



The
Federal Government

German Sustainable Finance Strategy

SUSTAINABLE FINANCE



German Sustainable Finance Strategy

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Contents

Summary	6
1. Introduction	8
1.1 Germany's national Sustainable Development Strategy: a compass for Germany as a sustainable finance centre	8
1.2 Sustainable finance worldwide and in Europe	11
1.3 Sustainable finance in Germany	12
2. Motivation and objectives	15
2.1 The importance of sustainable finance for financial stability and the sustainable transformation of the economy	15
2.2 Germany as a leading sustainable finance centre: goals and expectations	17
3. Fields of action and measures	18
3.1 Strengthening sustainable finance at the global and European level	18
3.2 Improving transparency	23
3.3 Strengthening risk management and supervision	26
3.4 Improving and implementing impact assessment methods	28
3.5 Financing transformation	30
3.6 The German federal government in capital markets	33
3.7 Strengthening institutions, generating and sharing knowledge	36
3.8 Creating efficient structures for implementing the Sustainable Finance Strategy	39

Summary

The Sustainable Finance Strategy is focused on financial market policy and regulation. Sustainability risks are also investment risks. Hence, in the view of the German government, financial market stability in itself is an inherent central goal of sustainable finance. At the same time, sustainable finance is closely linked to policy areas such as fiscal, environmental, human rights and development policies as well as corporate responsibility: If, for example as a result of environmental standards, certain production methods become uneconomic or assets lose value, or if subsidies are adjusted or taxes are changed, these policy measures have an impact on risks for the real economy and therefore also on the investments made by financial market players. Additional overlaps also result from the German government's activities as a financial market participant; for example, KfW promotes energy-efficient living and integrates sustainability aspects into commercial banks through its lending activities. Another example are green German Federal Securities, which have created transparency in the capital markets about environmentally friendly spending in the federal budget. At the international level too, there are overlaps in the case of, for instance, support for investments in emerging economies and developing countries.

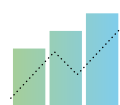
The European and national sustainable finance agendas therefore constitute an effective means of leverage for supporting and strengthening the regulatory framework for environmental protection, climate action and sustainability requirements, for example social aspects, such as the implementation of human rights due diligence in supply chains. The process is in flux both at the European level and nationally. This applies in particular to the work of the European Commission on the development of an EU-wide classification system for environmentally sustainable economic activities (taxonomy). At the same time, the financial industry is already being called upon

to seize the opportunities that arise from the need for investment and to fund innovations, to support companies in their transformation and to acquire new customers through sustainable products.

The German government is pursuing the goal of establishing Germany as a leading centre for sustainable finance. Its national Sustainable Finance Strategy is guided by the following objectives:



Objective 1: Promote sustainable finance at the European and international level



Objective 2: Seize opportunities, finance the transformation, consolidate the sustainability impact



Objective 3: Improve the financial industry's risk management in a targeted way and ensure financial market stability



Objective 4: Advance Germany as a centre for sustainable finance and build expertise



Objective 5: Establish the German government as a role model for sustainable finance within the financial system

In order to achieve these objectives, the German government proposes the following 26 specific measures, which are presented in sections 3.1. to 3.8.

No.	Measure	Time horizon
Strengthen sustainable finance at the global and European level		
1	Sustainable finance – an important topic during the German G7 Presidency 2022	Short-term
2	Promoting global dialogue	Medium-term
3	Strengthening sustainable finance in development cooperation	Medium-term
4	Strengthening sustainable finance within multilateral development banks	Short-term
5	Advancing the European sustainable finance agenda	Short and medium-term
6	Ongoing development of the EU taxonomy	Short and medium-term
7	Strengthening corporate social responsibility	Short-term
Improving transparency		
8	Strengthening non-financial corporate reporting	Medium-term
9	“Traffic light” for investment products	Medium-term
10	Improving access to sustainability-related corporate information	Short to medium-term
Strengthening risk management and supervision		
11	Improved supervision by strengthening BaFin	Short-term
12	Supporting the real and financial sector to improve risk management in relation to physical climate risks	Medium to long-term
Improving and implementing impact assessment methods		
13	Ongoing development of ESG impact assessment and evaluation methods	Short-term
Financing transformation		
14	Continuing the development of KfW into a transformation bank	Short to medium-term
15	Taking account of sustainability in the German Future Fund	Short-term
16	Taking sustainability explicitly into account in foreign trade financing	Short-term
17	Taking sustainability explicitly into account in the case of Federal Guarantees	Short-term
The German government in capital markets		
18	Establishing a green Bund yield curve	Short-term
19	Improving sustainability and transparency in the German government’s capital investments	Short-term
Strengthening institutions, generating and sharing knowledge		
20	Ensuring competent advice through the integration of sustainability aspects into expert competency exams, training courses and a broad advanced training portfolio	Short-term
21	Better informing investors	Medium-term
22	Strengthening basic research and knowledge transfer	Medium-term
23	Strengthening the dialogue with the <i>Länder</i> and local authorities	Short-term
24	Developing indicators to better measure and analyse Germany’s development as a sustainable finance centre	Medium-term
Creating efficient structures for implementing the Sustainable Finance Strategy		
25	Interministerial Sustainable Finance Working Group	Short-term
26	Perspectives for the Sustainable Finance Committee (SFC)	Short-term

1. Introduction

The Sustainable Finance Strategy represents the means by which the German government is setting the course for Germany to become a leading sustainable finance centre.

With its broad-based financial system, Germany is already in a strong position in relation to international competition. In addition to the three-pillar system of private banks, cooperative institutions and savings banks, a special feature of Germany's banking landscape is the existence of many financial institutions that, in addition to their profit-making focus, consider factors such as sustainability and acting in the public interest. This approach is very close to the idea of sustainable finance. In addition, the KfW Group is also one of the largest issuers of green bonds worldwide. Insurance companies are likewise already very active in this area.

Hence, Germany already has a great deal of expertise in this field – and the goal is to build on this.

1.1 Germany's national Sustainable Development Strategy: a compass for Germany as a sustainable finance centre

The German government's sustainability policy is based on the 2030 Agenda for Sustainable Development, with its 17 global Sustainable Development Goals (SDGs), which was adopted by the heads of state and government of the 193 member states of the United Nations in New York in 2015. The 2030 Agenda commits all member states to undertake comprehensive sustainable action in relation to environmental, economic and social issues. The 17 SDGs define a variety of interrelated thematic areas and fields of action with associated targets to be achieved by 2030.

The 2030 Agenda encompasses economic, environmental and social dimensions of sustainability in equal measure. Together with their 169 associated targets, the 17 SDGs set out a comprehensive and intertwined systemic approach. Each of the 17 goals can only be pursued in conjunction with the others and not at the expense of any of the others. They include ending all forms of poverty (SDG 1), health and well-being (SDG 3), sustainable economic growth and decent work (SDG 8), reducing inequality within and between countries (SDG 10), sustainable consumption and production (SDG 12), climate change mitigation and adaptation (SDG 13) and preserving biodiversity (SDGs 14 and 15).



The 2030 Agenda is being adopted in Germany primarily via the German Sustainable Development Strategy (GSS),¹ which focuses equally on all 17 SDGs and was last revised in March 2021. The GSS establishes that sustainable

development, as defined in the 2030 Agenda, is to be incorporated as a guiding principle in all areas, and in all decisions, and in particular as a means of strengthening sustainable economic activity. In the context of the GSS, sustainable finance is seen as a decisive lever for transformation in line with the 2030 Agenda.

¹ <https://www.bundesregierung.de/breg-en/search/sustainable-development-strategy-2021-1875228>

On 25 February 2019, the State Secretaries' Committee for Sustainable Development gave the German government the mandate to develop a Sustainable Finance Strategy for Germany with the aim of making Germany a leading sustainable finance centre and, in the process, to pay particular attention to the role of the financial markets.

Decision of the State Secretaries' Committee for Sustainable Development on 25 February 2019 (excerpt)

The State Secretaries' Committee for Sustainable Development:

- “considers the term **sustainable finance** to mean that sustainability-related issues are taken into account in the decisions made by financial market participants.”
- “requests that the Federal Ministry of Finance and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety formulate – **as part of Germany's Sustainable Development Strategy** – a Sustainable Finance Strategy in collaboration with the Federal Ministry for Economic Affairs and Energy and in consultation with all other ministries. This Sustainable Finance Strategy will aim to make Germany a leading sustainable finance centre, will facilitate dialogue and implementation at the national, European and global level, and will contribute to a concerted, structured stakeholder dialogue.”
- “endorses the creation of a **Sustainable Finance Committee** comprised of

representatives from interested ministries, the financial sector, the real economy, civil society and academia. The committee will advise the German government, monitor discussions at the European level, enhance the knowledge base, and advance sustainable finance in Germany by building momentum and by pooling stakeholders.”

- “is aware that unsustainable developments that pose risks to humankind, the environment and the real economy can have an adverse financial impact on investments and financial market participants; emphasises that financial market participants **must take these investment risks adequately into account, in their own interest** and in the interest of clients, investors and consumers; encourages financial market participants not only to take sustainability-related issues into account in order to optimise the balance between returns, risks and liquidity but also to adequately consider – in accordance with their business model – **the local and global impact on people and the environment.**”
- “is aware of the **global and European responsibility** to pursue sustainable development, is aware of the potential consequences of unsustainable investments, and is committed to identifying suitable, effective and practical options for advancing sustainable finance.”
- “finds that there are still knowledge gaps and open research questions in connection with these matters.”

Info box: The German government's understanding of sustainable finance

There is no universal definition of sustainable finance, but rather a variety of views on the meaning of this term. For the purposes of this strategy, the German government understands sustainable finance to mean that sustainability-related issues are taken into consideration in decisions made by public- and private-sector financial market participants.

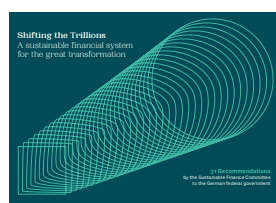
With regard to the **“sustainable” in sustainable finance**, the German government understands this to include not only climate and environmental protection (Green Finance), but also economic and social aspects (an “ESG approach” that integrates Environment, Social and Governance aspects).

The **“finance” in sustainable finance** focuses on the sustainability of financial market policy in particular. In the view of the German government, this policy area includes financial market regulation and supervision (e.g. banking supervision, insurance supervision, pension fund supervision, securities supervision, asset management, stock market supervision, resolution, consumer protection within the scope of capital market supervision, and money laundering prevention). It also includes the German government as a financial market participant (e.g. as an investor and bond issuer in the capital markets), along with development banks and guarantee and surety programmes.

The Sustainable Finance Committee of the German government

The German government established the Sustainable Finance Committee on 6 June 2019. With its committee members and observers from the financial sector, real economy, academia and civil society, it brings together expertise from a wide range of perspectives. Among other things, the Committee advises the German government on the development of its Sustainable Finance Strategy, promotes important dialogue between the various stakeholder groups and also provides important impetus for debate on sustainability at the national and European level.

➤ www.sustainable-finance-beirat.de/en



In its final report of 25 February 2021 entitled “Shifting the Trillions – A sustainable financial system for the great transformation”, the

Committee presented 31 ambitious recommendations in five fields of action:

1. **Develop a coherent and reliable policy framework focused on sustainability**
2. **Integrated and forward-looking company reporting**
3. **Research and systematic knowledge building**
4. **Financial products with an impact on sustainability**
5. **Institutional consolidation**

The German government addresses these topics in its strategy in line with the priorities set out by the Committee and makes concrete proposals for implementation (measures).

1.2 Sustainable finance worldwide and in Europe

Global action is necessary not only for the implementation of the sustainability goals, but also to strengthen financial market stability. Hence, the German government is actively engaged in promoting the development of a sustainable financial system worldwide. Key initiatives of the global sustainable finance agenda include:

- **G20 Green Finance Study Group (G20 GFSG):**² Proposals to improve risk management and data availability were developed for the first time under the German G20 presidency in 2017. After a two-year hiatus, the Study Group was revived under the Italian G20 presidency in 2021 and was institutionally upgraded to become the **G20 Sustainable Finance Working Group** with the support of the Federal Ministry of Finance. Its task is to submit practical recommendations to the G20 finance ministers and central bank governors.
- **Financial Stability Board (FSB):** With the support of the German G20 presidency in 2017, the FSB Task Force on Climate-related Financial Disclosures (TCFD) published recommendations on corporate reporting related to climate risks. These recommendations are now accepted worldwide as a reference framework.
- **Network of Central Banks and Supervisors for Greening the Financial System (NGFS):** The Deutsche Bundesbank and the Federal Financial Supervisory Authority (BaFin) have been involved in the NGFS as founding members since 2017. The NGFS identifies best practices and promotes their dissemination.

The Deutsche Bundesbank is currently heading the “scaling up green finance” work area. The NGFS now has nearly 90 members.

➤ www.ngfs.net/en

- **Coalition of Finance Ministers for Climate Action (CFMCA):** The Federal Ministry of Finance is a founding member and the coalition now has 60 member countries following the addition of the United States and Japan. Its objective is to anchor climate-relevant aspects more firmly in financial policy. To this end, the finance ministers have agreed on six “Helsinki Principles” (Principle 5 relates to sustainable finance). The German government also provides financial support to the CFMCA Secretariat.
➤ www.financeministersforclimate.org/
- **Multilateral development banks:** As a shareholder, Germany is committed to the ambitious pursuit of sustainability goals, aligning them with the objectives of the Paris Agreement and mobilising private funds.³
- **International Monetary Fund (IMF):** The German government also provides financial support to the IMF’s activities to help tackle climate change.
- **Development cooperation:** The German government supports activities to promote sustainable finance in partner countries, for example to embed sustainability in financial market reforms and the practices of financial market participants, and in the design of suitable financing instruments (e.g. KfW’s Green Bond Fund in Latin America).

² The G20 GFSG was launched under the Chinese G20 Presidency (2016) and continued under the Argentine Presidency (2018) as the “G20 Sustainable Finance Study Group” (SFSG).

³ Germany is a shareholder in the following multilateral development banks: World Bank Group, African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Caribbean Development Bank.

The importance of the European Union for financial market policy is obvious: regulating and harmonising financial market policy makes a decisive contribution to strengthening the European single market. In order to further develop its financial market policy, the European Commission has made sustainable finance a top priority and is thus **also playing a pioneering role at the global level:**

- Back in March 2018, the European Commission launched the **Action Plan for Financing Sustainable Growth**.⁴
- Sustainable finance is a core element of the **European Green Deal**, in which the European Commission will, among other things, launch measures related to the interplay of public and private investments in transformation processes on the way to a carbon-neutral European economy and society by 2050.
- Plans for the continuation and enhancement of the Action Plan are expected to be presented in the European Commission's **Renewed Sustainable Finance Strategy** by mid-2021.
- The **International Platform on Sustainable Finance** initiated by the European Union provides a multilateral forum for exchanging best practices on sustainable finance at the global level. The European Union is thus bringing its weight to bear as a participant in sustainability issues worldwide.

1.3 Sustainable finance in Germany

The German government has already promoted and supported sustainable finance during this legislative period in various ways:

- As Europe's largest national promotional bank, the state-owned **KfW Group** is an important player in the German financial market. It fulfils its leading role by promoting sustainability and climate goals through its activities, thus supporting the German government in transforming the economy and society. Funding volumes for 2020 amounted to €135bn, up 75% year-on-year due to coronavirus-related support measures. Environmental and social impact assessments in accordance with rigorous internationally recognised standards ensure the protection of the environment and human rights in projects co-financed by KfW. KfW is also one of the largest issuers of green bonds worldwide – with a total volume of around €31bn issued up to the end of 2020.
- Sustainability aspects already play a central role in the **German government's export credit guarantees (known as "Hermes Cover")**, for example in the assessment of the environmental, social and human rights impact of projects. The German government has developed a climate strategy at the national level to complement international requirements: special conditions for renewable energy projects took effect in 2020. At the same time, future guarantees for direct supplies and services for coal-fired power plants and certain oil projects were excluded. Sustainability aspects also play a major role in the **area of investment guarantees** provided by the German government. Environmental, social and human rights impacts are assessed here as well. A guarantee is only issued for projects that are also eligible under these aspects.

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

A climate strategy was also developed in this area in parallel with the procedure for export credit guarantees.

- On 2 September 2020, Germany successfully issued its first **green bond**, with a volume of €6.5bn. The 10-year green bond was met with very high demand, which was reflected in a fivefold over-subscription. The issuance of the second green bond with a volume of €5bn in November 2020 was also successful. The prices for these two securities in the secondary market show that investors are willing to pay a premium for the “green” aspect (“greenium”). A special issuing strategy has been adopted to issue the green bonds: the “twin bond” approach means that each green bond will have the same features (coupon, maturity) as a conventional “twin” bond that has already been issued. Additional information is available at: www.deutsche-finanzagentur.de/en/institutional-investors/federal-securities/green-federal-securities/
- The German **Nuclear Waste Management Fund (KENFO)**, which was established in 2017 as a foundation under public law, invests the funds transferred to it – approximately €24bn – in various investment segments in order to use capital assets and financial income to cover the disposal costs that will be incurred by the German government in the coming decades. In doing so, KENFO is pursuing a return-oriented investment approach that already integrates environmental, social and governance (ESG) sustainability criteria into its investment strategy.
- **Sustainable finance also plays a major role in financial market supervision.** With the publication of its “Guidance Notice on Dealing with Sustainability Risks” in December 2019, **BaFin** developed progressive guidelines – even by European standards – and has also done pioneering work in this area.⁵ BaFin is also a member of the steering committee of the NGFS and of the expert groups on climate-related financial market risks set up by the standard setters (e.g. the Basel Committee on Banking Supervision and the Financial Stability Board). In addition, it is providing important impetus at the European level for better quantification, measurement and management of sustainability-related risks as part of the three European Supervisory Authorities (ESAs).

⁵ BaFin, Guidance Notice on Dealing with Sustainability Risks, https://www.bafin.de/SharedDocs/Downloads/EN/Merkblatt/dl_mb_Nachhaltigkeitsrisiken_en.html?jsessionid=0715DC05EA0CE85CCDB482E22E9EC4F1.1_cid500.

Info box: Due Diligence Act

On 3 March 2021, the German cabinet adopted the draft Act concerning Corporate Due Diligence in Supply Chains (Due Diligence Act), which also includes corporate due diligence obligations in relation to financial services (banking sector). The law will oblige large companies based in Germany to better fulfil their responsibility to respect internationally recognised human rights in supply chains by implementing human rights due diligence measures. The law is based on a coalition mandate and the National Action Plan on Business and Human Rights (NAP), with which the German government expects all companies based in Germany to implement human rights due diligence in supply and value chains. The law will help shape the debate on European Union legislation and promote international understanding of corporate due diligence. The international implementation of socially and environmentally responsible supply chain management would be a milestone on the road to a sustainable global economy.

Promoting science and research is also an essential element in Germany's efforts to become a leading sustainable finance centre. Examples of projects funded by the German government include:

- The funding guideline “Climate Action and Finance”, which is part of the Federal Ministry of Education and Research’s “Research for Sustainable Development” strategy
- Projects related to the cross-cutting topic “Financial Markets, Financial Sector and Financing”, which are part of the Federal Ministry of Education and Research’s funding initiative “Economics of Climate Change”
- Federal Environmental Agency projects such as “Towards a sustainable financial sector: Empirical principles, methods and instruments”
- the Sustainable Finance Research Platform [↗ https://wpsf.de/](https://wpsf.de/)
- European Sustainable Finance Survey

2. Motivation and objectives

2.1 The importance of sustainable finance for financial stability and the sustainable transformation of the economy

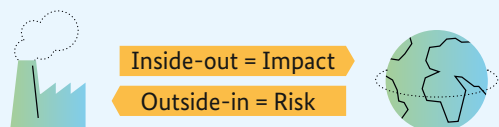
Sustainability risks resulting from climate change, the transformation to a carbon-neutral economy, loss of natural capital, human rights violations or even pandemics can entail financial risks for the real economy and directly, or at least indirectly, for the financial industry. These risks must be identified and given due consideration (risk

management). Taking into consideration sustainability criteria thus strengthens the financial system and increases stability.

Info box: Financial market stability and sustainability risks

“Financial market stability” (or financial stability) refers to a state in which the financial system efficiently performs its economic functions – especially when confronted with unforeseeable events, in stress situations as well as in phases of structural upheaval. Only a stable financial system is able to fulfil its economic functions and hence contribute to sustainable economic growth. The goal of financial stability thus relates to the entire financial system and encompasses more than the stability of individual banks and insurers.

There are two perspectives on sustainability risks in the case of some participants.



The “**outside-in**” perspective looks at risks that may **financially** affect a company or financial market participant. These risks include both the consequences of environmental changes, such as extreme weather events or the loss of biodiversity (so-called physical risks), and the consequences of

structural change and policy measures (so-called transformation risks), faced by business enterprises. These sustainability aspects are drivers of common risk categories such as credit, market, reputational, legal or operational risk and have a more pronounced effect on some business models and economic sectors than others. For investors, this may mean that they will increasingly divest from these business fields in order to avoid stranded assets or will actively aid companies in their transformation in order to mitigate risks and take advantage of business opportunities. This trend accelerates structural change, for example in cases where coal extraction and combustion are no longer financed.

The “**inside-out**” perspective considers the effects of actions taken by companies or investors on **people and the environment**. “Inside-out” risks can also develop into “outside-in” risks if, for example, environmental and social damage caused by a company is recognised by the public, resulting in claims for damages and loss of reputation. Hence, these perspectives cannot be considered in isolation.

Sustainable financing of transformation – seizing opportunities

The financial system is not only confronted with sustainability risks and challenges, however. There are enormous opportunities for the financial industry and the real economy. In the coming years, the implementation of all 17 UN Sustainable Development Goals will **require substantial investment** – in physical infrastructure and production facilities, as well as the reorganisation of processes, procedures and organisational models, training skilled workers and investment in new knowledge and innovations – on a global scale. There is an urgent need for investment not only in the transformation to a carbon-neutral economy and adapting to climate change, but also in overcoming inhumane working conditions, in increasing resource efficiency and strengthening the recycling economy, in establishing and expanding sustainable supply chains, in protecting biodiversity and ecosystems, in sustainable agriculture, food and forestry, in sustainable water management, as well as in our social and health systems, in education and culture – in short, in building and maintaining liveable, sustainable communities.

Sustainably financing the transformation opens up opportunities that the financial markets are now seizing. Opportunities for individual companies will become opportunities for society as a whole if investments consider social, economic and ecological sustainability criteria.

Info box: The Paris Climate Agreement

The **goal of the Paris Agreement (PA)** to limit global warming to well below 2°C and preferably to 1.5°C compared to pre-industrial levels and to promote climate resilience, requires the use of public as well as private financial resources worldwide. Hence the PA also includes the objective of aligning financial flows with climate objectives (Article 2.1c of the PA). Climate finance will be one of the priorities of the UK COP Presidency at the next Conference of Parties (COP26) to be held in November 2021. Sustainable finance is an important lever in this context.

The German government provides support to the financial sector by setting a clear framework for sustainable investment. These include CO₂ pricing and, for example, the **pilot programme for introducing climate protection contracts based on the Carbon Contracts for Difference (CCfD) approach**.

The German government will continue to carefully examine whether these instruments effectively support the necessary structural change while also ensuring the preservation of our industrial base. Proposals as to how, for example, individual sectors can be better supported in their transformation efforts should be the subjects of further discussion.

Sustainability in fiscal policy

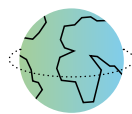
Public fiscal and budgetary policies also influence the behaviour of and decisions made by financial market participants. **Public expenditure, taxes, levies and subsidies** affect private investment and thus also the achievement of sustainability goals. This provides companies with clear **points of reference** when making investment decisions.

In addition, **public expenditure, in particular grants and investments**, make a significant contribution to sustainability both directly and indirectly by stimulating additional private investment as a result of complementary effects. Hence, the success of a sustainable finance strategy is heightened if public finances are also used as purposefully and effectively as possible in the interests of sustainable development.

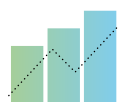
The German government recognises the central importance of a sustainable fiscal policy alongside sustainable finance. At the same time, it acknowledges the major responsibility it has to give greater consideration to sustainability concerns in its financial decisions. As a first step, the German government will examine available options for **linking the SDGs to the federal budget** as part of a pilot project. In addition, by conducting **sustainability impact assessments of subsidies**, the German government is underlining its intention to anchor the principle of sustainability more firmly in subsidy policy and to continue to dismantle environmentally harmful subsidies in a socially acceptable manner or redirect them into investments for future-oriented, socio-ecologically compatible measures.

2.2 Germany as a leading sustainable finance centre: goals and expectations

Financial market stability is of central importance to a financial centre. It is also important to ensure that the financial industry is profitable over the long term, that the financial centre is recognised worldwide, that expertise is available, and that the financial industry is making a contribution to society and the economy. The German government wants to develop Germany into a leading centre for sustainable finance and is guided by the following objectives in particular:



Objective 1: Promote sustainable finance at the European and international level



Objective 2: Seize opportunities, finance the transformation, consolidate the sustainability impact



Objective 3: Improve the financial industry's risk management in a targeted way and ensure financial market stability



Objective 4: Advance Germany as a centre for sustainable finance and build expertise



Objective 5: Establish the German government as a role model for sustainable finance within the financial system

These five objectives form the guiding framework for the Sustainable Finance Strategy and the specific measures. Many of the measures are already being implemented by the German government over the short and medium-term.

The German government expects the financial industry to manage its own sustainability risks appropriately, to take the impact of its actions into account, as well as to seize opportunities arising from the transformation of the real economy towards greater sustainability.

Sustainable finance is in the interest of every single stakeholder in the financial system and also a location advantage for Germany.

3. Fields of action and measures

3.1 Strengthening sustainable finance at the global and European level

■ Measures at the global level

The German government is aware of its global responsibility and will continue to work actively to ensure that sustainable finance plays a central role within important global bodies and in the context of international cooperation. In particular, it will promote sustainable finance in bilateral and multilateral relationships.

Measure 1: Sustainable finance – an important topic during the German G7 Presidency 2022

The German government is putting sustainable finance on the agenda for the German G7 Presidency in 2022.

In the Finance Track, sustainable finance will be an important topic at the meetings of finance ministers and central bank governors. Specific topics will be defined by the Federal Ministry of Finance in consultation with the G7 partners in the near future. Sustainable finance will also be included in the Labour and Employment Track.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Measure 2: Promoting global dialogue

The Federal Ministry of Finance, BaFin and the Deutsche Bundesbank will each strengthen dialogue at the global level and will continue to support the Coalition of Finance Ministers for Climate Action (CFMCA) and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) – for example in the form of a follow-up event to the first joint CFMCA and NGFS workshop on risk management hosted by the Federal Ministry of Finance and BaFin (November 2020).

The Federal Ministry of Finance will initiate a series of workshops on sustainable finance, for example at German embassies, with the support of the Federal Foreign Office, the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, the Federal Ministry for Economic Cooperation and Development and the Federal Ministry for Economic Affairs and Energy. These events could cover, for example, sustainable corporate governance in the real economy and financial sector in addition to questions of sustainability, human rights and environment-related risk management, transparency, financing instruments (e.g. green or sustainability bonds) or financial market regulation.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

International cooperation with partner countries

The German government supports measures in developing countries to bring financial flows in line with the Sustainable Development Goals (SDGs) and Article 2.1c of the Paris Climate Agreement. **Building inclusive and stable financial systems** is also an important part of these efforts.

Measure 3: Strengthening sustainable finance in development cooperation

The German government will expand its engagement in the area of development cooperation to promote sustainability in financial systems. This will contribute to the transformation to climate-neutral, adapted, environmentally sustainable, socially inclusive and resilient economies:

- Raising awareness and developing **sustainable finance skills** (capacity building), in particular among financial market participants, in order to embed sustainability standards in strategies, processes and practices.
- Establishing and implementing **favourable framework conditions and standards**, for example via financial market policy and regulatory reforms and incentive mechanisms.

- **Targeted expansion of the catalytic use of official development assistance⁶ (including safeguards)** to increase **sustainable private investment** to achieve the SDGs in emerging and developing countries. Among others, these include blended finance instruments such as impact funds and outcome-based finance.
- Increased engagement in **international cooperation** with global partners (including EU, G20, G7) to promote sustainable financial systems in developing and emerging economies.
- Supporting partner countries in the development of **Integrated National Financing Frameworks (INFFs)** in cooperation with the European Union and international organisations such as UNDP.
- Promoting measures that are consistent with Article 2.1c of the Paris Climate Agreement to bring financial flows in line with climate objectives.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

⁶ Official Development Assistance (ODA) is assistance provided by public authorities to developing countries or, in exceptional cases, to nationals of developing countries, or to international organisations for the benefit of developing countries, with the primary objective of promoting the economic and social development of developing countries.

Info box: Impact funds

Impact funds are investment funds that make a measurable contribution to the achievement of e.g. the UN SDGs, or support transition by avoiding structural disruptions.

By establishing a regulatory framework for development funds in the Capital Investment Code (*Kapitalanlagegesetzbuch*), the intention of the German government is to create an initial incentive to launch more development funds in Germany, too, and to mobilise private capital for achieving SDGs in developing and emerging countries.

Info box: Strengthening sustainable finance in international development cooperation

For some time, the German government has been supporting the promotion of sustainable finance approaches in developing and emerging countries, in a variety of areas, through international cooperation:

On behalf of the Federal Ministry for Economic Cooperation and Development, GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*) supports economy/finance ministries, central banks and financial institutions in countries such as Brazil and Vietnam to develop green financial markets and promote green financial products and investments. Through KfW, for example, the Federal Ministry for Economic Cooperation and Development has provided initial capital for the Latin American green bond Fund (LA GREEN); LA GREEN acts as an anchor investor in green bond issues and thus helps to create confidence in capital markets.

(Micro) financial institutions receive support in the development and expansion of certain business areas, such as financing MSMEs, within the scope of financial cooperation. This is accomplished by providing equity capital, long-term loans, and accompanying training and advanced training and education. In addition, KfW supports (micro) financial institutions on behalf of the Federal Ministry for Economic Cooperation and Development by establishing (micro) finance funds.

As part of the International Climate Initiative (ICI), the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety promotes, in particular, sustainable finance measures that support the Paris Climate Agreement and the Convention on Biological Diversity. These include, for example, the Alliance for Financial Inclusion (AFI), which supports the development of inclusive and green financial policy and regulation on behalf of the

Measure 4: Strengthening sustainable finance within multilateral development banks

The German government will work to ensure that **multilateral development banks** give even greater consideration to sustainable finance. It will do this in particular by

- Working within the **supervisory boards of multilateral development banks** to align investment portfolios with the 2030 Agenda, the Paris Climate Agreement, the Convention on Biological Diversity, and human rights conventions
- Supporting implementation of the Finance in Common declaration

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. In addition, the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety supported the 2° Investing Initiative to develop a tool for assessing investment risks in developing and emerging countries. This will allow decision makers to assess financial systems and perform scenario analysis and stress testing at a national level.

■ Action taken at the European level

The German government will continue to work with other European Union member states to ensure that sustainable finance supports the objectives of the European Green Deal in particular. This is important in order to mobilise private capital and to pave the way for a stable economy and a sustainable recovery from the Covid-19 pandemic. This also includes sustainable corporate governance measures planned by the European Commission that must be considered in conjunction with, and be compatible with, the Sustainable Finance Strategy.

Measure 5: Advancing the European sustainable finance agenda

The German government will work in particular towards ensuring that in the context of the future Renewed Sustainable Finance Strategy:

- measures at the European Union level are ambitious, consistent and feasible,
- sustainable corporate governance is strengthened (see Measure 7),
- social aspects are taken into account and introduced to a larger degree (social taxonomy and European due diligence law),

- sustainability is increasingly taken into account when granting loans, i.e. providing additional funding opportunities,
- the EU Green Bond Standard is introduced in the near-term,
- transparency requirements (such as the Disclosure Regulation, the Taxonomy Regulation, non-financial reporting and a European regulation on sustainable corporate governance⁷) are well coordinated (e.g. also include definitions of “impact investing”),
- a sustainable finance Ecolabel for financial products is established in the near-term,
- sustainable and green securitisations are appropriately regulated,
- international cooperation with developing countries and emerging economies is strengthened and
- the International Platform on Sustainable Finance (IPSF) continues to develop the Common Ground Taxonomy with the involvement of the European Union member states to create a basis for a taxonomy that can be used globally.

Primarily supports the achievement of these objectives:



Time horizon: Short and medium-term

⁷ Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (Disclosure Regulation), Regulation (EU) 2020/852 of 18 June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation) and Directive 2014/95/EU of 22 October 2014 amending Directive 2013/34/EU as regards the disclosure of non-financial and diversity information by certain large companies and groups (CSR Directive).

The Taxonomy Regulation is the European Union's central project for achieving sustainable finance objectives. It creates transparency for sustainable investments; agreement was also reached to set common sustainable finance standards, for example in the form of the planned EU Green Bond Standard (EU GBS) or in the form of a sustainable finance Ecolabel.

The taxonomy is a classification system and technical audit tool to identify particularly environmentally sustainable economic activities. This gives investors a tool to quickly check whether and to what extent they are investing in projects or economic activities that have a significant positive impact on the climate and the environment. The taxonomy is designed to serve as an ambitious benchmark to improve transparency. It is not a minimum standard; economic activities and investments that do not meet the taxonomy criteria should not be prohibited or rendered effectively impossible. The objective of the taxonomy is not to restrict financing options, but to open up new options for sustainable investments.

The German government is supporting the objective of introducing a European classification system for sustainable economic activities. This will create a uniform and comparable framework throughout Europe and will also have an international impact (other financial markets are also working on corresponding tools). Transformative processes and technologies are likewise important during the current transition phase to a decarbonised economy. They need to be adequately reflected in the taxonomy to the extent that they are compatible with the environmental and climate objectives of the European Union. The German government will continue to be involved in the ongoing work on the taxonomy and closely monitor its implementation (as of April 2021).

Measure 6: Ongoing development of the EU taxonomy

In particular, the German government will work to ensure that

- the specific requirements for all outstanding technical test criteria are made both ambitious and feasible,
- the taxonomy will continue not to include electricity generation from nuclear power and
- a social taxonomy will be developed that is well aligned with a European sustainable management regime.

Primarily supports the achievement of these objectives:



Time horizon: Short and medium-term

Measure 7: Strengthening corporate social responsibility

Within the framework of its CSR strategy ([↗ www.csr-in-deutschland.de/en](http://www.csr-in-deutschland.de/en)) and the National Action Plan for Business and Human Rights, the German government will continue to work to strengthen corporate social responsibility and sustainable corporate governance, and to work towards harmonising the sustainability criteria of the real economy with those of the financial sector, at the national and European Union levels as well as in the context of other international forums. With this objective in mind, linking sustainable finance measures with the requirements of future European due diligence legislation is particularly important.

At the European level, the German government will continue working to ensure that sustainability expertise is enhanced within relevant governing bodies. In this context, it is important that intended regulatory frameworks are not only effective, appropriate and feasible when considered individually in the context of sustainable finance and sustainable corporate governance, but also that the legislative acts and plans are compatible and internally consistent.

The Interministerial Committee on Business and Human Rights will take appropriate account of sustainable finance aspects when revising the National Action Plan on Business and Human Rights. In this way, the German government is setting an example and helping to establish policy coherence as a result of these efforts.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

3.2 Improving transparency

Financial market participants need information in order to integrate sustainability aspects into their decisions. Transparency is thus a central key to the success of sustainable finance. Particularly in the case of capital market financing, it is important for relevant corporate information to be published in a comparable and quality-assured manner. Such corporate information must also be available for financing via traditional bank loans.

However, relevant, reliable and comparable information on how sustainability risks and opportunities affect companies' business models and – vice versa – what impact corporate activities, including along the supply chain, have on sustainability aspects, is needed not only by financial market participants, investors and creditors, but also by employees, consumers, public authorities and other stakeholders.

Measure 8: Strengthening non-financial corporate reporting

The German government supports strengthening non-financial reporting requirements as part of the upcoming revision of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large companies and groups (the “CSR Directive”).

As part of future negotiations related to this Directive in Brussels, the German government will advocate, in particular, that in future:

- the **scope** of the obligation to publish a non-financial statement **is extended** to all corporations and limited partnerships that are treated as large entities for accounting purposes, to parent companies of groups that are treated as large for accounting purposes, as well as to all business enterprises listed on regulated exchanges within the European Union,
- the non-financial statement must be included in the **(consolidated) management report**, where it should comprise a separate section,
- non-financial disclosures should be required if and to the extent that the sustainability impact on the company **or** the impact of the company's activities and its business relationships on sustainability aspects is material (**double materiality**),
- **content requirements** for the non-financial statement, in particular those for reporting on sustainability risks, **should be made more precise** in the Directive itself, and should be tightened up and made more forward-looking,
- **binding European Union reporting standards** should be developed, with the participation of all relevant stakeholders. These should **incorporate the full range of sustainability aspects** and focus on relevant and, where appropriate, sector-specific and hence **"tailor-made" indicators and metrics** that are, as far as possible, **based on current global frameworks and standards** (including the recommendations of the **Task Force on Climate-Related Financial Disclosures** and standards of the Global Reporting Initiative) and

- a **substantive review** of the non-financial statement by the **(group) auditor** is required.

The German government will also monitor other European Union reporting requirements (e.g. the environmental management system EMAS and regulations in the area of sustainable finance) as well as the European Commission's sustainable corporate governance initiative and will advocate that regulations **be developed in line with current and new requirements** in order to avoid burdens on companies caused by duplicative or conflicting reporting requirements.

In the view of the German government, European requirements must not be allowed to block the way for global solutions. However, enhanced European regulations can stimulate global approaches to non-financial reporting requirements and **Europe can be a "motor" for further global development**. The objective of this development should be to elaborate uniform global standards for sustainability reporting that are **harmonised with European Union standards** and cover the **full range of sustainability aspects** based on a **dual materiality approach**.

In the view of the German government, the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)** represent an important element of uniform global standards for sustainability reporting. The German government will continue to **advocate this at the G7 and G20 levels**.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

Measure 9: “Traffic light” for investment products

If there is no European initiative from the European Commission in the near future, the German government will outline the introduction of a “**traffic light for investment products**” with the aid of the Federal Environment Agency. This includes options at the European level. The system is intended to provide investors with quick and easy information on how to assess and incorporate sustainability when investing.

This system should be based on existing regulations to ensure consistency (e.g. **EU Disclosure Regulation**) and take social as well as environmental aspects into consideration. The objective is to make the treatment of sustainability aspects transparent for investors in as many financial products as possible.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

Measure 10: Improving access to sustainability-related corporate information

The German Presidency of the Council of the EU initiated Council conclusions related to the Capital Markets Union; they were adopted by the European Union finance ministers in December 2020. A key priority is the establishment of a European Single Access Point to **financial and non-financial (sustainability-related) corporate information** for investors. The German government will work to ensure that this measure is initiated by the end of 2021.

The necessary data should be gathered from current and planned reporting obligations (especially the obligations in the Taxonomy Regulation, the planned Due Diligence Regulation and the revised CSR Directive) and from environmental statements included in the EMAS register (www.emas-register.de/en.) It may be useful to integrate other initiatives such as the European data infrastructure GAIA-X with regard to the necessary infrastructure.

Primarily supports the achievement of these objectives:



Time horizon: Short to medium-term

3.3 Strengthening risk management and supervision

The German government rejects non-risk-based capital requirements (e.g. Green Supporting Factors) and supports the approach taken by central banks and supervisory authorities: instead of reducing capital requirements across the board when risk exposures are defined as “green”, e.g. based on a taxonomy,

- capital requirements should be viewed from a risk-based perspective with regard to sustainability aspects. Sustainability risks may also increase capital requirements.
- financial market participants must identify, assess and manage these risks. To this end, they must develop suitable methods, for example as part of the lending process, in underwriting or also in stress testing (risk management).

The German government expressly supports these efforts on the part of central banks and supervisory authorities.

Measure 11: Improved supervision by strengthening the Federal Financial Supervisory Authority (BaFin)

BaFin’s mandate to advance sustainable finance is to be strengthened. The Federal Ministry of Finance will prepare a strategy before the end of 2021 setting out how BaFin is to be supported in organisational terms, for example in the form of adequate human and technological resources. In addition, BaFin will present a report by the autumn of 2021 showing how it can cooperate with other federal government agencies, such as the Federal Environment Agency (UBA) and the Federal Office for Economic Affairs and Export Control (BAFA), to take advantage of sustainability expertise.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Measure 12: Supporting the real and financial sector in improving risk management in relation to physical climate risks

The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety – with the involvement and support of ministries such as the Federal Ministry of Finance and the Federal Ministry for Economic Affairs and Energy – will commission a study using specific scenarios related to physical climate risks in Germany, such as a prolonged drought or floods in Germany, and invite tenders for a research project before the end of 2021. The aim of the research project is to formulate physical scenarios in such a way that companies in the real economy and the financial sector can improve their risk management based on these scenarios (both related to qualitative risk management and quantitative calculations, for example when conducting stress tests; see Info box). Companies in the real economy and financial sector are able to participate in the research project – for example, by means of a survey, expert interviews or as part of a case study. BaFin and the Deutsche Bundesbank will be able to contribute their respective expertise.

The objective of the project is to identify concrete risks, impact channels and data requirements. Methods and data can thus be improved in this manner and individual participants may be better able to identify their own risks in advance by participating in this exercise. This could enable them to include these risks in their risk management systems.

Primarily supports the achievement of these objectives:



Time horizon: Medium to long-term

Info box: Stress testing

The Bundesbank's banking supervisors have started to develop stress tests to examine the resilience of German financial institutions under different climate scenarios. One challenge here is that a uniform, reliable database is still lacking. This is being worked on at the national and international level.

In addition, macroeconomic models are currently being developed so that the effects of climate policy measures can be studied. Among other things, they will provide the macroeconomic framework for analyses of how vulnerable specific financial institutions, and the financial system as a whole, are under various climate scenarios. Plans call for conducting the first **stress test for the German financial system** in 2022 to capture the effects of different CO₂ price paths on financial stability in Germany.

As early as mid-2021, the ECB will publish the first results of an **EU-wide "top-down" climate stress test**.⁸ This will be followed in 2022 by the **ECB's supervisory climate stress test** for some of the large financial institutions in Europe supervised under the Single Supervisory Mechanism (SSM). This will be conducted on a "bottom-up" basis⁹ and will provide information on the resilience of banks in the euro zone to climate risks. In addition, both stress tests plan to survey banks regarding the dynamic adaptations they are making – especially adaptations in portfolio composition – and to incorporate this information into the modelling process.

⁸ The stress test will be conducted by a supervisory authority on the basis of already available data (e.g. reporting or publicly accessible data sources) without the direct involvement of the institutions concerned.

⁹ The supervisory authority will create the stress test methodology and will evaluate specific stress test results submitted by participating institutions at a later date. Each institution performs the calculation using the prescribed methodology, whereby the supervisory authority ensures a level playing field between the institutions by means of intensive quality assurance (e.g. through peer benchmarking and comparisons with top-down models).

3.4 Improving and implementing impact assessment methods

Financial products that primarily have a measurable positive sustainable impact on the environment and/or society are referred to as “impact investments”. Assessing this impact is a highly complex issue, all the more so when underlying concepts, indicators and assessment methods are not clearly defined. There are many different principles and standards – but no single framework for measuring and ranking impact investments.¹⁰

Measure 13: Ongoing development of ESG impact assessment and evaluation methods

An important objective within the context of sustainable finance is to bring the methodology for considering all 17 SDGs in investment and financing decisions to the same maturity level. For example, it is much more difficult to assess the impact of financial activities on biodiversity and ecosystem services, or safeguarding human rights, compared to assessing the climate impact of investments. This includes raising awareness on the part of investors of how investments affect different aspects of sustainability, what interactions can be expected between the different dimensions of sustainability, and how sustainability can affect the value of investments.

Hence, the German government will work to ensure that existing criteria and indicators, along with impact assessment and evaluation methods, are subject to further development as relates to sustainable loans and capital market products. In particular, this includes the methodology used in the following areas:

- **Measuring social sustainability** should also be subject to further development by applying a science-based approach. A method for reviewing the impact of corporate action is being developed, among other things, as part of sector dialogues that the German government is conducting to support companies in the implementation of their human rights due diligence obligations. In addition, the Federal Ministry of Labour and Social Affairs will address and provide a scientific basis for standardised measurability when evaluating the impact of entrepreneurial activities.

¹⁰ There are numerous initiatives working on this around the world in light of the strong trend toward “impact investing”. For example, the joint Wharton, Harvard and Booth project, see: <https://knowledge.wharton.upenn.edu/article/growth-impact-investing-depends-data/>. Also important to mention is the Multi-Stakeholder Impact Management Project that emerged from the OECD Social Impact Investing Initiative (<https://impactmanagementproject.com/>), the UNDP SDG Impact Initiative, the Impact Standards for Financing Sustainable Development published by the OECD and UNDP in April 2021, the IFC Operating Principles for Impact Management, and the IRIS+ Standards of the Global Impact Investing Network: <https://iris.thegiin.org/>

- In the areas of **biodiversity and natural capital**, among others, the German government will support the process of developing and implementing the Task Force on Nature-related Financial Disclosures (TNFD).
- The methods for financially assessing **business models** from **the recycling economy**, such as “Product as a Service” and for assessing **resource risks** are being further developed by Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the Federal Environment Agency.
- **Adaption to climate change** will be captured within the scope of scenario analyses (see also Measure 12). This includes making the impact of **water risks** clearly measurable when making investment decisions.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Info box: Voluntary commitments by financial market participants

Globally, there are a large number of voluntary standards that financial market participants can use to commit themselves to sustainability goals. They are based on initiatives by the financial sector, the UN and NGOs and, in some cases, have been established on a global basis. Examples include the UN Principles for Responsible Banking, the Principles for Responsible Investment (PRI), the UN Principles for Sustainable Insurance, the UN Global Compact, the Net-zero Asset Owner Alliance, ClimateAction100+ and the Finance for Biodiversity Pledge. German financial institutions are also signatories to many of these initiatives. However, financial market participants are likewise part of cross-sector initiatives such as the Diversity Charter and the German Sustainability Code. In addition, there are also national sustainable finance initiatives such as voluntary commitments by savings banks or voluntary commitments to climate protection by the financial sector.

3.5 Financing transformation

The German government's funding instruments play a supporting role in financing the transformation towards a sustainable economy by continuing to provide a comprehensive range of financing options and by specifically incorporating sustainability aspects.

■ KfW Banking Group (KfW)

KfW has been rated very highly by independent sustainability rating agencies for many years and is ranked among the best in international sector comparisons. KfW intends to take further action in future to maintain its top rating. This includes, for example, enhancing KfW sustainability guidelines for domestic development funding.

Measure 14: Continuing the development of KfW into a transformation bank

The German government is supporting KfW in the implementation of its sustainable finance strategy. As part of this effort, KfW is developing into a transformative development bank for a sustainable and carbon-neutral future in line with the mandate from the Climate Action Programme 2030.

KfW's banking activities aim to invest systematically in the structural opportunities presented by transformation processes, especially by targeting more funding towards transformative technologies. In terms of bank management, KfW's contribution to achieving the German government's sustainability and climate goals (see Chapter 1.1) is codified in the form of two new goals included in KfW's Strategic Objectives system: "SDG contribution from KfW financing" and "Paris compatibility of KfW financing". Another key area for action is strengthening the systematic integration of ESG risk factors into risk management.

To operationalise the two strategic goals, impact management is being established in order to be able to measure and control the effects of projects co-financed by KfW on sustainability and climate goals even more precisely. In addition, a system of sector guidelines is being implemented to ensure the compatibility of KfW financing with the Paris Agreement and to make the entire KfW portfolio climate neutral by no later than 2050. The German government bears direct responsibility for the portfolio of transactions made on its behalf.

KfW will also deepen its cooperation with participants in the German financial sector in order to strengthen innovation in the area of sustainable financial products in German financial markets.

Furthermore, the German government will evaluate which measures can be further expanded, such as the Green Bond purchasing programme or the further development of lending for investments in sustainability.

Primarily supports the achievement of these objectives:



Time horizon: Short to medium-term

■ Sustainability aspects of the German Future Fund

Within the scope of its budget authority, the German government will bear costs and risks totaling €10bn for an emerging technologies investment fund at KfW. This Future Fund (*Zukunftsfonds*) will not make investments on its own, but rather always together with private venture capital partners.

Measure 15: Taking account of sustainability in the German Future Fund

Sustainability aspects are also increasingly being taken into account in venture capital markets. Hence, the German Future Fund will also consider ESG standards in its investments on the basis of the “pari passu principle” (i.e. the Future Fund invests simultaneously and on the same terms as its independent private venture capital partners). This may include gender-related standards.

With the Future Fund, the German government is helping to ensure that start-ups in the environmental and social sectors can benefit from additional financial resources provided by the Future Fund and its financing partners, particularly in their capital-intensive start-up phase.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Federal foreign trade financing and domestic guarantees

The German government issues guarantees in the form of sureties and guarantees (or counter-guarantees in the case of guarantee banks). Within existing budgetary and financial limitations under constitutional law, and in consideration of the different funding objectives, sustainability aspects should be factored in to a greater extent when assessing economic viability (or risks) and economic eligibility for funding (opportunities and impact).¹¹

In 2020, the German government issued export credit guarantees amounting to about €16.7bn (2019: around €21bn) for new business. For 2020, the volume covered in the renewable energy sector was around €1.1bn (2019: €1.0bn); most of this amount (about €1.0bn) was targeted towards the wind energy sector.

During the same year, the German government issued investment guarantees of around €0.9bn (2019: €3.3bn) for new projects. For 2020, the volume covered in the renewable energy sector was around €56m (2019: €47m) and mainly targeted the wind and water energy sectors.

In non-pandemic times, the guarantee banks issue guarantees to an average of over 5,000 small and medium-sized enterprises every year to the tune of some €1.1bn and thus make a significant contribution to start-up and growth financing. The large-scale guarantee programme was refocused on all structurally weak regions from 2020 onwards. Up to end of 2019, the large-scale guarantee programme had been limited to the eastern German *Länder* and had made a significant contribution to their development. Up to that point, around 150 guarantees for the development of eastern Germany had been approved with a total guarantee exposure of some €8.5bn. In addition, the guarantee programmes have proved their worth as crisis instruments. The programmes had an important stabilising effect both during and after the global financial crisis. A total of 18 large guarantees with a guarantee volume of approximately €1.5bn were approved between 2008 and 2012. Since the start of the coronavirus pandemic, nine large guarantees have been approved for loans amounting to €2.68bn. Furthermore, since the start of the pandemic, guarantee banks have issued 6,473 guarantees for a loan volume of €1.9bn.

¹¹ Sustainability aspects may be included when assessing economic eligibility on the basis of this approach. However, they are not a replacement. The same applies to the sustainability risks, which may endanger the economic viability (see the requirements of no 5 of the general administrative provisions to the Federal Budget Code (*Bundeshaushaltsordnung*) regarding section 39 of the Federal Budget Code).

Measure 16: Taking sustainability explicitly into account in foreign trade financing

The German government will take sustainability aspects increasingly into account **in the assessment process before granting export credit guarantees (known as “Hermes Cover”) and investment guarantees.**

In future, the aim is for export credit guarantees to benefit from additional favourable cover conditions in addition to existing incentive models for particularly climate-friendly projects. Additional restrictions on projects that have a particularly strong negative impact on the climate are currently being evaluated. The results should be available by autumn 2021. These measures will be integrated within an international approach: together with six other countries, including France and the UK, Germany has already adopted a declaration of principle with similar objectives, committing itself above all to putting a complete stop to export financing for coal used for electricity generation (including mining and transport). Corresponding efforts are also underway at the OECD level. Similar to export credit guarantees, the climate impact of projects that receive support in the context of investment guarantees will also be subject to a comprehensive review in future.

In the case of both of these instruments, the German government is building on existing elements of its step-wise climate strategy, in the context of which improved cover conditions for renewable energy projects and cover exclusions for certain coal and oil projects have already been adopted.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Measure 17: Taking sustainability explicitly into account in the case of Federal credit guarantees

The German government will give even more explicit consideration to sustainability aspects in its federal credit guarantees, in line with the 17 SDGs. This will be done by including sustainability aspects to a greater extent when considering economic viability and economic eligibility for funding.

In future, a separate “sustainability” criterion will be included when assessing economic eligibility. The German government will coordinate with the *Länder* on this issue given that parallel federal-state guarantees are involved.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

3.6 The German federal government in capital markets

Successful issuance of Germany's first green bond

The multiple award-winning market entry of the German government into the green segment in 2020 was not only a success for the German government and Finance Agency, it also added momentum to the green bond market in Germany and **Europe**.

Transparency plays a key role in the transition to sustainable finance. In the year following the issuance of the bonds, an **allocation report** will provide details regarding the expenditures to which the bond issue's proceeds can be allocated. The German government has also committed itself to transparent **reporting on the impact** of green expenditures refinanced through these bond issues on the environment and climate (impact reporting). As a rule, this report will be published one to three years after the bond in question is issued. As a minimum, however, it will be published at least once during the maturity of the bond in question.

Measure 18: Establishing a green bond yield curve

In future, the German government will use its participation in the market to offer a benchmark for green bonds in the form of Green German Federal Securities and thus intends to make a contribution to further expansion of the market for sustainable financial instruments. The next steps in this regard are the issue of the first 30-year Green Federal Bond planned for May 2021 and the issue of a second 10-year Green Federal Bond planned for the second half of the year. The issue volume for 2021 will be on the same scale as the previous year. In future, further green bonds with additional maturities are to be issued so that a green bond yield curve can be established and become the benchmark in the green euro capital market. In this way, the German government is strengthening price transparency and the development of the green financial market.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Investments by the German government, associated funds and foundations

The German government makes investments for a variety of narrowly defined purposes using special assets and foundations (sometimes also referred to as funds) that have different volumes and investment horizons. The German government will take sustainability risks and opportunities into account in connection with its investments in the same way as institutional investors.¹² Different investment objectives must be taken into consideration in different ways.

¹² Federal investments comprise all financial investments made by federal entities (such as funds, special funds and foundations) whose investment strategies can be influenced by the German government via its representatives in executive bodies or by means of supervisory measures. However, for example, investments in accordance with section 65 of the Federal Budget Code and Economic Stabilisation Fund Act are not financial investments.

Measure 19: Improving sustainability and transparency in the German government's capital investments

German government reporting on federal investments will also be improved in terms of its coverage of sustainability aspects. The German government intends to develop a strategy with this objective in mind and will, for example, be guided by the EU Regulation on sustainability-related disclosures during this process. As soon as information is available concerning the taxonomy compatibility of federal investments, this should likewise be subject to reporting. To the extent possible, the strategy should be applied to all federal investments.

The sustainability concept will be implemented promptly by making equity investments in sustainability indices for the civil service pension reserve fund (*Versorgungsrücklage*), the civil service pension fund (*Versorgungsfonds*), the Federal Employment Agency pension fund and the provident fund for long-term care insurance. The underlying investment strategy of the investment committee will integrate ESG criteria and will combine exclusions and a selection of companies that are leaders in their industry ("best-in-class") based on their sustainability rating. Equity investments will be gradually switched to two sustainability indices that apply the EU Climate Transition Benchmark. In addition, this sustainable investment strategy also takes into consideration internationally recognised ESG norms and standards (including the United Nations Principles for Sustainable Development and the UN Global Compact).

Primarily supports the achievement of these objectives:



Time horizon: Short-term

In addition to the special funds mentioned in reference to this measure, the Nuclear Waste Management Fund (KENFO), the occupational pension fund for the public sector (*Versorgungsanstalt Bund und Länder*, VBL) and the German Federal Environmental Foundation (*Deutsche Bundesstiftung Umwelt*) will likewise take sustainability considerations into account.

- The investment strategy employed by **KENFO**, a foundation under public law, integrates ESG criteria into all investments in a yield-oriented manner – in accordance with the investment guidelines issued by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. Comprehensive ESG principles have been developed for such purposes which set out essential requirements for all asset classes held by KENFO. This approach is based on a combination of exclusions and the selection of companies that are leaders in their industry in terms of their sustainability rating (“best-in-class”). The foundation assesses the CO₂ intensity of its portfolio and regularly prepares a sustainability report for the KENFO Board of Trustees. Where possible and appropriate, KENFO takes into consideration internationally recognised ESG standards (including the UN Global Compact, the Principles for Responsible Investment and the Paris climate goals). As a member of the United Nations-backed Net-Zero Asset Owner Alliance (AOA) initiative, KENFO is also the only sovereign wealth fund in the world to date to commit to making its portfolio carbon-neutral by no later than 2050. This approach to sustainability is consistent with KENFO’s performance objectives and is intended to achieve positive and sustainable returns as well as stable performance over the long term. Initial evaluations have underlined the positive impact of sustainability criteria on performance realised by KENFO.
- As the provider of occupational pensions for public sector employees, the **VBL** is currently pursuing a multi-pronged approach consisting of exclusions, engagement and impact investing when considering sustainability criteria. This approach will be continuously evaluated and developed further.
- The **German Federal Environmental Foundation (*Deutsche Bundesstiftung Umwelt*, DBU)** was the first non-profit organisation in Germany to sign the UN Principles for Responsible Investment (UN PRI) back in 2012. It also supports the TCFD within this context. In addition, the DBU investment guidelines call for least 80% of directly held shares and 80% of listed corporate bonds to be included in a sustainability index. In addition, the DBU also invests in other sustainable investment products (such as funds targeting water and energy, as well as microfinance facilities) and in tangible assets in facilities used to generate renewable energy. The foundation’s investment strategy is regularly adjusted to reflect the needs of the market. Three of the four DBU special funds have already confirmed that they will be classified as sustainable in accordance with Article 8 of the new EU Disclosure Regulation.

3.7 Strengthening institutions, generating and sharing knowledge

Measure 20: Ensuring competent advice through the integration of sustainability aspects into expert competency exams, training courses and a broad advanced training portfolio

Financial advisers and financial consultants, e.g. insurance brokers and investment firms offering investment advice among others, will likewise be obliged to make disclosures related to sustainability factors in the wake of the Disclosure Regulation.

This requires sustainability expertise when providing advice. For this reason, the German government will work together with the chambers of industry and commerce to ensure that sustainability aspects are included in their expert competency exams and – where specified – in advanced training requirements as well as initial and continuing education and training.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Measure 21: Better informing investors

The German government will work toward providing investors with succinct information concerning reliable ESG assessment criteria, for example with the aid of the Federal Environment Agency, in order to improve consistency and focus within the multitude of available ESG standards.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

Basic research and knowledge transfer

There is a great need to identify and develop ways of integrating the 17 SDGs into the financial markets in a consistent manner. Hence, research and development in the area of how financial markets and participants can contribute to the 17 SDGs, how the respective framework can be created and how the financial sector can best respond to the profound changes in the real economy and society within the framework of the 2030 Agenda is essential. What is needed is new expertise, strategies, instruments and proposals. In light of the magnitude of these challenges, the main focus will be on closing research gaps that address medium- and long-term problems.

Measure 22: Strengthening basic research and knowledge transfer

Considering the importance of science, research and innovation for implementing the German government's Sustainable Finance Strategy, there are plans to fundamentally strengthen both basic and ongoing research.

In the short-term, the German government will examine

- whether the Sustainable Finance Scientific Platform should be expanded or supplemented to create a "Sustainable Finance Scientific and Innovation Platform" while maintaining its independence in order to strengthen links to the financial sector (the integration of relevant associations from the financial sector could provide a specific starting point), as well as whether creating links to existing structures (e.g. the Climate Protection Science Platform) would be appropriate
- whether additional research funding related to financial markets and other SDGs (beyond funding already dedicated to "climate action and finance") would be useful and what this should look like in concrete terms (e.g. positive tipping points that put the economy and the financial sector on a sustainable development path; further interactions between finance and environmental protection in the broader sense; strengthening transparency with regard to a wide range of aspects such as social sustainability)

- how European cooperation in the areas of collaborative research and knowledge exchange could be promoted (e.g. through a Joint Programming Initiative).

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

In particular, these measures should also help Germany to bolster its strategic position in the context of European and international competition based on the foundation of a robust science and research landscape.

Expanding the dialogue with the *Länder* and local authorities regarding sustainable finance

Sustainable finance is not only a global, European and national issue. In Germany for example, the *Länder* participate in the capital markets themselves at the regional level as investors and issuers. There are other participants as well in the form of regional banks (*Landesbanken*) and development institutions (*Landesförderinstituten*). These are supplemented by savings banks that largely operate at the regional level.

The Bundesbank is in regular communication with the federal government and the *Länder* in order to exchange expertise and ideas surrounding the topic of sustainability. This exchange has already been institutionalised in the form of regular Federation-*Länder* meetings on sustainable finance; the German government supports this form of exchange.

Measure 23: Strengthening the dialogue with the *Länder* and local authorities

The German government will continue, promote and strengthen the dialogue with the *Länder* and local authorities concerning specific sustainable finance issues with the participation of the relevant ministries. Without limitation, these issues may include integrating sustainability aspects into financial investments and updating and/or specifying the public interest focus of public-sector finance companies.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

The goal of becoming a leading sustainable finance centre is virtually unachievable without the contribution of the *Länder*, local authorities and, in particular, public-sector finance companies, which all play a major role in the German financial system. The German government intends to offer the *Länder* and local authorities open-ended technical consultations on the topic of sustainability and financing. The objective of these talks could be a dialogue around the question of whether the public mandate and public interest orientation can also be implemented in line with sustainability goals and, if applicable, be better defined by the *Länder*.

Measure 24: Developing indicators to better measure and analyse Germany's development as a sustainable finance centre

The German government will work towards improving the measurability of sustainable finance within Germany's financial system using indicators analogous to those included in the German Sustainable Development Strategy. This should make it possible to analyse developments in the area of sustainable finance on the basis of indicators that are as specific as possible and to see whether and how Germany is evolving into a sustainable finance centre.

The Federal Ministry of Finance will present and discuss initial ideas for quantitative indicators at a workshop as part of the first phase.

Primarily supports the achievement of these objectives:



Time horizon: Medium-term

3.8 Creating efficient structures for implementing the Sustainable Finance Strategy

Existing structures within the German government need to be better linked in order to achieve defined objectives and to implement the respective measures. Efficient institutionalisation will give sustainable finance more weight and strengthen its position within the German government.

Measure 25: Interministerial Sustainable Finance Working Group

The German government will continue its active involvement in the field of sustainable finance. The Federal Ministry of Finance and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety will work together closely with the Federal Ministry for Economic Affairs and Energy to establish a Sustainable Finance Working Group (SFWG). The objective of the SFWG is to discuss current sustainable finance issues and to support the implementation of the Sustainable Finance Strategy.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

Measure 26: Perspectives for the Sustainable Finance Committee (SFC)

The institutionalisation of the dialogue between the German government, the financial industry, the real economy, academia and civil society is of great importance and should therefore be continued.

The Federal Ministry of Finance, the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the Federal Ministry for Economic Affairs and Energy, with the involvement of all ministries, are therefore developing options and proposals for effectively continuing and evolving the SFC.

Primarily supports the achievement of these objectives:



Time horizon: Short-term

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