Transcript of interview with Karsten Löffler and Linda Yang

Janet Du Chenne: Hello, and welcome to the latest episode of Deutsche Bank's *flow* podcast series. In our last episode we kicked off our big ESG idea series – where, with Gerald Podobnik, Head of Sustainability at Deutsche Bank Corporate Bank, we explored how a changing economic climate and political pressure mean that ESG is more than just about short term financial impacts for corporates, but instead should be seen as a longer term strategic imperative.

In this latest episode, we look at further topics driving the sustainability agenda, and what corporates should bear in mind when shaping theirs. I'm honoured today to be joined by our exclusive guest Karsten Lofler, who is a professional with a focus on sustainable finance and on developed and developing worlds, and is affiliated with the Frankfurt School of Finance and Management. Karsten will be sharing some insights on what corporates should bear in mind when shaping their sustainable agenda. We're also joined in session today by Deutsche Bank's Linda Yang – who is part of the sustainable finance ESG team, a newly formed division in Deutsche Bank Corporate Bank – who will also share some of her insights on sustainability in the African market.

So without further ado, let's turn to our questions, and the first question is to you Karsten. You're actively involved in shaping frameworks for sustainable finance through your membership of different committees, what would you say corporates should bear in mind when shaping their sustainable agendas?

Karsten Löffler: Yes. Thank you for having me, Janet. Hello, Linda. It's a big pleasure being on this programme. Let me start by saying that there is a very significant commitment by the financial service industry towards sustainability, and that has, from my perspective, quite an impact on the corporate world. That is very much because the regulatory and supervisory authorities communicated quite clearly what they expect from supervised institutions in terms of capturing sustainability, and in particular climate change related risks.

On the corporate side, the impact that I, in particular, see and that corporates should bear in mind is to align their business models to future sustainability objectives and to key internal and external factors that might become more and more relevant for their respective business models.

So what does that mean? From my perspective, the aim should be to focus on the transformation towards sustainable economies and those business models. And that involves two very distinct perspectives. One, a risk perspective. And secondly, an impact perspective. What do I mean by that? The risk perspective is what can happen to the organisation, to the corporate. And secondly, the impact perspective is what impact the institution or corporate has on its environment.

There's some key regulation in the making, and to some extent already in place – like the EU taxonomy, like a more ambitious disclosure regulation, the benchmark regulation that is very important for the financial sector – that drives sustainability in the financial sector and will certainly have an impact on the corporate world. There's an update coming on the non-financial reporting directive and the European supervisory authorities and national authorities are all pushing in the same direction. And that is just very easily because at the European level, there's an ambition, and that is to reorient capital flows toward a more sustainable economy. In other words, shifting the trillions. How can this be done? It's by fostering transparency and long termism, and by mainstreaming sustainability into risk management procedures. In my view, financial and corporate disclosure regulation thus will be an ever more important factor to observe. Having said that, transparency and disclosure has to be accompanied by proper incentivisation and particularly in the corporate world. Disclosure won't be the only factor to achieve the European goals that I just mentioned.

JDC: Thank you very much, Karsten. If we look at Germany in particular, could you name some of the challenges faced there, compared with the EU and the rest of the world?

KL: That's a very pertinent question actually. Germany has to play and can play quite a powerful role in the European context. First of all, the issues to be solved are of a global nature and therefore, the solutions are basically global. But without local and regional efforts, it won't move. So, there has to be frontrunners, and the European Union is certainly one of the frontrunners, and Germany is supporting the agenda of the European Commission. Having said that, Germany has some specific characteristics in its economy. It's widely known as a strong export nation, it has a very broad small and medium enterprises sector, a strong industrial core, and some very specific major challenges in some industry sectors – like the car sector, like the chemical and the steel sector, to become less emission intense. And for that transformation to happen, the financial sector has to play a role in order to actually finance that transition.

So that is from my perspective, the biggest challenge we face right now. And that requires political leadership. And for the German government, for parliament, the most critical point to address or maybe to recognise and to accept, is what role Germany wants to take to push the agenda further on the European level and nationally. Basically, it comes down to the question: If Germany wants to be a shaper or a taker of the transformation that will happen, I am absolutely convinced, in the financial sector accompanying the real economy that is to undergo significant shifts.

JDC: Very insightful, thank you. And in one of your previous roles, you actually helped a German corporate to integrate climate change considerations into their DNA. So, I'm quite keen to hear from you what were the key success factors on that journey?

KL: Actually my experience of that was very exciting. My very basic experience was that initial ideas took roughly two years to come to fruition. Why is that? Those ideas need to be digested on various levels. First, one has to convince colleagues that it's actually a very good idea, and then it goes up the hierarchy. What helps certainly is to have not only in mind the respective organisation, but the broader environment, like peers, industry associations, and how to frame a business-friendly way of moving the needle.

It's very important to find a business approach, and to find good business sense in any change. That might sometimes require that a longer time horizon needs to be taken, that actually is in line with what the European Commission has on its agenda, i.e. supporting long termism, which in some contexts might not be that easy. In my experience is that it comes down to a key success factor: that C-level people buy into the change agenda and support those agendas with their personal commitment, so that employees get empowered and provided the freedom to work on actual solutions. And that requires a strong circular process between C-level people, middle management and employees who are actually driving change on the ground – accompanied by putting this to the front role as a strategic priority, and to avoid loss of focus and any kind of corporate or broader economic crisis. And last, that personal conviction on C-level is a clear plus. So, when there is a lucky situation that the C-level person understands that transformation actually is important for his kids or her kids, then it's already quite a substantive achievement, quite a big achievement.

JDC: Great, thank you for sharing your experience there and for going into some of the key ingredients for pursuing a successful sustainable agenda. If we cast the sustainability net further afield, Linda I'd like to hear from you because you've previously worked on business strategy for the

African market at Deutsche Bank, and so I was very keen to hear in what ways this is a market that you've noticed that other markets can learn from?

Linda Yang: Thank you for the question Janet, and also thanks for having me in today's podcast. I'm excited to speak about sustainability and ESG with Karsten and you.

With respect to your question, as you can imagine, Africa is quite different from the rest of the world in terms of market structure, level of economic development, customer demands and needs. So, we as a bank would also provide the respective products and services that fit the market needs. So specifically for Africa, we offer highly complex, often very long term structured financings for, for instance, infrastructure projects or commodity trade activities. So how does this translate into the ESG context? From my experience, I would say that most transactions that we do in Africa are in the social space. For instance, we have provided financing to a national text collection infrastructure in Angola. We also financed the upgrade and modernisation of educational institutions in Ghana, and we also financed an infrastructure for drinking water in Kenya. So all in all, my observations are that we are quite focused on the S or the social aspect within ESG.

So, I have a question for you Karsten as, in one of your projects at the United Nations Environment Programme, you are working closely with the Afreximbank and the French development agency to drive sustainable export and import trade activities. And given that I also work in this market I would like to ask you what ESG-specific challenges corporates face, in your opinion, in Africa, and what kinds of solutions they could engage in to support a sustainable low carbon development with their business activities?

KL: Yeah, that’s a great question, thank you. So, at the Frankfurt School, we work with Afreximbank, whose mission is to further develop its member countries. In that context, we support the bank to develop and to roll out a climate finance strategy. It's not only working on standalone products or transactions but to align African banks, Afreximbank’s entire operations and procedures accordingly. In that sense, ESG is an important component of the collaboration, and we review the risk management processes first of all. In addition, we advise the bank whether its processes need updated. In that sense, when it comes to a collaboration of Afreximbank with corporates in Africa, ESG is actually playing an increasing role. Though, it comes from a rather low level.

In particular, corporates are quite challenged by, let's say, unclear and often rather low local regulations. Adhering to stricter international standards would be possible on a voluntary basis, but then that might involve significant additional cost – putting those corporates at a disadvantage to competitors. In that sense, ESG considerations are certainly less mainstream in the corporate sector though awareness and respective capacities, though still low are slowly on the rise.

That is maybe even because financiers still don't require adherence to strict standards, and that corporates do not feel the necessity right now, beyond adherence to local regulation. This underpins the importance that financial institutions have in in the in the environment of an economy. So, again, the importance of financial institutions in the ecosystem, in an economy, to lead the way and to foster change with respect to sustainability. And what the example of Afreximbank clearly shows is that there is momentum, increasingly so, and that the sector, in particular the financial sector, is starting to move.