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On the way to a leading sustainable finance hub? Germany adopted first Sustainable Finance Strategy

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Today, Germany adopted its [first ever Sustainable Finance Strategy](#). It is a major step to activate the central role of the financial sector in achieving the goals of the Paris Agreement and the Sustainable Development Goals (SDGs) and toward becoming a key player in shaping the sustainable financial discourse in the EU and worldwide. Climate & Company highly welcomes the ambitious plan. The 26 individual measures focus on increasing transparency for non-financial information, better risk management, advocate a European approach and international cooperation and address federal funding instruments.

DISCLOSURE. To enhance transparency and to better assess physical, transitional and reputational risks, corporate non-financial or ESG (environment, social governance) disclosure is crucial. Measure 8 of the German Sustainable Finance Strategy supports strengthening non-financial reporting requirements as part of the revision of the NFRD (Non-Financial Reporting Directive), the EU law on non-financial reporting, and specifically emphasizes the concept of double materiality. The latter implies that ESG aspects are material for the firm's financial and environmental performance. We welcome this positioning on a perspective that goes beyond financial implications.

The Non-Financial Reporting Directive (NFRD) is defined for large (and mostly listed) companies plus banks and insurances. The recently published review, the proposal for a [CSRD](#) (Corporate Sustainability Reporting Directive), extends the scope from roughly 11,000 to more than 40,000 companies in the EU. Although the German strategy advocates for widening the scope, small- and medium-sized enterprises (SMEs) are not included. We encourage the German government to closely follow the work by the EU Commission regarding [proportionate reporting requirements for SMEs](#). It is important to note that in some sectors, traditional dominated by SMEs, such as agriculture and construction, large parts of the environmental impacts and risks are neither covered under existing nor the proposed non-financial disclosure requirements.

TAXONOMY. The German strategy expresses a clear commitment to the Taxonomy Regulation as “the EU's central project for achieving the goals of Sustainable Finance”. It explicitly refers to the EU Taxonomy (measures #5 and #6) and supports its extension to social issues. The Taxonomy is an EU-wide classification system for sustainable economic activities that can be applied to [the project and financial product level but also public funds](#). Climate & Company is actively involved in the development of the EU taxonomy that represents one of the most powerful levers to strengthen regulatory sustainability frameworks and to combat greenwashing. We therefore support the German government's commitment to an ambitious and practicable EU Taxonomy.

COOPERATION AT EU AND INTERNATIONAL LEVEL. Sustainable finance is an international issue since capital flows are global. The German Sustainable Finance Strategy takes this into account and actively promotes international cooperation through e.g., the International Platform on Sustainable Finance

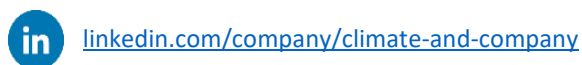
(IPSF). The strategy also recognizes the importance of and the need to support an ambitious implementation of the sustainable finance agenda at the EU level, where sustainable finance measures are needed, among others, to support the objectives of the European Green Deal. The recent legal proposals about [sustainable corporate governance](#) have a great potential to significantly enhance transparency about sustainability impacts and risks in relation to economic activities.

MEASURING IMPACT (beyond just “climate”). The German government already acknowledges the importance (and difficulties) of measuring impacts of investments on biodiversity and natural capital (measure #13). We welcome this step but stress that the decline of biodiversity and ecosystem services is a topic increasingly attracting attention in the financial sector and requiring rapid action. Lowering the biodiversity footprint as well as addressing corresponding physical and reputational risks should be high on the priority lists for sovereign, corporates and financial institutions. Future support by the German government for a comprehensive extension of the taxonomy to cover all key activities characterized by potential biodiversity and ecosystem risks and impacts (or “objective 6” of the Taxonomy Regulation) will be important.¹

CLIMATE & COMPANY’S INVOLVEMENT. Climate & Company actively works on several topics in this context to find policy solutions for a sustainable development of the financial system. For instance, Climate & Company currently implements a [project](#) for the European Commission and the International Platform on Sustainable Finance (IPSF) that compares and evaluates non-financial disclosure regulatory requirements and guidelines of 19 jurisdictions worldwide.

In addition to that, more information on non-financial disclosure can be found in the publications by the Sustainable Finance Research Platform. On the one hand, the issue of double materiality is further discussed in a [recently published policy brief](#). On the other hand, there will be a policy brief about the scope of reporting [available online soon](#).

CONCLUDING REMARKS. The German Sustainable Finance Strategy published today is an important and ambitious step for Germany (and Europe). The coming months and years will show whether Germany can fulfill its self-imposed role of a leading sustainable finance hub and successfully reap the massive potential of sustainable finance in Germany, the EU and internationally to support a green recovery and the sustainability transformation of our economies.



¹ Ingmar, our co-founder, is (as Sherpa in the EU-Platform) directly involved in the current developments of the technical screening criteria for biodiversity & ecosystems. The German Federal Agency for the Protection of Nature has commissioned substantial work on this and other key aspects of biodiversity finance to the Frankfurt School of Finance & Management, WWF and Climate & Company ([link](#)).