

KfW SUSTAINABILITY INDICATOR 2015

Germany is becoming more and more sustainable – from an economic, environmental and social point of view. The KfW Sustainability Indicator 2015 is able to build on the previous year's positive results and is based on a broad foundation. Compared with the average over the last ten years, it shows substantial improvements in every dimension of sustainability – economy, environment and social cohesion. The environmental dimension of sustainability has gained momentum compared with the previous year, which is particularly encouraging. Advances in climate protection and increased energy efficiency were the driving factors behind this development. Germany is therefore also making good progress towards meeting the United Nations' Sustainable Development Goals, which are due to be officially adopted in September 2015.

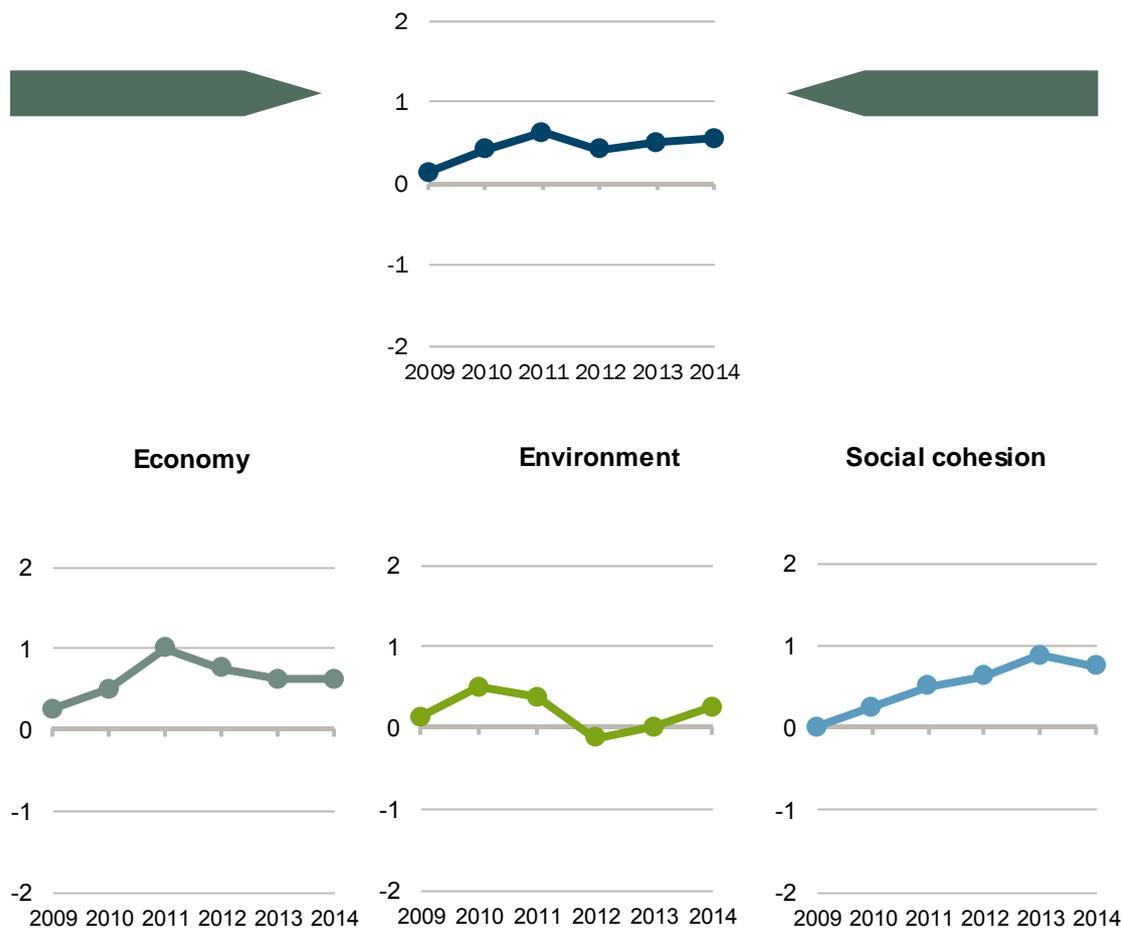
1. General overview of sustainable development in Germany

Sustainable development in Germany continues to make headway. The KfW Sustainability Indicator score for 2015 is 0.5, thereby continuing the good progress made in the previous year. The ongoing trend of increasing sustainability is based on a firm footing. Thus there were improvements against the benchmark (positive score) in all three dimensions of sustainability – economy, environment and social cohesion – in the 2014 reporting year. The United Nations also put a stronger focus on sustainable development and recently worked out the Sustainable Development Goals (SDGs). They will replace the Millennium Development Goals (MDGs) in 2016 and shall apply to industrialised countries, too. The positive results of the KfW Sustainability Indicator 2015 are cause for optimism that the SDGs can be more than just an aspiration for Germany. However, we must not rest on our laurels – this is particularly true in the areas of investment, innovation and education. There is also still a long way to go before we reach the climate protection goals.

Overview

| Scores based on average for the last 10 years | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Economy | 0.3 | 0.5 | 1.0 | 0.8 | 0.6 | 0.6 |
| Environment | 0.1 | 0.5 | 0.4 | -0.1 | 0.0 | 0.3 |
| Social cohesion | 0.0 | 0.3 | 0.5 | 0.6 | 0.9 | 0.8 |
| Total | 0.1 | 0.4 | 0.6 | 0.4 | 0.5 | 0.5 |

KfW Sustainability Indicator Total



Source: KfW

Figure: KfW Sustainability Indicator 2015 Overview

Positive progress continues in the economy dimension

The German economy once again grew in a sustainable manner during the 2014 reporting period. In a repeat of the previous year's good performance, the overall score was 0.6, and across all indicators, the average over the last ten years was once again exceeded.

Among the factors behind this result were a slight increase in expenditure on education and the fact that research and development spending came close to the target of 3%. However, there is still room for improvement, both in the key area of education and in innovation. Improvements here should be used to maintain and enhance Germany's international competitiveness as a place to do business. Progress was also made in terms of the workforce as a proportion of the overall population, which climbed to a new historic high of 54.2%. Even so, demographic change means that this position is at risk in the future unless appropriate countermeasures are taken.

As before, the key area of real capital formation remains cause for concern. The net investment rate did in fact improve somewhat in 2014, to 2.4% of GDP, compared with 1.9% in 2013. This roughly corresponds to the average over the last ten years (score 0). However, after many years of weak investment, this measure has become so easy to achieve that it is no longer an adequate yardstick for a fundamentally appropriate level of investment. Considerably more investment is required to permanently overcome many years of neglect in terms of capital accumulation. The investment package announced recently, which is aimed at expanding and modernising infrastructure, represents an initial step towards rectifying the situation.

For now, there is no reason to be concerned about growing levels of public debt. In 2014, the public debt ratio fell by 2.4 percentage points, to 74.7%, meaning that it should still be manageable in the long term, despite once again being higher than the average public debt ratio over the previous ten years (score -1). Currently, the low interest rates in Germany provide additional relief in terms of the burden on the state, providing more leeway for urgently-needed investment.

Progress in climate protection and energy efficiency provide a boost for the environment dimension

Improvements were achieved in the environment dimension of sustainability (0.3) compared with the previous year (0.0). The critical factors here were climate protection and efficient energy use, both of which are relevant to the energy turnaround. The scores in both key areas improved by a full four points, from -2 to 2.

Greenhouse gas emissions in Germany fell considerably in 2014, by 4.3%, and overall energy productivity increased by as much as 6.7%. These changes were primarily a result of the mild weather. However, even when adjusting for temperature effects, both indicators improved. It is clear that measures to protect the climate are having an impact, even though substantial efforts will still be needed if the German Federal Government's targets are to be met. There was also good news in the key area of land use. The downwards trend in the

growth of residential and traffic areas in recent years continued (score +2) in the year under review.

The key areas' efficient use of raw materials (score -1) and air pollutant emissions (score -1) brought down the overall result for the environment dimension of sustainability. Raw material productivity across the German economy as a whole declined by 0.5% compared with the previous year. Emissions of air pollutants rose by an average of 0.9%, mainly due to an increase in ammonia emissions, predominantly from farming. The biodiversity and landscape quality index also moved in the wrong direction (score -2). The goal of achieving the target population size in 2015 for 51 representative species of bird as defined in Germany's sustainability strategy should now no longer be seen as realistic. Ensuring biodiversity in Germany is therefore still a major challenge.

Social cohesion on the rise despite stagnating levels of participation in education

With an overall score of 0.8, the social cohesion dimension of sustainability achieved the best score of all dimensions in 2014. Nonetheless, sustainable development is making slower progress here than in the previous year, when an overall score of 0.9 was achieved.

Extremely encouraging progress made in the key area of health is having a particularly beneficial effect. Cancer and cardiovascular disease have declined considerably, leading to a two point increase in the score in this area – from -1 to 1. However, in view of the ageing population, it is debatable whether this momentum can be maintained in the coming years. In addition, only limited progress was made in reducing levels of smoking and the proportion of people who are overweight is constantly growing.

Further progress was also made in the key areas of security, equality, integration and international responsibility (score 1). In contrast, the key areas of education and economic and political participation stagnated. At 23.6%, the rate of low-skilled workers, i.e. the proportion of 25 to 29 year olds with no vocational qualifications, was only 0.2 percentage points below the previous year's level. However, the fact that there are fewer and fewer 'early school-leavers' in the 18 to 24 age group is good news and could reduce the rate of low-skilled workers in the medium term. The long-term unemployment rate, which is used as a measure of economic participation, stood at 2.5% in 2014 for the fourth time in a row. However, it should be taken into account that the long-term average is already very low, standing at 3.3%. Political participation was also within the long-term average. Having risen in 2010 and 2011, the population's interest in politics fell slightly in 2013 (latest data available) and is now close to the average level over the previous ten years.

2. The United Nations' Sustainable Development Goals – universal goals for sustainable development in all countries

The United Nations reached an agreement on the Sustainable Development Goals (SDGs) in August 2015, with a view to bringing about a transition to increase sustainability all over the world. The SDGs form part of the post-2015 agenda, which is due to be officially signed at the General Assembly in New York in September 2015. They are intended to replace the Millennium Development Goals (MDGs) when they expire in 2016, as well as to serve as a policy orientation for the next 15 years.

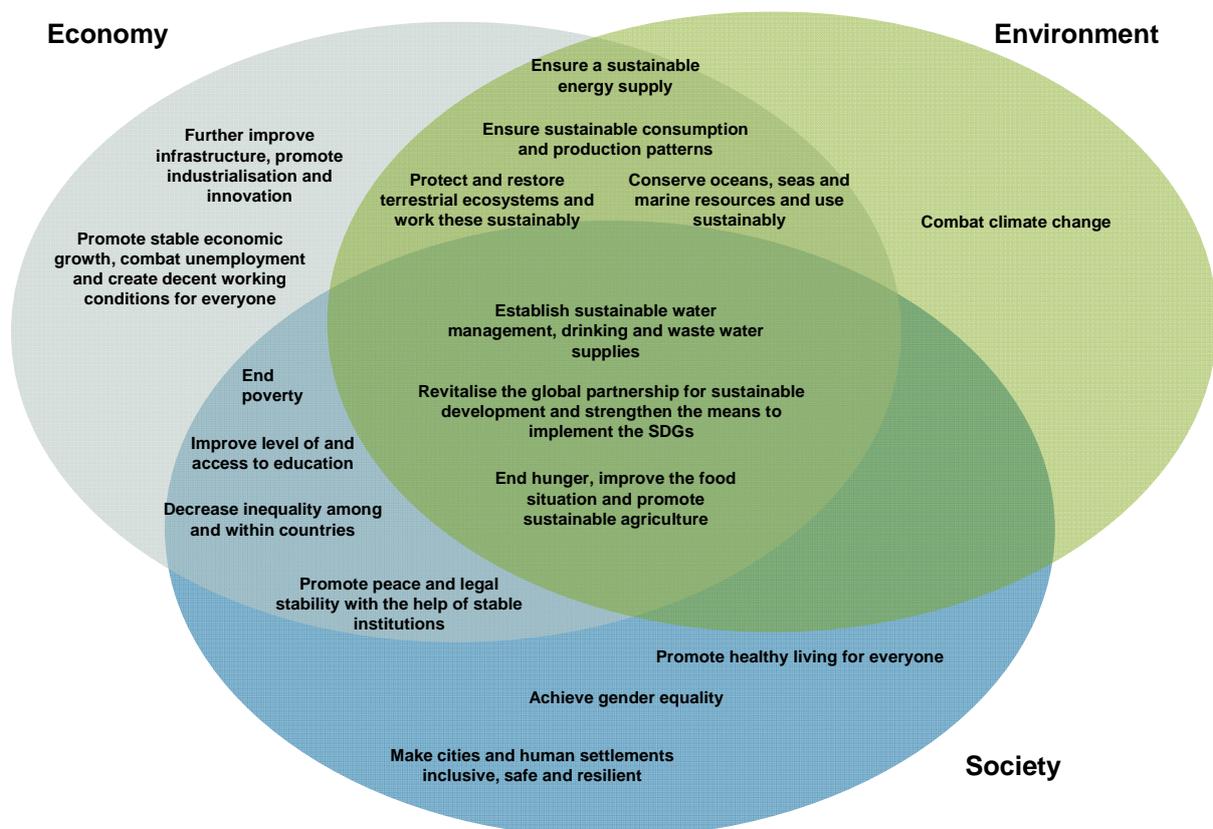
The SDGs encompass sustainable development in the areas of economy, environment and society and thus go far beyond the MDGs, which focused on combatting poverty. Unlike the MDGs, the SDGs are not just aimed at developing countries but at emerging and industrialised countries as well.

They therefore also represent standards for sustainable development in Germany up until 2030. The German Federal Government has announced that it will implement the post-2015 agenda within the framework of its national sustainability strategy and that it will consider the SDGs in the future development of its sustainability goals and indicators. The Council for Sustainable Development (*Rat für nachhaltige Entwicklung – RNE*) will provide support for this process.

The list of goals, which is based on a recommendation drawn up by an Open Working Group (OWG) with 30 members from a range of countries, is ambitious. It includes a total of 17 SDGs with 169 sub-goals, which can very broadly be assigned to the economy, environment and society dimensions of sustainability (Figure 2). It is clear from our classification that, in terms of content, there are substantial areas of common ground between the SDGs and the key areas represented in the KfW Sustainability Indicator. Health, education, equality, energy usage, climate protection, security and economic as well as political participation are just a few examples of aspects of sustainability represented in the KfW Sustainability Indicator that are also reflected in the United Nations' system of goals. However, as the SDGs are designed to be universal goals for all countries, they also cover issues that are less relevant to Germany and other industrialised countries. For example, ending hunger and poverty or providing access to drinking water is likely to represent more of a challenge for developing countries. Accordingly, governments should define national goals that use the SDGs as a global standard but take into account country-specific circumstances.

Although the SDGs have yet to be finalised and have not been translated into national sustainability goals so far, the KfW Sustainability Indicator shows that Germany is already making good progress in many of the areas identified by the United Nations. Stable economic growth, progress in combatting climate change and success in the key areas of

health, equality and security have been the driving factors for sustainable development in Germany in recent years. Yet, there is still substantial room for improvement in other areas such as investment, innovation, energy and education. The SDGs are not without their detractors. Some critics complain that the list of goals appears to be arbitrary, that operational indicators are frequently absent and that the goals are not legally binding (SDGs cannot be enforced through the courts). But ultimately they must be seen as the outcome of a difficult negotiation process where a balance had to be struck between the interests of 193 Member States with widely differing national priorities. Experience gained from the MDGs suggests that the SDGs might also have the potential to generate significant momentum. The actions of governments and public bodies will be measured against the SDGs, as will those of private enterprise and, in the end, every individual. The SDGs could give fresh impetus to making economic, environmental and societal development more sustainable all around the world – areas where Germany has already made good progress but still has some way to go. Only then can the needs of people today be met, while at the same time securing opportunities for future generations – in developing, emerging and industrialised countries.



Source: Own illustration based on the draft proposal for the UN General Assembly in September 2015, A/69/L.85.

Grafik 2: SDGs – OWG proposal

The KfW Sustainability Indicator

On the one hand, the complex sustainability concept with its three dimensions encompassing environmentally viable, socially just and economically productive development needs to be simplified. Doing so underlines the significance of sustainability in the public consciousness and promotes dialogue about ways to make it happen. On the other hand, it is also important to present the individual components so as to recognise the fact that successes in one dimension do not diminish the necessity of taking action in other dimensions where less progress has been made. The KfW Sustainability Indicator was developed in order to accomplish this. Published for the first time in 2007, it provides information on the progress of sustainable development in Germany each year.

The approach behind the KfW Banking Group's KfW Sustainability Indicator draws on scientific findings – and a separate expert report – as well as on practical experience of implementing the concepts involved. Suitable key areas were identified in the three subject areas of economy, environment and social cohesion. These were underpinned with appropriate basic indicators that are used to quantify changes within those areas and make it possible to measure the progress of sustainability over time. The uniform benchmark for all basic indicators is that at least as much progress should be made as the average over the recent past, which is defined as a rolling period of ten years prior to the year in question.

The individual pieces of information are aggregated into an overall value for the KfW Indicator using a scoring system with a five-point scale – the minimum being -2 and the maximum 2. A score of zero means that, on average, the system under consideration meets the benchmark – defined as the average over the previous ten years. A positive score means the benchmark has been exceeded ($0 < \text{score} \leq 1$) or even greatly exceeded ($1 < \text{score} \leq 2$), while a negative score shows that the benchmark was missed ($-1 \leq \text{score} < 0$) or missed by a significant margin ($-2 \leq \text{score} < -1$).

Scores are determined using the values of the basic indicators up to the reporting year in question. If a time series finishes earlier than this, the most current value available is used as an alternative.

In view of the difficulty of establishing an objective weighting method, each dimension includes the same number of key areas and basic indicators.

Detailed information on the methodology of the KfW Sustainability Indicator can be found at www.kfw.de/nachhaltigkeitsindikator.