2024/02/SFB_Stellungnahme_CSDDD_2024022_Abstimmung_final.pdf	No
Feb 2024	Final recommendation of the Sustainable Finance Advisory Committee on the introduction of an "ESG scale" for financial products	https://sustainable-finance-beirat.de/wp-content/uploads/2024/02/SFB_Stellungnahme_CSDDD_2024022_Abstimmung_final.pdf	No
Feb 2024	Discussion paper of the "data infrastructure and digitalisation" working group on the availability of sustainability-related real estate data	https://sustainable-finance-beirat.de/wp-content/up-loads/2024/02/Diskussionspapier_SFB_Immobiliendaten.pdf	No
Feb 2024	Discussion paper of the Sustainable Finance Advisory Committee on the benefits of and necessity for meaningful transition plans	https://sustainable-finance-beirat.de/wp-content/uploads/2024/02/SFB-Diskussionspapier_Transitionsplaene.pdf	No
Dec 2023	Discussion paper of the Sustainable Finance Advisory Committee on expanding sustainable infrastructure in Germany: a contribution to the "Germany Pact"	https://sustainable-finance-beirat.de/wp-content/uploads/2023/12/SFB_Nachhaltige-Infrastruktur_Transformationsfinanzierung.pdf	No
Dec 2023	Contribution of the Sustainable Finance Advisory Committee to the European Commission's consultation on the revision of the Sustainable Finance Disclosure Regulation (SFDR)	https://sustainable-finance-beirat.de/wp-content/uploads/2024/06/SFB_Eingabe_SFDR_Konsultation.pdf	Yes
Dec 2023	Discussion paper of the Sustainable Finance Advisory Committee on transformation finance for industrial companies	https://sustainable-finance-beirat.de/wp-content/uploads/2023/12/SFB_Diskussionspapier_Transformationsfinanzierung_Industrieunternehmen_2023-1.pdf	No
Dec 2023	Discussion paper of the Sustainable Finance Advisory Committee on transformation finance for climate-tech start-ups	https://sustainable-finance-beirat.de/wp-content/uploads/2023/12/SFB_Discussionpaper_Startups_Transformations_Finance_2023.pdf	Yes
Nov 2023	Discussion paper of the Sustainable Finance Advisory Committee on transformation financing and support for SMEs	https://sustainable-finance-beirat.de/wp-content/uploads/2023/11/SFB_Diskussionspapier_KMU_Transformationsfinanzierung_2023.pdf	No
June 2023	Position paper of the Sustainable Finance Advisory Committee on regulating ESG rating providers	https://sustainable-finance-beirat.de/wp-content/uploads/2023/06/Positionspapier-ESG-Ratingprovider_SFB_062023-2.pdf	No
March 2023	Opinion of the Sustainable Finance Advisory Committee on challenges in implementing the EU taxonomy	https://sustainable-finance-beirat.de/wp-content/uploads/2023/03/SFB_The-EU-Taxonomy_implementation-challenges-and-proposed-solutions.pdf	Yes
Dec 2022	Open letter from the Sustainable Finance Advisory Committee on the implementation of an ESG scale for financial products	https://sustainable-finance-beirat.de/wp-content/uploads/2022/12/SFB-Recommendations-ESG-scale_PRIIPs.pdf	Yes
Oct 2022	Open letter from the Sustainable Finance Advisory Committee on the relevance of comprehensive sustainability reporting	https://sustainable-finance-beirat.de/wp-content/uploads/2022/10/SFB_Open-Letter_Sustainability_Reporting.pdf	Yes

List of abbreviations

BDI	Federation of German Industries
CO_2e	Carbon dioxide equivalents
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
EFRAG	European Financial Reporting Advisory Group
EIB	European Investment Bank
ESG	Environmental, social and governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
EU	European Union
FAQs	Frequently asked questions
G20	Group of 20
GAR	Green Asset Ratio
GBF	Global Biodiversity Framework
GHG Protocol	Greenhouse Gas Protocol
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GRI	Global Reporting Initiative
IFD	Institut de la Finance Durable
IFRS	International Financial Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
KENFO	Fonds zur Finanzierung der kerntechnischen Entsorgung (Nuclear Waste Disposal Fund)
KfW	Kreditanstalt für Wiederaufbau
NGFS	Network for Greening the Financial System
PAIs	Principal Adverse Impacts
PPPs	Public private partnerships
SBTN	Science Based Targets Network
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures
TPT	Transition Plan Taskforce
VBL	Versorgungsanstalt des Bundes und der Länder (occupational pension fund for the public sector)

Contact

SFB-Geschaeftsstelle@bmf.bund.de
Tel.: +49 3018 682 3069
Responsibility for content under German press legislation: Silke Stremlau,
Chair of the Sustainable Finance Advisory Committee of the German Federal Government

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