5th ESDN Peer Learning Platform

Sustainable Finance and Sustainability Check: Practical application and experiences in Europe

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Introduction

This Platform Report summarizes the 5th ESDN Peer Learning Platform "Sustainable Finance and Sustainability Check: Practical application and experiences in Europe". It was hosted by the Luxembourg Ministry of the Environment, Climate and Sustainable Development, but was held virtually. It brought together policymakers, mostly from the national level, to discuss and exchange experiences on regulation of financial markets to make them more sustainable and to mobilise private capital for the green transformation. A session in the afternoon also focused on Luxembourg's progress in establishing a sustainability check for new policies and laws.

There were three sessions:

- Session 1: Luxembourg's Approach to Sustainable Finance
- Session 2: National Level Examples of Sustainable Finance
- Session 3: Luxembourg's Sustainability Check

The main objective of the Peer Learning Platform was to have a very informal exchange and experience share between policymakers responsible for the implementation of the 2030 Agenda and the SDGs at the national and regional level and for those working on sustainable finance in their national governments. The ESDN Peer Learning Platforms operate under the Chatham House Rules, which helps to ensure that all participants are able to speak freely and honestly on the topics that will be discussed without any specifically attributed information being shared outside of the Platform. Therefore, there will be no names or personal observations or opinions of specific participants included in this Report.

Welcome

The moderator welcomed the participants and reiterated the Chatham House Rules. He highlighted the importance of sustainable finance to implementing the European Green Deal (EGD). **The transformation needs financial backing, not only from the public sector, but also the financial sector**. An important question here is how to prevent greenwashing. The Peer Learning Platform would give an overview of efforts in different European countries to green the financial system, both systemic and institutional efforts, but also the development of practical tools and methods.

A member of the Executive Committee greeted all participants and expressed their gratitude to the government of Luxembourg for organising the Platform, sharing that it was important, especially in these times, to still meet with friends and colleagues and to exchange experiences. Under normal circumstances, the Peer Learning Platform would have not only provided the opportunity for structured discussions and exchange of expertise, but also a visit to the relevant ministry.

In light of the massive investment needed for the Paris Agreement, the EGD, and the 2030 Agenda, sustainable finance is more and more important. **We need technical screening criteria for private financial investments**, as public money alone will not suffice. Involving and regulating the private sector is an important aspect of **mobilising funds for sustainable development**. In addition, a sustainability check or assessment for policies is a useful tool to **ensure policy coherence and to avoid the silo trap**, which we all are prone to falling into. They expressed their hope that the Chatham House Rules and the anonymity they provide will inspire everybody to engage in the discussions.

Finally, a representative of the government of Luxembourg welcomed participants. They explained that the latest National Strategy for Sustainable Development (NSDS) outlines ten priority fields of action, as well as a chapter on implementation. Another chapter deals with the commitments by civil society and the final chapter describes evaluation and indicators to monitor sustainable development in Luxembourg. They showed a table that represented the priorities and their connections to the SDGs. Thus, the government does not focus on specific selection of SDGs, but the priorities are linked. Sustainable finance is the 10th priority.

In the NSDS, in the chapter on governance, the last step deals with monitoring and systemic evaluation. The sustainability check is meant to help with **stepping out of the silo**. With regards to sustainable finance, the representative argued that achieving Paris, the 2030 Agenda, and the EGD **requires substantial changes in the global financial architecture** and there is already a lot of work going on. The EU taxonomy has already provided some more clarity on the EU framework. The objective of the Luxembourg government is to contribute to **a quick shift from harmful to sustainable investments**. As a major financial centre, Luxembourg has a responsibility regarding this shift. There is a number of initiatives surrounding sustainable finance in Luxembourg. At the Platform, several of these initiatives were discussed, for example the Luxembourg Sustainable Finance Initiative, the Luxembourg Financial Labelling Agency, and the Sustainable Finance Roadmap.

Session 1: Sustainable Finance in Luxembourg

Luxembourg Strategy and Sustainable Finance Initiative

Two representatives from the Sustainable Finance Initiative, gave this presentation. The presentation started outlining some key facts about sustainable finance in Luxembourg. **Luxembourg is the leader in sustainable investment funds** and a pioneer in sustainable finance labels. 50% of the world's green bonds are issued here. Luxembourg is also home to the world's first platform dedicated to green securities, the Luxembourg Green Exchange. As Luxembourg is more the back office for the financial market, the representative would call it more financial industry rather than market. The **Sustainable Finance Strategy is a way of consolidating all the different initiatives and strategies** that are going on with regards to sustainable finance. A roadmap was developed in collaboration with the United Nations Environment Programme Finance Department (UNEP FI), and the Luxembourg Sustainable Finance Initiative (LSFI) is part of this roadmap. It was set up earlier this year.

The representative from the LSFI outlined the development of the Luxembourg Sustainable Finance Strategy. Currently, a draft strategy is in the stakeholder consultation process. The official strategy is set to be launched in January 2021. The LSFI is the coordinating entity for the Strategy. Its objective is to elaborate and implement the Luxembourg Sustainable Finance Strategy to promote and help the development of sustainable finance related initiatives in Luxembourg.

The roadmap outlines seven ambitions, including **raising awareness and integrating sustainability into education and professional training, leading by example and ensuring proof of concept or leveraging financial sector expertise**. For each of the seven ambitions, initiatives already exist. Therefore, the task is more to promote these initiatives and to create new initiatives to complement the existing ones and to promote the whole strategy. The LSFI representative presented one example for the ambition to 'Develop expertise and best practice'. There is already a partnership with the University of Luxembourg to establish a sustainable finance department with a Master programme, research, certificates and PhDs. The LSFI helps the university to establish links and strengthen connections with the financial sector.

The first step in achieving the strategy was to **map all stakeholders**. There is the **traditional financial sector, on which the roadmap is mostly focusing. It is also where most change should and will be happening**. Other stakeholders are also important and will be taken into account. Luxembourg already has a developed and inclusive ecosystem with a lot of expertise, which should be included in the strategy. **Synergies should be created where possible**, especially with the financial sector. However, the consultation was still ongoing at the time of the Platform, so the representative did not want to go into too much detail.

The Strategy will be reviewed every year, together with the stakeholders. That way, the LSFI can make sure that they **respond to needs and problems that need to be solved**. In 2021, the plan is to set up the LSFI as the central contact for sustainable finance in Luxembourg. The finance sector should know that the LSFI exists and that it is there to assist everyone. Another task will be to coordinate with existing initiatives.

The Luxembourg Sustainable Finance Strategy has three pillars. Firstly, the focus will be on **awareness and promotion.** This includes coordination of the different initiatives, a website, events, and building a network of stakeholders. The second pillar is to **unlock potential**. For this, the LSFI plans to build a knowledge-sharing platform, and create different working groups. The Strategy is already listing different themes and should evolve further. Hopefully, in the process of the ongoing consultation, stakeholders will be more precise about what their needs are, so they can respond to those. There will also be different opportunities for trainings. The third pillar regards the **measuring of progress**. For

this, the LSFI is partnering with a think tank, the 2° Investing Initiative, **to investigate how much portfolios are exposed to carbon intensive industries and to what extent they lead to a 2° world.** However, the LSFI is not a supervisory authority, so participation is voluntary.

The first question by participants regarded the question of trainings: What is the plan for creating more knowledge in ministries, how would the trainings be set up and who would be the trainers?

The representative answered that **academia is a key stakeholder** for this task. Furthermore, the two ministries (Environment and Finance) are working together, and there are only very few points where they do not agree. They have approached the university a few years ago to set up the Chair for Sustainable Finance. This chair was launched in October 2020. The Institute for Technology has a project on **assessing the impact of the finance industry** and the industry is also active in teaching. The representative from the LSFI added that they are trying to mix different stakeholders and to not always have the same people around the table. This way expertise mixes and they can learn from each other.

Another question regarded the biggest hurdles in working with financial institutions. There were some hurdles, but not that many. Interestingly, the finance minister was never an obstacle, but five years ago **many civil servants were not so familiar with the topic of sustainable finance**. Those who were, often younger civil servants, were considered exotic. Convincing co-workers to collaborate was thus sometimes a little challenging. What helped was to **use the language used at the Climate COP**. The current finance minister was head of the delegation at the Kyoto COP in 1997. The central bank is more reluctant and conservative, while the oversight authority on the other hand, is very proactive. Civil society was very aggressive in the beginning.

A participant asked about the role of illicit financial flows in the Sustainable Finance Strategy. Illicit financial flows are not addressed, because those are covered by the anti-money-laundering authority. So far, it is not part of the LSFI.

To the question of the structure of the LSFI, the representative answered that it is a non-profit organisation.

Labelling System for Sustainable Finance in Luxembourg

A representative of the Luxembourg Finance Labelling Agency (LuxFlag) introduced this non-profit organisation, which was created in 2006, marking it as **one of the pioneers in sustainable finance**. The representative said that even seven to eight years ago, the notion of sustainable finance was considered alien and no one in the finance world understood what they were talking about.

LuxFlag **was jointly created by public and private partners**. From the government, the Ministries of Finance, Climate and SD, and Foreign Affairs were involved, as well as the European Investment Bank (EIB). On the private side, financial actors, such as the stock exchange, participated. LuxFlag's objective is to **promote transparency in the financial sector by labelling sustainable investment products**. These labels are a unique tool for asset managers to promote their sustainability credentials. Investors use it to choose the right products that not only claim, but also deliver on sustainable development goals and objectives.

There are two types of labels, on the one hand, there are impact labels, and on the other hand there are cross-sectoral labels, which are more focused on Environment, Social, and Governance (ESG) aspects. **ESG does not deal with the type of asset, but rather the focus is on the right process**. They also label fixed income instruments, i.e. green bonds, which use the raised capital for financing green activities.

The Agency has existed for 14 years and products are housed in ten jurisdictions in Europe. Asset managers and investors are located all over the world, so it is involved in very international activity.

In order to be labelled by LuxFlag, there is an **application process, during which documentation needs to be submitted**. There are different layers of labelling and the process has to be repeated every twelve months. For the asset manager, the greatest benefit lays in the ability to market the product more effectively. The label sets the product aside from many other products that also claim to be sustainable.

The Microfinance Label was established in 2006 as the first microfinance label in the world. At least 60% of the assets and 50% of the portfolio needs to be in microfinance to receive the label. Luxembourg is actually the leader in microfinance, with most of all microfinance investments either housed in Luxembourg or managed through it. For the climate label, 75% of the portfolio needs to be invested into climate mitigation and adaptation. They need to include certain sectors, it needs to be regulated and there needs to be a certain level of ESG transparency and exposure. There also needs to be an impact mechanism.

In addition, there is an environment label. Different to the climate label, the environment label has a broader scope in green finance, it does not require strong links to climate finance. The target funds are a little different. ESG, which focuses more on the process, does not require investment in a certain sector. In comparison to the environment and climate labels, investments can be made into any kind of sector, as long as they take ESG factors into account. The Green Bond label has the same criteria as the climate label, but it is targeted at bonds and not funds.

In the past years, there has been **substantial growth in the labels**. In the last twelve months, the amount of labels awarded by LuxFlag has doubled. The demand in labels is growing in general, as asset managers find it a useful tool.

A participant asked what the main challenges are with regards to greenwashing. The representative from LuxFlag answered, that one of the main factors that create green washing is a lack of awareness. Often people do not understand how a media fund can be ESG. However, **ESG is all about the processes and does not necessarily need to create impact**. **Impact investments are those that aim at certain environmental and social improvements**. The representative clarified the difference between ESG and impact by saying that ESG is 'doing the thing right' while impact investing is 'doing the right thing' and mobilising capital for certain goals. There are still issues with the data, but there is a lot happening to clarify what is what. This will bring more clarity around how social impact and alignment to the taxonomy can be measured. **Once the rules are set, the data will be clearer**. However, there is still **a lot of work to be done to strengthen the base around definitions and standards.**

Another participant asked whether the representative would welcome a European eco-labelling standard. They answered that LuxFlag has been involved from the outset in developing this label. It would be very much welcomed to extend these labels and highlight environmental and climate credentials. At the moment, it is linked to green activities, but it should not be confused with ESG. The representative found that **in the last draft for the ecolabel, the criteria are much milder than in the LuxFlag Climate label.** However, they believe that these labels should adhere to the highest standards and be setting the bar, instead of being the lowest common denominator.

A third question regarded the driving factors for expanding the sustainable investment sector and why it has been expanding so rapidly in the past two to three years. The representative answered that **sustainable assets are growing, but not necessarily in climate.** In terms of mobilising new capital for climate finance, growth is rather moderate and definitely not exponential. **The biggest growth is in capital that has already existed on the market for a long time and now has turned ESG**. In the representative's view, ESG is a cleansing exercise against certain standards. What we need to do, but

what unfortunately is moving much more slowly, is to mobilise new money for the SDGs. We need to raise more awareness, create new products, and attract new investors for the SDGs and for climate issues.

The EU Taxonomy and Sustainable Development: Introduction and implications

A representative of the Ministry of the Environment, Climate, and Sustainable Development explained that **finance is considered to have a key role in the** transition to a green economy. The first step in the EU Financial Action Plan was the taxonomy and then to establish labels. Overall, there are ten different planned actions. They provided a timeline for the next few steps. In December, the Delegated Act on the Taxonomy for Climate Mitigation and Adaptation will be adopted. Delegated Acts for the other four objectives are due to be adopted in December 2021. Next year, there will be legislation on **amending the Non-financial Reporting Directive and Adoption of the Commission decision on ecolabels for financial products.**

The representative of the Ministry of Finance added that the taxonomy is the Commission's answer to the question of **what is sustainable and what is a sustainable investment**. It is a tool for investors and companies. The Commission **started with environmental aspects, because of the urgency and priority of the climate crisis.** However, **there will be a social taxonomy.** The taxonomy is not mandatory, but if a company wants to be sustainable in their investments, it is mandatory. It can be seen as a tool or as **a user manual for investors, companies and manufacturers**. It helps public institutions and associations to measure their own progress. It is important to have this common framework. The representative described the difference between the ESG label by LuxFlag and the taxonomy that ESG gives the name of the recipe, for example pasta, but not the ingredients or how to make the pasta. The taxonomy now gives the exact ingredients and quantities.

The representative presented an example of applying the taxonomy. **Luxembourg has created a sustainability bond framework,** which is in line with different international standards, as well as the Technical Report on the EU Taxonomy. They identified six categories in the green dimension, in which the sustainability bonds would contribute to specific targets from the SDGs, for example green buildings and low carbon transport. For the education part, they identified five categories, including education, healthcare and social inclusion. In cooperation with Société Générale and Sustainalytics, they assessed the compliance with different frameworks. For example, Sustainalytics assessed compliance with the taxonomy. In the taxonomy, there are three main criteria that need to be adhered to: the technical screening criteria, the do-no-significant-harm principle, and the minimum safeguards. They also assessed the different subcategories and looked at how they aligned with the taxonomy. The outcome of this assessment was that the sustainable bonds are fully aligned with most of the criteria and partially with a few. This exercise took a lot of time and resources, but the representative thought that it is very important for governments to do this.

There are still a lot of **discussions whether regulation, but also available data, are sufficient.** On the other hand, there is so much happening at the moment and a lot of different regulation is emerging, such as the taxonomy, the eco-label, non-financial report etc., with some overlapping and some not overlapping. The question is how financial participants get the data that they need to prove that they align with different regulations. Not everything is 100% clear yet.

The representative highlighted the importance of finance for sustainable development. We have heard often that it is unclear how to reach the targets, but with finance, we have a tool, albeit imperfect. While the social part is still missing, at least there is a common framework. This does not only serve fund managers, but also agriculture, buildings and other sectors. This means that everyone needs to become involved in this topic.

One participant argued that to reach the SDGS by 2030 and the goals of the Paris Agreement, we need a transformation of all the sectors of industry, including energy intensive industries. They asked whether the current approach of taxonomy is respecting this need. In the chat, the representative from the Ministry of Finance answered that the answer was yes, but that this was also a huge topic of discussion. **There is a category in the taxonomy for transition activities** exactly for this purpose of enabling transitional activities to be financed under the sustainable umbrella. However, NGOs have complained that it integrates too many sectors and the criteria are not strict enough. Industry, on the other hand, complains that it does not integrate enough sectors and the criteria are too strict. Therefore, the European Commission really has to **find a balance between being too strict for the real economy and strict enough to be true to the definition of sustainability**.

Another participant asked whether it was possible to define a taxonomy exclusively for climate protection first, without harming other environmental and social targets. The representative answered that this was the purpose of the **Do No Significant Harm criterion**. That way, an activity that is classified under climate mitigation cannot harm circular economy principles, but instead has to embrace and respect them too. The consultation process for the delegated acts for adaptation and mitigation was launched last week.

Session 2: National Level Examples of Sustainable Finance

Green Finance in Austria

The representative from the Austrian Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology started their presentation by stating that **the financial sector is key in adapting business models**. We need impact finance in the transition, as public money alone will not be sufficient. It will be essential to mobilise more private capital, as these are huge volumes of money that need to be mobilised. In Austria, it is estimated that €70 million are needed to adhere to the plans of the National Energy and Climate Plan. Those would not be sufficient for the more ambitious targets that are currently discussed on a European level, and what is happening in Austria is of course embedded on an international level.

Sustainable finance is an integral part of lowering greenhouse gas emissions. Austria has three main targets, to implement a Green Finance Agenda, to develop instruments and a framework, and to involve stakeholders. Achieving the climate and energy targets should be achieved through a multi-stakeholder process.

An important aspect in the development of the Green Finance Agenda was the **cooperation between private and public stakeholders.** Furthermore, it was a close collaboration between the Ministries of Finance and Climate Action. The Austrian Green Finance Agenda is in line with the European Commission's Action Plan on financing sustainable growth and based on a comprehensive market analysis and concrete initiatives. It is also based on three pillars: 1) stakeholder dialogue; 2) technical background analyses; and 3) already existing initiatives.

The first pillar regards **stakeholder dialogue**. The Focal Group on Sustainable Finance included 25 stakeholders, including members from Austrian financial market institutions, science, public administration, interest groups and civil society. The representative said, that overall, this process was a real positive experience. Attendance was great for the meetings, as almost everyone always showed up. The representative thinks that a key factor was the **fact the inputs were implemented in the process immediately, so that when the stakeholders came back they could see their inputs were included**. The stakeholders could see that it was a serious effort to include their opinions and the Ministries received good feedback on the dialogue from the stakeholders. The process also included an **exchange between supervisory authorities and those supervised**, which was perceived as very helpful, especially with regard to climate risk management. The supervised actors asked for more guidance and methodologies and, as a result, the supervisory authorities launched a soft tools in the form of guidance on how to evaluate climate risks in financial portfolios. This was another success out of this process.

The second pillar focuses on **technical background analyses**. This included identifying green finance instruments that provide the best possible benefit, analysing green bond opportunities for Austria and analysing different laws to find barriers and flexibilities for investments in sustainable assets.

The third pillar regards **already existing initiatives**. The Green Finance Agenda has not yet been published, but it is waiting for approval by the Council of Ministers. It has been structured in a way that it can already be used and developed. Initiatives include **Green Financial Literacy** for market actors and establishing a Green Finance Alliance. The Green Financial Literacy Initiative has already been launched, as it was demanded by stakeholders. It includes the integration of environmental and climate-related topics into existing education and training programmes in the financial sector, with a **focus on the management level, customer services and schools.** Furthermore, there will be advanced training concepts for financial market actors, development of green finance instruments and preparation for future requirements, such as the new EU taxonomy.

The Initiative for Climate Related Risk Management was launched to **establish clear and efficient frameworks to ensure confidence in green and sustainable financial markets**. A soft tool was published last April. Furthermore, Austria participated in **Paris Agreement Capital Transition Assessment (PACTA)** 2020, a UN Initiative by 2° Investing. This initiative helps to assess the climate friendly orientation of financial flows. The process started in May and was the first nationally coordinated action for financial portfolios. The Ministry of Finance encouraged institutions to participate. Currently, they are waiting for results, which will be at the aggregated macro-level, as participation was anonymous. Through this initiative, it will be clear where Austria stands.

The Green Finance Alliance Initiative brings together institutions to set their own targets. In 2020 and 2021 there will be a stocktaking of the market, after which the Alliance will be launched in 2022.

Finally, the representative presented the Green Investment Hub, which is supposed to close the gap between people and ideas. It will help to operationalise and scale projects that support national energy and climate goals with minimal involvement of public funds

One participant asked whether the developed instruments will also be available for retail banking, allowing private investors to benefit from them as well. The representative answered in the chat that there are many opportunities in retail banking, for example through mutual funds and green savings accounts. While we see more of those being developed, there is still potential for growth. There are labels like the Austrian *Umweltzeichen* (Environment Label) or other European Labels (such as the development of the eco-label) that can provide guidance to retail investors regarding sustainability criteria.

Sustainable Finance Policy in Switzerland

The representative from the Federal Department of Finance started the presentation by presenting different reasons why sustainable finance policies need to be developed. **The value of investments in assets adhering to ESG criteria have soared exponentially over the past years**. Market participants join this particular market for different reasons. Some are concerned about the challenges the world faces and what impacts their actions have. Others want to make a profit, while some want to minimise ESG risks in their portfolios. We have now reached a critical mass, in which **ESG is becoming mainstream.**

Swiss banks manage more than a quarter of the world's cross-border private wealth. It is the ambition by the government, financial regulators and supervisory authorities to further strengthen Switzerland's position as one of the leading global locations for sustainable finance.

Sustainability is already deeply rooted in the Swiss financial market. The representative showed a graph with the development of sustainable investment over the past ten years. Last year, they surpassed 1 trillion CHF for the first time. The Swiss **government's role is to be a mediator and facilitator,** cultivating an intensive dialogue between the financial sector and interested third parties, in order to **create an optimal regulatory framework.** The Swiss financial centre should be a leading global force in sustainable finance and make a substantive contribution to achieving the 2030 Agenda and to sustainable development in general.

Switzerland has three objectives with sustainable finance:

Firstly, it aims to **improve the effectiveness of carbon pricing**. Market instruments, such as emissions trading, will make carbon pricing more acceptable to financial players. Secondly, **transparency on environmental risks needs to be improved**, also to avoid greenwashing. The Swiss government is

closely watching efforts on improving environmental disclosure. It is also involved in different groups, for example the Platform on Sustainable Finance in the EU. Finally, **Fintech (financial technology) will play a big role in the finance industry in the future.** Technologies, like block chain or the Internet of Things, have an **immense potential for sustainable finance decision-making and transparency**, because they can track and check climate risk data in real time in order to support climate finance and nature-based solutions. Block chain can increase supply chain transparency. The government will work closely with stakeholders of the Fintech ecosystem. The representative argued that there should be no conflict between the old and the new world of finance. We need to harness the full potential of technological innovation.

In the area of carbon pricing, Switzerland has doubled its levy on fossil fuels used in heating to USD 220 and introduced a levy on air travel. This is **one of the highest carbon levies in the world**. The number of sustainably managed funds has increased substantially.

With regards to transparency, Switzerland is highly active on the international level. To **assess the portfolio alignment with international climate goals**, it has already run its second PACTA assessment. Furthermore, it is part of the Coalition of Finance Minsters for Climate Action. It is also increasing its efforts to combat greenwashing.

A green Fintech network has been established to suggest concrete actions for both the government and the private sector and assist with its implementation. In 2020, there was a survey on green Fintech and in 2021, an action plan will be established.

The moderator asked, regarding the representative's experience in working with stakeholders, whether the established policies were clear enough. The representative answered that it is not enough to have a dialogue with the stakeholders, but that transparency also needs to be increased. Therefore, Switzerland did the climate alignment test (PACTA) twice, which was important. It is also **important to follow and monitor what is happening on the market and see whether the desired results are being achieved.**

Germany: The Significance of Sustainable Finance to the Great Transformation

The representative from the German Ministry for the Environment, Nature Conservation and Nuclear Safety said that the process of developing a sustainable finance agenda for Germany was very in line with the experiences that the other countries had presented so far. The Agenda is being developed together with the Ministry of Finance and the Ministry of the Economy. The motivation and political framing for this agenda was the **realisation that in the next few years we need significant investment and infrastructure changes.** In addition, we also need to **reorganise our knowledge and usual processes**. All of this needs to happen within the next five to ten years in order to preserve the environment, but also the industrial base. Sustainable development is decisive for successful structural change and sustainable finance is an economic necessity in Germany. For the effectiveness of economic drive, it is necessary to have a steering political framework. This is what the sustainable finance agenda should provide.

For a successful agenda, openness to change and to take responsibility is needed. Central banks need to take climate risks into account. This summer, hundreds of **big companies signed a commitment to align their investment portfolio with the Paris goals**. Germany aims to establish itself as a key player as an issuer of green bonds. Investors want to see whether investments are future proof and protect themselves against stranded assets.

The challenge is now to translate European regulation into economic action and to improve mapping of systemic and financial risks. This is a strategic opportunity to advance and shape the EGD. In Germany, efforts are underway to develop a sustainable finance strategy that is based on four pillars:

1) **Financial market regulation, supervision, transparency and coherence.** In the process of this, non-financial reporting is due to be reformed.
2) **Enabling the transformation** by supporting strong financing and change in the financing of the public sector.
3) The federal government will be **setting an example as a responsible financial market actor.** The role of fiscal policy as a role model will be developed and strengthened.
4) **Generating and sharing knowledge, research and communication**. Outreach will happen not only among national stakeholders and actors, but also be stepped up to a more European level.

A National Finance Advisory Board has been established, made up of representatives from business, finance, the economic sector, civil society, academia and research institutes, as well as representatives from the Ministries of Finance, Labour, Economy, Environment, Justice and Research. This led to a very broad and supportive group.

One of the participants asked how the Ministry of Finance feels about the idea to introduce more binding criteria for sustainability in financial and fiscal policy, including for budget distribution. The representative answered in the chat that it would be inconsistent to regulate the private market and not have an answer concerning public responsibility. Therefore the Ministry of Finance is open to discuss.

After each presentation, the representatives were asked to summarise suggestions, challenges and next steps for their country's strategy. These were recorded in a virtual flipchart, as can be seen below.

	AUSTRIA	SWITZERLAND	GERMANY
Suggestions	build good working relationship between Ministry of Climate and Ministry of Finance stakeholders need to see this is a joint and serious effort, bringing in all the stakeholder knowledge	give a clear regulation/approach or policy for financial markets to adapt strong collaboration with stakeholders	involve the business sector (especially SME's) actor mapping and a targeted communication and outreach approach
Warnings	openness to the needs of all parties concerned targeted strategies	follow closely what is happening on the market creating frameworks for efficient practical operation of the financial market	transition efforts and support activities consider the role of the government as an actor in financial markets
Questions/ Next Steps	application of the EU taxonomy in practice and on the national level adopting and publishing strategy	improving data availability ongoing journey to make a difference in practice	National Sustainable Finance Strategy as a first step towards regulation receiving recommentaitons by experts/national advisory board

Virtual Flipchart Exercise, Mural.co

Belgium: Towards a Sustainability Quality Standard and Label

A representative from the Central Labelling Agency in Belgium presented the initiative, which was launched in 2019. The Central Labelling Agency covers investment products, but also savings and

insurance products. The objective for introducing those labels was to **alleviate confusion for retail and institutional investors and avoid greenwashing.** The representative argued that it is difficult for non-ESG experts to assess what it means when a product or firm calls itself green. The larger strategy and ambition behind establishing the labelling agency was to **move the whole financial market towards more sustainability and to increase the offer of sustainable products.**

This standard has **minimal requirements, but financial institutions are encouraged to go beyond this minimum** and to focus on certain aspects. The Agency tries to define the minimum after which products can differentiate themselves from each other by focusing on different aspects of sustainability, such as being more focused on the environmental or the social dimension of sustainability.

The initiators of the Agency did not intend to create a niche, but to engage with all stakeholders, so the label can also be awarded to more conservative or defensive investors and products. It allows for the different flavours of sustainability and is aware that there can be a transition phase. It is a very dynamic label.

The label is built on three pillars. The first pillar is the **quality standard**, which defines the criteria that the product should meet. Firstly, there needs to be a **sustainable mission**, which is clearly proven in official documentation. This mission should be based on different strategies, such as inclusion and exclusion and a clear sustainable focus of the product. Secondly, **some sectors and activities are completely excluded from receiving the label**. This is based partially on the UN Global Compact, so there are standards for human rights and labour rights. In addition, coal, weapons and unconventional oil and gas are excluded. Conventional oil and gas are not completely excluded but have to adhere to very strict standards. The third criterion describes the **transparency aspect**. The label requires clear, formalised and published policies on a number of material ESG issues.

The second pillar is the actual label. It is **a tool for investors to search for suitable sustainable products** that are listed on a website. The website provides information on how a specific product meets the standards, but also in which areas it goes much further. The label is valid for one year and then needs to be renewed.

The third pillar of the label is the **independent supervision**. The whole process of labelling and the continuing development of the standard are supervised by an independent body, namely the Central Labelling Agency. Half of the Central Labelling Agency supervisory body is made up of independent members, for example ESG experts, academics and governmental agencies. The other half consists of representatives from the financial sector. The chair is always one of the independent members. The assessment of the label is done by an independent ESG consortium.

The Central Labelling Agency is only one year old, but has already experienced broad market adoption. Most sustainable products on the Belgian market either already have the label or are in the process of getting certified. Overall, 75 institutions have received the label on their products, including banks and insurance companies. 70% of the institutions that use the label are not Belgian. The large majority of the 500 products that have received the label so far are mutual funds, ETFs, insurance funds, but also a small number of savings accounts and structured notes. Thus, the label is applicable for a variety of funds. About 25% of the €250 billion that the label covers are on the Belgian market.

The label has had a substantive impact in the one year of its existence. All product managers have done an **in-depth review of their products and deepened their ESG analysis**. Many policies have been formalised and published and the composition of many portfolios has been adjusted. There are also a lot of products that newly fall into the Socially Responsible Investment (SRI) category.

The initiative is dynamic and the criteria are reviewed every two years together with a variety of stakeholders. The review process was underway at the time of this Peer Learning Platform. After a consultation process, there is a discussion phase with an advisory commission consisting of international experts on finance, ESG, climate, as well as representatives from financial markets and retail investors. The aims of this review process are to be consistent with upcoming EU regulation, discussing how to assess financial institutions themselves, and review the policy on energy. Through this, the market of sustainable products should be broadened and the level should be deepened. Eventually, **the standards will be gradually raised.**

The moderator asked whether the standard and the label are linked to the national sustainable policy and strategy framework. The representative answered that it is not really linked to a governmental or national strategy, even though the agency is in regular contact with the authorities to see how this label can be an element in moving the financial market towards playing its role in the transition. **This was a private initiative from the financial sector, as the initiators of the label did not want to wait any longer for public initiative.**

A participant asked what would happen to national labels once EU labels are available. How will this affect the national labels? The representative answered that this depends on the label that the EU puts out. **The ecolabel that the EU is currently working on is different to an SRI or ESG label as it is more specific.** The idea of the Belgian label was to guarantee minimal quality and to define a bottom line. Other, more thematic labels do not contradict this. At the moment, **these labels can easily co-exist**. Once there is a more generic EU label, the situation will be different, but a more generic EU label also seems very far away right now.

The moderator asked for the reasons behind excluding certain sectors. Without engagement, this might prevent them from moving to being more sustainable. The representative answered that there are different types of labels in Europe. Some are more focused on process and engagement and some are more focused on exclusion. The Agency conducted a survey of end investors and found that **exclusion is what these investors perceive as a sustainable product**. If they are sold a sustainable product that includes weapons, they will be shocked and will not care that there is engagement. But the CLA tried to **keep exclusions as limited as possible**. When the societal debate is still going on, for example on nuclear energy, it is included, but the CLA asks for a very clear and transparent policy. With regards to coal, in the representative's opinion, **the societal debate is over, so it is excluded**. So there are two levels of the label with regards to more contested topics; on the one hand, **there are clear exclusions, but on the other hand, they ask for clear policy.**

The moderator asked to which sectors most products belong. **Most of the labelled products are very generic, multi-sector funds.** Some are best in class funds; also there are impact funds or thematic funds. They can have all flavours of sustainability. All of the funds **need to adhere to do-no-harm principles, which always include environmental aspects**. The end investor often does not care which type of product they invest in, if it is a mutual fund or structured note, as long as it is sustainable. Therefore, all types of products should be included.

Finland: Building a Coalition of Finance Ministers for Climate Action

The representative from the Ministry of Finance started by explaining that the idea for the coalition was first proposed in Bali in 2018 at the annual meeting of the IMF and the World Bank. Six months later, it was established at a meeting in Helsinki, with the involvement of the IMF, World Bank, and the OECD. The coalition has 52 members and 20 institutional partners. It is co-led by Finland and Chile. Finland was the country who first made the proposal and Chile was chairing the COP at the time. The member countries have identified that **climate change is a serious economic policy issue that needs**

to be addressed. This will require a lot of learning and many resources. The aim is to eventually **mainstream climate to economic and financial policies.**

The member countries are mostly from the European Union, but also from Asia, South America and Africa. Many African countries have recently confirmed that they intend to join. However, **the big emitters, such as the US, China and India, are still missing**. However, there have been discussions with these countries.

Institutional partners are extremely important. For example, the Coalition has benefitted a lot from their **feedback and network.** There are six regional development banks, who have a lot of experience in working with governments. The IMF and World Bank are also working on mainstreaming climate change into their economic policies. There is also the Central Banks network, research institutions and UN Agencies.

The six strategic goals are also called the Helsinki Principles:

1) **Aligning policies with the Paris Agreement**
2) **Share experiences and expertise**
3) **Promote carbon pricing measures**
4) **Mainstream climate in economic policies**
5) **Mobilise climate finance**
6) **Engage in NDC development**

Number 3) carbon pricing measures, 4) mainstreaming of climate in economic policies and 5) mobilising climate finance can be regarded as focusing more on substance. Principles 1 and 6 focus more on procedural principles, 1) aligning policies with the Paris Agreement, is more general, while 6) regards the question of how finance ministries can be involved in the process of developing NDCs (Nationally Determined Commitments). 2) Sharing expertise and knowledge is also important, it involves thinking of ways to make sure we have the expertise that is necessary, how to help other countries, and how to bring research into the policy-making context.

Since the recent establishment of the Coalition, a lot of groundwork has been set. The Coalition has agreed on the strategy and the Action Plan, which was presented last year at the COP 25 in Madrid. It has also conducted **surveys asking members where they are and where they want to go.** There has been an important **agreement on governance principles**, which gives the Coalition a more permanent and stable footing. It includes an agreement on establishing the secretariat for the Coalition in the World Bank. Overall, there has been **a lot of political engagement from ministers and international institutions**. They have received good feedback from the stakeholders. Now, there are high expectations, but **the representative pointed out that this is a long-term work, so we cannot expect change too quickly**. Nevertheless, the work is being done.

There are a lot of challenges that need to be solved. Finance ministries have only just started to work on climate change issues, so **there are not so many capacities in terms of staff and expertise**. It will take some time to build this capacity. In addition, **it is a very top down process**, in which the ministers and high level officials are the important people to get things going. In light of the recent crisis, due to Covid-19, there have been discussions about the priorities between addressing Covid-19 and the climate crisis, but the finance ministers have agreed that both crises need to be addressed simultaneously.

Principle 5 is a broad area and there are six key areas the coalition has been working on:

1) Green taxonomies
2) Regulation & supervision

3) Align strategies of financial institutions with the Paris Agreement
4) Green bonds and financial instruments
5) Blended finance and adaptation
6) Greening financial system roadmaps

The Coalition has been **working with multilateral development banks on how to mobilise finance and to understand in which areas we need global standards.** Member countries have very different development backgrounds and different climate challenges, so the Coalition tries to address all of their different needs.

The representative finished the presentation by pointing towards recent activities by the Coalition, for example reports on Principles 1 and 6, as well as a report on how the recovery from Covid-19 can be designed with the Helsinki principles as strategic priorities. For this report, they invited 25 economists from the main research institutes. The annual report explains in detail what activity the Coalition is involved in.

To the question on how countries can best get in contact with the coalition, the representative answered the Finnish colleagues are the best point of contact in Europe. He pointed out that countries are often concerned about the commitment they would have to bring in order to join. However, **the Coalition aims to help each other, and there is no naming and shaming involved**. It is really important to get as many members on board as the train is moving very fast. Even one person working on climate in the national finance ministry is enough to join the coalition. This will open the door to bringing the expertise into the house.

On the question on how finance ministries are increasing capacity and making use of expertise that might already exist in other national ministries, the representative answered that there are different procedures. For example, recently, the Finnish Ministry of Finance invited the researcher Nicolas Stern, who is an advisor to the Coalition, to explain his research in terms of policy-making. Finland is considering establishing its own climate related research institute. In general, this is an inclusive exercise and everybody is invited to share their expertise. They have revealed best practices and the different procedures that can help with horizontal cooperation.

Finally, the representative addressed the question on the next steps for the Coalition. They are currently in the process of identifying what will be brought to the ministers next spring, when they will meet again. They are organising dialogues with different stakeholders and conducting a survey of member countries, asking about their different needs and in which direction they want to take the Coalition.

Linking Policy Planning and Budgeting with OECD Support in Romania

The representative from the Romanian Prime Minister's Office started by pointing out that today was an important day, as the National Bank organised the first meeting of the Commission on macro-prudential oversight. This commission will work on strategies for more sustainable finance, with banks, private companies and different institutions. The representative gave a short overview of Romania's Sustainable Development Strategy.

It is based on an inter-institutional framework with a strong Department for Sustainable Development near the Prime Minister's Office. This **proximity is useful, as the Prime Minister's Office has the power to bring together the different ministries, agencies and stakeholders.** An interdepartmental committee, consisting of government and civil society representatives, was established one week before the Peer Learning Platform. The National Institute of Statistics collects data and assess where

Romania stands with regard to 25 indicators for sustainable development. There are **hubs for SD in each ministry**. Together with the OECD, the government trained 90 people from different ministries, who can help with budgeting for sustainable development and provide comprehensive data on progress being made. Furthermore, there is a consultative council with representatives from academia and research.

For budgeting, the plan is to **align the budget with the SDGs starting in 2022**. Sustainable finance is a prominent topic in SDG budgeting. In September, a report by the OECD has been finalised that includes institutional steps and advice how the budget can be implemented.

The representative presented five key recommendations by the OECD to support policy coherence for sustainable development. Firstly, Romania will **strengthen its institutional framework** by bolstering the coordinating roles of the Department for Sustainable Development and the Direction of Policy and Priorities during the policy cycle. Secondly, the **sustainable development lens has to be incorporated into key government documents and processes.** There is now a good relationship with the Ministry of Finance to implement this recommendation. Thirdly, the **capacity of the public administration will be further developed** to improve awareness and analytical skills in relation to sustainable development. They are currently training around 150 people from to different institutions to increase policy coherence and to see how different institutions apply and monitor the 169 SDG targets.

As a fourth point, the **role of oversight bodies will be strengthened** to provide greater scrutiny of government actions to implement the SDGs. There are different bodies, such as the Interdepartmental Committee and the Consultative Council, as well as a sub-committee in parliament. Recently, the first report on progress on the 2030 Agenda has been submitted to parliament.

The fifth recommendation deals with **sectoral indicators.** Existing indicators and multi-level dimensions will be embedded in the development of the National Sustainable Development Indicators, which will be released next year, together with an Action Plan for 2030.

The Ministry of Public Finance has an important role in SDG budgeting. It is cooperating with the OECD to **assess national budgetary practices and procedures to see how well they correspond with the OECD Recommendation on Budgetary Governance.** In addition, they worked together to develop a **conceptual framework covering the entire budget cycle**. This includes budget formulation, budget approval, budget execution and audit, as well as qualitative dimensions. With regards to Covid-19 recovery programmes, it is important that they are assessed with respect to sustainable finance principles and the goal of greening the economy.

The representative argued that the **European Semester is a mechanism that can accelerate SDG budgeting.** During Romania's presidency, there were a number of Council conclusions that highlighted the importance of using existing mechanisms, such as the European Semester and the Better Regulation principles for better budgeting practices. From next year, this approach with the European Semester will be in place. It is an important tool to analyse the countries' own capacity based on data by Eurostat and other institutions.

The representative pointed out challenges and next steps. It is important to **introduce the SDG perspective as a priority to the line ministries.** They are currently working on a code for sustainability. Hopefully, there will be a stronger approach at the European Union level as well. The budget framework needs to be modernised. As bureaucratic institutions change slowly and can be challenging to change the mentality around how Romania builds its budget. The next steps are to **establish the national SDG indicators for 2030**, elaborate an Action Plan for the Sustainable Development Strategy 2030, **operationalise the monitoring and reporting system** and to conduct periodic assessments and reporting, on both the national and international level.

The first question was in regard to the training to increase capacity: Will sustainable finance and budgeting be included in this training? The representative answered that the Resilience and Recovery Plan from Covid-19 was launched just two days before the event. There are big priorities, but one part is focused on climate change and supporting industries like renewable energy. **It is very important to use the 2030 Agenda as a tool.** The representative had the feeling that when SD representatives were active in the committees working on this plan, it was useful to have the indicators and strategies from the 2030 Agenda. It showed to the other colleagues that this provides know-how. Having a network and establishing hubs, which is currently happening with the hubs and the training, is very important. Now, these hubs also need to be established at the local level and there needs to be more education and awareness, also with different stakeholders, especially private companies.

The moderator asked the representative to elaborate on the experience of working with the OECD as a body with external expertise. What was the main benefit of bringing in an external body? The representative answered that **the OECD has very good expertise and cooperation went really well**. They also convinced the Minister of Finance to engage in this project. As a result of the cooperation, Romania will be the only European country that will **participate in a global hub**. This hub has been established by the European Union and consists of countries from different geographic areas. We need a global approach, also with regards to sustainable finance.

The moderator asked if there were measures to guarantee that political leaders will remain committed to the SDG approach, especially with regards to budget. The representative answered that at the moment, everyone is convinced of the SDG approach. They are involved in political discussions for the budget of 2022 and will request a separate column for sustainable development. One strategy is to offer politicians different studies and impact analyses especially regarding the EGD and renewable energy. They try to **convince them that it is easier to have a strategy based on this analysis.**

To wrap up the session on sustainable finance, participants were asked to participate in a word cloud exercise. They were asked to answer the following question: From what you have heard and learned on sustainable finance: What would be the one thing you would consider as the most important to make sustainable finance happen in practice. Below you can see the result of the exercise.

Word Cloud on implementing sustainable finance, mentimeter.com

Session 3: Luxembourg's Sustainability Check

Sustainability Check of Luxembourg: Overview and Process

The representative from the Luxembourg Ministry of the Environment, Climate and Sustainable Development started the presentation by explaining the legal basis for the sustainability check. Firstly, there is the law on the coordination of national politics for sustainable development and the inter-departmental Commission on Sustainable Development. In addition, a sustainability check is mentioned in the National Plan for Sustainable Development in the chapter on governance and it is part of the governmental programme from 2018-2023.

The National Plan for Sustainable Development and its ten priorities serve as a reference document for the sustainability check. For each new draft law**, policymakers have to answer five questions on each of the priorities:**

1. Does the draft law or regulation have an impact on the priority in question?
2. In case of a negative answer, briefly explain why.
3. In case of a positive response, what are the possible positive and/or negative effects of this impact?
4. What categories of persons are affected by the impact?
5. What measures do you envisage to mitigate any negative effects and how could the positive aspects of the impact be reinforced?

For each priority, the Interdepartmental Commission for Sustainable Development has prepared **points for orientation or guidance to help colleagues who are not used to working on SD issues to understand the priorities, the 2030 Agenda and the SDGs**. The sustainability check has been tested in **pilot projects** on two laws. One of the laws, on finance, can be considered more technical, and the other one is very high on the political agenda, as it regards housing. The sustainability check will be a **mandatory part of the legislative process** and a law cannot move forward without applying the sustainability check. A digital workflow for the legislative procedure is in preparation and it will integrate the sustainability check.

After the adoption by the Council of Government, the sustainability check is forwarded to the parliament and the Council of the State. It is assessed by the Parliament during the legislative work in parliamentary committees. As part of the legislative process, **the sustainability check is publicly available** and hence accessible for civil society organisations. CSOs had been asking for a sustainability check like this for a long time.

The pilot projects uncovered a host of strengths of the sustainability check, but also a number of challenges. The elaboration by the Interdepartmental Commission on Sustainable Development, i.e. **the involvement of all ministries is a key strength**. Furthermore, the sustainability check was developed in close collaboration with the Ministry of State, with the aim of improving the quality of legislation and policy coherence. Another strength is the fact that it is publicly available for civil society. On the other hand, there are certain challenges that still need to be addressed. So far, the sustainability check is **only a soft tool and should be considered a first step**. It needs to be understood and appropriated. It is a new working method so there is **need for specific training for civil servants**.

The representative was asked how this sustainability check compares to impact assessments. They answered that they worked with the Free University of Berlin on this assessment. It is not a full impact assessment, because the **government wanted to strongly link it to the National Plan for Sustainable Development**. In addition, there will be other criteria apart from sustainability. The representative said that they were not yet at the end of the work being done and there is a lot of reflection about the

process currently. For example, the plan is to integrate a strong gender dimension, as gender equality is part of the National Plan for Sustainable Development.

Another question regarded the soft tool nature of the sustainability check. Since there is a need for ownership, it is necessary to train people. Thus the question was whether the representative exchanged with their colleagues on that. The representative answered that ownership in the ministry is a big challenge. However**, the answers to the five questions can be used and extracted for other steps of the legislative procedure.** This means it cannot be done quickly, but colleagues from other ministries have a benefit for their own work on the draft. With regards to training, this is a part of the National Plan for Sustainable Development. While they are a small team, this is a top priority for next year. There are already training sessions for civil servants, but usually they are focused on more concrete issues, for example on how SD can be integrated into public procurement. **There is no overarching training yet that deals with sustainable development in general, the 2030 Agenda or the SDGs.**

Another participant asked whether all criteria are treated equally. The representative answered that **all criteria were considered equally.** There was an idea to have a ranking, but until now this has not happened. The sustainability check will not be adopted by the parliament, but by the government. It will be part of the legislative dossier forwarded to the parliament.

One participant asked about the learning benefits from the pilot projects. The representative answered that one of the **key learnings was the need for training for colleagues**. They recounted that a colleague who was not very familiar with SD asked what a vulnerable population was. The colleague also answered certain questions that were not needed. Another conclusion was that it would be helpful if **a member of the Interdepartmental Commission could be assigned to help with filling out the check.** The representative also mentioned the law on housing, which is a very political project. There is a lack of housing in Luxembourg and it is rather expensive. The law was drafted by a working group involving many actors. The check needs to be filled out in the group, this also helps with crossing political silos.

Closing of the Peer Learning Platform

The 5th ESDN Peer Learning Platform was closed by the representative of the host country Luxembourg, who thanked the ESDN Office and all the speakers.

A representative from the ESDN Executive Committee closed the Platform by thanking Luxembourg for their efforts, thanking the moderator and the ESDN Office, and highlighted the unique chance the ESDN Peer Learning Platform offers to policymakers to only be among policymakers and to be able to go more in-depth on specific sustainable development related topics. The Executive Committee representative encouraged all participants to visit the new ESDN website and see what is going on in the ESDN. There are many events planned for next year, some of which can hopefully happen in person.


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