

Chapter 14

The Sustainable Finance Landscape in Germany

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ABSTRACT

This chapter discusses the current trend of mainstreaming sustainable finance in Germany. It provides an overview of contributions of different stakeholders to this trend and sheds light on the evolution of the sustainable finance landscape in Germany, including banks, the insurance sector, rating agencies, nonprofits, and academia. EU regulations are currently driving change and promoting sustainable finance in Germany. New policy initiatives and regulations are closely monitored and discussed by diverse stakeholders, including organisations with a long-standing expertise in promoting responsible and ethical investments. Advocacy-oriented nonprofits critically address greenwashing and engage in debates on qualitative aspects. The sustainable finance trend is expected to gain further traction in Germany.

INTRODUCTION

The purpose of this chapter is to provide an orientation in the increasingly complex field of stakeholders engaging in the sustainable finance trend in Germany. Until recently, critical analysis prevailed in assessing the contributions of Germany to shape the new trend of sustainable finance: “Germany is lagging behind other countries when it comes to developing a sustainable financial sector, despite the fact that major shifts – such as energy and transport reforms – are in the pipeline and need considerable capital” (Bassen & Zwick, 2018). However, the German government and regulatory authorities have recently stepped up their efforts to address sustainable finance in a more comprehensive way, driven by more ambitious climate policies and a series of regulatory initiatives at the level of the European Union, especially the EU Action Plan: Financing Sustainable Growth and the EU Taxonomy on Sustainable Finance as well as green lobbying and advocacy actions of various associations and nonprofits.

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The Covid-19 pandemic has tested Germany's ability to address a serious crisis. While Germany witnessed diverse manifestations of protest against Covid-19 related restrictions, the German government has by and large been credited to mount an adequate response to a crisis situation, in close consultation with scientists. The growing responsiveness of policymaking to recommendations of scientists in the Covid-19 pandemic might have prepared the ground for bolder actions on transformative policy-making, including on climate action and sustainability transitions. Germany exhibits strong analytical and planning expertise, including politically largely independent nonprofit institutes, to guide sustainability transitions, including sustainable finance policies. The 2030 Agenda for Sustainable Development and the Paris Agreement are powerful reference frameworks for a large number of state institutions, civil society institutions, and green business stakeholders. The latter carry a good deal of influence on political decision-making in Germany.

There is growing evidence that key factors supporting collaborative efforts for sustainability action are developing in a positive direction in Germany. Kuhn proposed five factors – the pentagon sustainability framework – to explain the promising developments of collaborative governance for sustainable development at country level: political leadership, discourses, in-country expertise, institutional density, and international cooperation (Kuhn, 2016). This chapter acknowledges the relevance of these factors and pays particular attention to the growing complexity of the institutional landscape and the acquired expertise by a variety of stakeholders. The analysis also provides evidence of the growing momentum in political discourses and the enhanced interest of the political leadership in promoting sustainable finance in a collaborative way and in close cooperation with other countries, especially in the context of EU sustainable finance initiatives.

The United Nations Environmental Programme (UNEP, 2015) recognized the relevance of the stakeholder theory in efforts to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy. In their recommended study "Towards a Theory of Sustainable Finance", UNEP pays extensive reference to academic literature on stakeholder theory, including Joseph Stiglitz (2010) and important contributions to stakeholder theory of Freeman (1984), Freeman et al. (2010), Gioia (1999) and others (UNEP, 2015). It would go beyond the scope of this chapter to engage in a discussion on academic theories relevant to understanding motives and interests of stakeholder engagement and interactions.

In Germany, the sustainable finance trend and the landscape of institutions are currently developing in a dynamic way. Therefore, it is hardly possible to rate the level of influence of different stakeholders in policymaking processes in an accurate way at this moment. Many stakeholders and stakeholder groups have only recently started to engage more strongly in sustainable finance. Once some of the proposed new regulations or also informal regulation and more market-based initiatives are in place and the landscape of institutions is more consolidated, future research activities would be well advised to analyze the specific influence of stakeholders.

The analysis presented in this chapter is based on a review of policy and strategy documents of political and regulatory authorities and stakeholders at different levels. The authors focus on government and regulatory authorities, banks and asset managers, institutional investors: e.g. insurance sector, pension funds, churches and foundations, rating agencies and consulting firms, lobby and advocacy-oriented nonprofits and academics. Furthermore, the authors gained valuable insights from their engagement with other researchers and experts in the context of conferences, workshops, consulting work to governmental organizations (corresponding author) and their long-standing management experience in nonprofits and networking activities in the sector, including at political level (co-author).

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