

VALoRE: VALUES REGULATION - EUROPE

GLS BANK

CASE STUDY REPORT

NOVEMBER 2022



Global Alliance for
Banking on Values



Funded by

**OPEN SOCIETY
FOUNDATIONS**

Never doubt that
a small group
of thoughtful,
committed citizens
can change the world;
indeed, it's the only
thing that ever has.

Margaret Mead, Anthropologist



Team members

Prof DR André Nijhof
DR Adriana Kocornik-Mina

On behalf of the Global Alliance for Banking on Values

TABLE OF CONTENT

Executive Summary	<u>4</u>
Introduction	<u>5</u>
Step 1: Defining the market	<u>6</u>
Step 2: Focus on the main sustainability challenges in this market	<u>8</u>
Step 3: Back-cast the future you envision	<u>10</u>
Step 4: Analyse the current System loops	<u>12</u>
Step 5: Map the maturity of the initiatives so far	<u>15</u>
Step 6: Use the stakeholder matrix – Who needs to do what	<u>19</u>
Step 7: Develop and refine your actionable strategy	<u>20</u>
Discussion and conclusions	<u>21</u>

EXECUTIVE SUMMARY

This case study reports whether or not GLS Bank is an industry game changer for the financial sector and, if so, how. To answer these questions, it is important to keep in mind that although GLS Bank is a relatively small cooperative bank, it has an undisputed place as frontrunner in sustainability in both the German and international markets. While its direct influence on other parts of the financial sector might be limited by size, it has indirect influence (and a growing one at that). Both dimensions are assessed in this case study report. With regards to direct influence, GLS Bank has a strong impact on its clients and communities.

During periods of crisis, GLS Bank has not only maintained but also grown its number of clients. Its investments in stable sectors that meet basic client needs (including renewable energy, social affairs and health, and affordable housing) are an important reason for this growth. GLS Bank also exists at the frontier of reimagining banking, evolving into the bank of tomorrow based on a social-ecological approach. As the name of this approach implies, the activities of GLS Bank cannot be easily separated into either mainly social or mainly ecological. Rather, the holistic lens applied by GLS Bank integrates both social and environmental visions of the future into its decisions and activities.

Regarding indirect influence, GLS Bank acts as an example for other banks (both inside and outside Germany) of both the opportunity and the responsibility of financial institutions to transform the real economy into a 1.5-degree, inclusive future. Through its actions, GLS Bank is looking to change system dynamics in the financial sector by moving from phase 2 to phase 3 in the phases of sustainable market transformation.

Furthermore, the indirect influence of GLS Bank is linked to changing market dynamics in the financial sector (moving from phase 1 to phase 2). GLS Bank's commitment to stabilisation, the requirement for

societies to respect planetary ceilings and social floors, is in line with the doughnut model of Kate Raworth¹. Furthermore, GLS Bank uses this for the integration of scientific methods to inform its activities such as with the XDC model. Market actors, including competitors and regulators, now look at GLS Bank to learn how to integrate sustainability risks into sustainability models, including a broader understanding of how portfolios are affected. GLS Bank's approach goes further than current regulatory mandates, starting with clients' understanding of their own CO2 emissions before moving on to the evolution of the business model for stabilisation.

The integration of addressing environmental and social challenges into the business model of banks requires a moral stance. For members of the GABV, like GLS Bank, this moral stance is based on key principles that are embedded in the culture of the organisation. A values-based bank like GLS Bank embraces an intentional approach to People, Planet and Prosperity. This approach is enacted not only by the exclusion of investments they do not want to be associated with, but also by actively using and evolving finance to do good through the use of science-based assessments of potential impacts that respect planetary ceilings and social floors. The most effective way to increase GLS Bank's impact on the acceleration of market transformation towards respecting social floors and planetary ceilings is through the use of action knowledge, creativity and courage, and dissemination, engagement and demonstration. From the perspective of other actors, this would enable GLS Bank to both envision and continue to push the future frontier of sustainability not only in Germany, but also internationally.

Ideally, more banks will start experimenting with stabilisation (phase 1) and, after some time, the focus can shift to making respect for planetary ceilings and social floors a key part of the business models of banks (phase 2).

INTRODUCTION

This report captures the main findings of a case study conducted on GLS Bank. This case study is part of the VALoRE research programme, which aims to inform the development of the EU Taxonomy by clarifying how 'social impact' (in terms of inequality, job security, and equitable access to safe food, housing, energy, and health) can be defined and integrated in the practices of banks.

This case study aims to contribute to the overall objective of the VALoRE research programme by highlighting the current practices of a values-based bank like GLS Bank. More specifically, the objective of the case study is to pinpoint pathways for transformation of banking models towards social inclusion by investigating the practices of the GABV member in Germany: GLS Bank. The methodology that is used for this case study is outlined in the Appendix 1 and is based on analysis of corporate reports and interviews with several executives of the bank.



STEP 1:

DEFINING THE MARKET

GLS Bank is a cooperative bank active in the financial market in Germany. On 31 December 2021, GLS Bank served more than 320,000 clients and reported a total of assets under management of around 11,200 million euros (1,936 million euros of which were funds under management). Lending to clients operating in the real economy accounted for over 50 percent of total intermediation in 2019 and 2020. Lending decisions have historically been informed by strict exclusion criteria and ambitious positive impact targets in six different fields: Renewable Energies, Education & Culture, Social & Health, Nutrition, Housing and Sustainable Economy.

Since its establishment in 1974, GLS Bank provides regular banking services and is committed to transparently communicating the socio-ecological impact of its financing activities.

The market in Germany is highly regulated in its own way. Reporting, for example, is distinct, which means making adjustments is necessary when comparing German with non-German banks. Supervisory tasks are carried out by two institutions: the Deutsche Bundesbank and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). GLS Bank is member of the Bundesverband der Deutschen Volks- und Raiffeisenbanken and part of their deposit guarantee scheme.

According to the Deutsche Bundesbank, in 2020 there were more than 800 credit cooperatives operating in Germany that accounted for just under 20 percent of market share in the overall volume of domestic non-banks' deposits². GLS Bank's deposit growth between 2019 and 2020 at 19 percent is in line with that observed for this category. For most of GLS Bank's history, client deposits have accounted on average for 80 percent of assets.

As a cooperative bank and as a sustainable bank operating in the German market since 1974, GLS Bank stands by the principle of "money is there for the people":

"The fundamental principle guiding our work is respect for life and concern for a peaceful coexistence of all cultures that are rooted in individual freedom and responsibility. We take human beings seriously in their totality as body, soul and spirit.

Our actions are geared towards maintaining and enhancing the prospects and life chances of our own and future generations. We see ecology as the holistic concept of a life-fostering unity of nature and civilisation development."

² Deutsche Bundesbank Monthly Report, September 2021.

In the words of one of the interviewees in the Sustainability Department at GLS Bank, which has around 18 staff members:

“GLS Bank is founded with a focus on sustainability. It does not start with financial products. The main focus is on the needs of people and then we look at how finance can support those needs.”

GLS Bank has integrated socio-ecological criteria across all aspects of its operations. Deposits from clients help finance projects that meet people’s needs while respecting ecological limits. Operating in this manner while relying on standard operating systems for cooperative banks in the highly regulated German market is, in the words of one co-worker, “just more expensive”.

The increased attention to environmental, social and governance factors by market participants is welcome by GLS Bank. Yet, there are important differences between this approach and GLS Bank’s approach, which is illustrated by the following statement referring to the role of financial incentives:

“Even if a bank wants to be sustainable ... does it work on the basis of financial incentives? If these incentives are missing, then it does not work.”

Changes in consumer preferences have prompted new entrants in segments traditionally financed by GLS Bank, such as nutrition and organic agriculture. Once again, the question of differentiating activities and products according to sustainability criteria arises, which is illustrated by the comment below:

“On the investment side some colleagues fear that they will not be distinguishable from other banks, such as the sustainable food sector where big chains provide sustainable organic products.”



STEP 2: FOCUS ON THE MAIN SUSTAINABILITY CHALLENGES IN THIS MARKET

Now that the market has been defined, the next step involves identifying its main sustainability challenges. The decision has been made to focus on sustainability challenges that have a high level of influence on the market's business success and are of a high level of importance to stakeholders. Although the number of issues that fit this description extends beyond those that we have chosen to focus on, the following describes the most prominent issues:

There are two overarching sustainability challenges. The first challenge relates to the urgent need to protect the climate, biodiversity, and people by not exceeding planetary boundaries. The second challenge relates to how sustainable finance is being defined and practiced in GLS's market.

On the challenge of operating within planetary ceilings, GLS Bank acts to arrest the contribution of its activities to an overshoot of these boundaries. For GLS Bank this means:

"... turning away from economic growth as a goal of social progress and focusing on environmental budgets, starting with CO₂."

Even though there is currently limited evidence in favour of de-growth, GLS Bank sees it as an option deserving attention:

"We need to integrate sustainability to have long-term stabilisation of the system."

In practice this has led to the development of an approach to quantify impacts, determine social and economic thresholds, and establish resource limits and allocations. GLS Bank is one of 25 companies in the "Thresholds of Transformation" project by r3.0 and UNRISD.

The science-based set of strategies and interventions premised on a need for stabilisation also apply to GLS Bank's own operations:

"GLS Bank needs to phase down in terms of growth and be able to digest as an organism."

Regarding the second challenge relating to developments in sustainable finance, GLS Bank points to the increased participation of mainstream banks in the financing of activities, which although more sustainable, do not respect ecological ceilings nor sustain social floors.

Historically, GLS Bank's approach to sustainability attracts clients:

"Who can be sure that money goes to companies that are already sustainable and want to be more sustainable."

The bank also points to the piecemeal approach to sustainability integration as illustrated for social dimensions in the following statement responding to the initial draft report on a social taxonomy:

"Social dimensions must not be played against one another. [GLS Bank] calls for the inclusion of culture as a goal in the social taxonomy. It must be ensured that all criteria are fully applied to the supply and value chains."

"While it is good to standardise, the lowest common denominator is not something that GLS Bank needs."

And yet, GLS Bank notes there is value in a taxonomy. As large mainstream financial institutions begin targeting sectors previously served by GLS Bank, there are important differences in approaches and impact. Markets today have yet to differentiate between sustainable finance products and investments, more so in the social sphere. Accordingly, GLS Bank notes:

"We should do it [reporting in line with the EU Taxonomy] and then it will be quite easy to compare different financial products and different companies. Yes, that is a good thing."



STEP 3:

BACK-CAST THE FUTURE YOU ENVISION

Now that the market has been highlighted along with its main sustainability challenges, the next step in a systems analysis is to envision a future in which the possible solutions for sustainability challenges are fully institutionalised. GLS Bank has a clear vision of the future as illustrated in the following statement:

“To give guidance in relation to the impact we aim for, we need a vision of the future. For example, when we discuss loans in relation to housing, it starts with our vision that housing should be affordable, near cities, made from circular materials. Next, we break down the vision into indicators. That shows us what obstacles there are to move towards the vision. Lastly, we can discuss what action in relation to the loan is needed to overcome these obstacles.”

“Looking towards the future, we aim to show the relevance of sustainability issues and stress the urgency to act. For climate, it is both, relevance and urgency. However, for social issues like poverty alleviation and right to education, the relevance is there but the urgency is lacking. That is why we aim to link the social relevance to the self-interest of the actors involved.”

GLS Bank notes that the separation of issues into either social or ecological categories might be out of date.

“We are now talking more and more about climate justice.” “Those who are socially precarious... unhealthy people who live poor—most of these people also live in climate disadvantaged regions. So climate change also has a social aspect.”

The position of GLS Bank will shift as the market will be completely different. This is indicated by the following quote referring to the Platform’s social taxonomy report:

“Perhaps the most far-reaching decision in the report concerns the future interaction of environmental and social taxonomy. We strongly recommend taking a holistic view of sustainability and recognising the interdependencies between social and ecological factors. If it is our common goal to make all aspects of our life sustainable, we must not break sustainability down into individual aspects.”

Accordingly, an important part of the future that GLS Bank envisions is the integration of social and ecological impact. The proposed interdependence and interconnection of these two aspects is indicated in the next quote:

“Those who are socially precarious are also those who are unhealthy people. They tend to live in poor regions and mostly are in climatically disadvantaged regions. So,

climate change also has a social aspect. To be able to invest, the social aspects and ecological aspects must be integrated. Otherwise these are shameful solutions. Our goal is to put climate on the agenda, yes, and that made us visible as a bank."

The future GLS Bank envisions is one in which the economy has transformed and is now sustainable. This transformation is possible by making sustainability be live everywhere and translating it into added value for clients. For example:

"Many clients do not know their CO₂ emissions and are overwhelmed by what they see as offerings in the market. Now, GLS Bank can provide them with this information. [...] It can approach clients to ask 'are you aware what a CO₊ price would mean for your business model? The CO₊ price could go to X, how would you adapt/change?"

Different pathways towards a sustainable future notwithstanding, GLS Bank sees transformation requiring a move away from silos. Rather,

"we need to all gather at one table and demonstrate that each regional bank can be an impact changer: more power and more people."

Within a systemic understanding of and approach to sustainability, which is not new for the bank, GLS Bank's practiced flow from vision to indicators to obstacles to action has meant that its influence on other actors is evolving, in the words of one interviewee, "from reference to relevance[...]."

Quantification and targets relevant in the ESG debate—which is getting more urgent and whose costs are becoming more evident—are here to stay. Data are needed to engage with regulators to "show how sustainability risks can be integrated into sustainability models". GLS Bank engages from time to time with different players, including regulators.

"This ability to integrate scientific methods is now recognised by other competitors who want to learn from GLS."

STEP 4:

ANALYSE THE CURRENT SYSTEM LOOPS

One of the key takeaways of systems thinking is: 'the problem is not the problem'. The problem we perceive is a natural outcome produced by a system. In order to fully understand that system, we have to analyse its deeper levels. To do this, we distinguish four generic system loops (see figure 1). When these four loops coincide, they create unsustainable outcomes.

In general, banks are required to operate in a context where sustainability challenges are seen as risks, due to the need for high financial return on assets, rather than as opportunities for long term investments. Additionally, banks tend to compete with each other and to pursue growth. GLS Bank is calling for a different approach. This is illustrated by the following statement:

"We should talk about stabilisation and create community of practice. We need to integrate sustainability to have long-term stabilisation of the system."

"Mostly our funds only focus on green security objectives. If clients decide to choose GLS, they can be sure that the money is used or is given to companies and projects that are sustainable."

Moreover, the system loops for traditional banks also result in a loss of overview with regard to financial risks and allocations of investments. The main system loops for traditional banks are presented in the following figure:

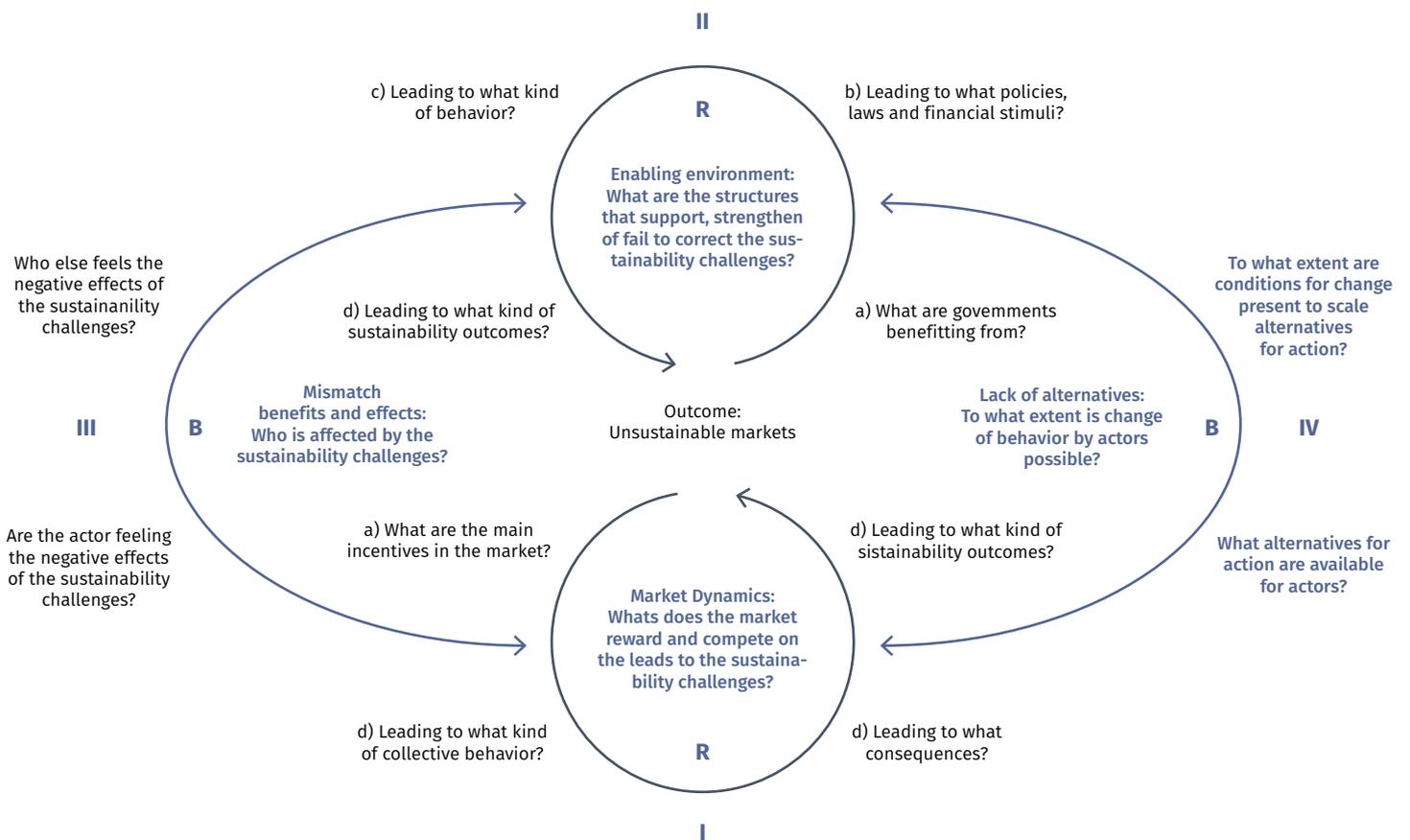


Figure 1: Effectuated system loops for traditional forms of banking³

These system loops are there for a reason. For example, the behaviour of economic actors today results in exceeding planetary boundaries with dire consequences for nature and people. The urgency of change is raising the influence of GLS Bank in its market. In particular, the concept of stabilisation is bringing awareness to the need for new information and to educate actors:

“We need to talk about thresholds and allocations/budgets; [...] no licence to operate. Need to reinvent how we talk about stabilisation.”

³ See Lugtigheid, P. and Ganzi, J. (2021). The Finance Sector in Transition. In: Simons, L. and Nijhof, A. (2021). Changing the Game: Sustainable Market Transformation Strategies to Understand and Tackle the big, complex issues of our generation. London: Routledge

Developments in sustainable finance regulation and sustainability risks are generating new data. Yet, there are limits to transparency, including information overload. Data needs to be contextualised before one can see how sustainably a company operates, and even more context is needed for sustainability reporting.

"It is important to measure what has happened so far; what the German Government has done; what GLS Bank has done."

GLS Bank conduct rigorous background checks on their clients and make sure that there is no child labour, and that they comply with minimum wage standards. The basic idea in this context is "Do not do harm".

Furthermore, their banking services also focus on solving the social aspects by initiating projects such as issuing loans to students who are in higher level education in Germany. The special part of this social project is two-fold. The first part is that the bank does not exclude anyone when issuing the loan, which means an inclusive financing service is available to anyone who is interested.

The second part is that the loan agreement is based on students' future income. Consequently, students do not have to worry about repaying the loan immediately after the graduation, which gives them the opportunity to pursue social services in developing countries if need be. Once the loan is repaid, the money is reinvested into the existing fund to keep this programme flowing. Therefore, this initiative acts as an indirect social investment for the youth in Germany for a sustainable period.

How information is used is very important to overcoming system loops that result in unsustainable outcomes. GLS Bank understand this well:

"Normally clients get hardly any information from their bank after they receive the loan. We do it differently. We provide an impact profile of the current activities together with impact on the SDGs, including where a client can improve. Furthermore, our clients get an overview of the largest sustainability risks linked to their activities."

"Often assessing sustainability criteria requires additional efforts and therefore increases costs. This could result in a higher interest rate. However, we deliberately choose to lower interest rates if a loan is in alignment with our vision on the future. In the long run, this proves to be a solid loan policy."

"For most banks it is first about financial assessments and at best they add a sustainability assessment. We focus first on a sustainability assessment and afterwards on the financial assessment. Never the other way around. This means that you have a different conversation with your clients in which additional sustainability measures can be included in the loan proposal."

STEP 5:

MAP THE MATURITY OF THE INITIATIVES SO FAR

Sustainable market transformation starts with actors doing something different that influences the system loops in a sector. Such a transformation is already on the way in the system around GLS Bank.

While bigger banks are being asked to carry out stress tests that consider the effects of climate change, GLS Bank is calling for all to align to 1.5-degree temperature increase. Even with its sustainability-centred banking approach, GLS Bank's portfolios are not yet 1.5 degree-aligned. This understanding reinforces their call for stability and consideration of thresholds.

“Also the results of the stress tests from the EU are helpful to step up our efforts.”

The recognition that economies must transition towards sustainability is supported by the common objectives in the Sustainable Development Goals of the United Nations and the agreement to reduce global temperature significantly below 2°C of the Paris Agreement under the UN Framework Convention on Climate Change. GLS Bank is taking action to advance these objectives and to enable change towards a socio-environment economy.

GLS Bank is informing its activities with the long-term visions that are aligned with and supportive of global frameworks. This long-term orientation helps GLS Bank anticipate needs and opportunities. In its positions on requirements for sustainable development, it draws attention to the need for higher taxes on capital income rather than on employment income. This position reflects



changes in the share of value creation from labour to capital amplified by automation, digitalisation, and the gradual deployment of artificial intelligence:

“We need financial reform to address this situation. The funding of public tasks needs to be financed through capital rather than work. Therefore, there is an urgent need of increasing the taxes on capital and capital returns and simultaneously decrease of taxes on labour income.”

Systems thinking is integral to the sustainable development work of GLS Bank, as is the recognition of an ecological ceiling and of a social floor:

“The logics of capitalism do not allow non-financial values to be included in economic decisions. In doing so, however, companies are biting the hands that feed them. They destroy the resources on which they depend the most, e.g., workers or raw materials and ecosystem services from nature.”

GLS Bank has also developed an approach to determine whether or not its impact is positive. This approach ensures that, through its activities, GLS Bank does not exceed global ecological budgets and maintains socioeconomic states in six main categories of values: humans, nature, relationships, knowledge, money and attitude.

What this means in practice is that its financing decisions are assessed not only in terms of financial returns, but also in terms of impact on finite resources and in their contribution to the vision statements for renewable energies, agriculture and food, housing, education and culture, social and health and sustainable business (see Figure 2).

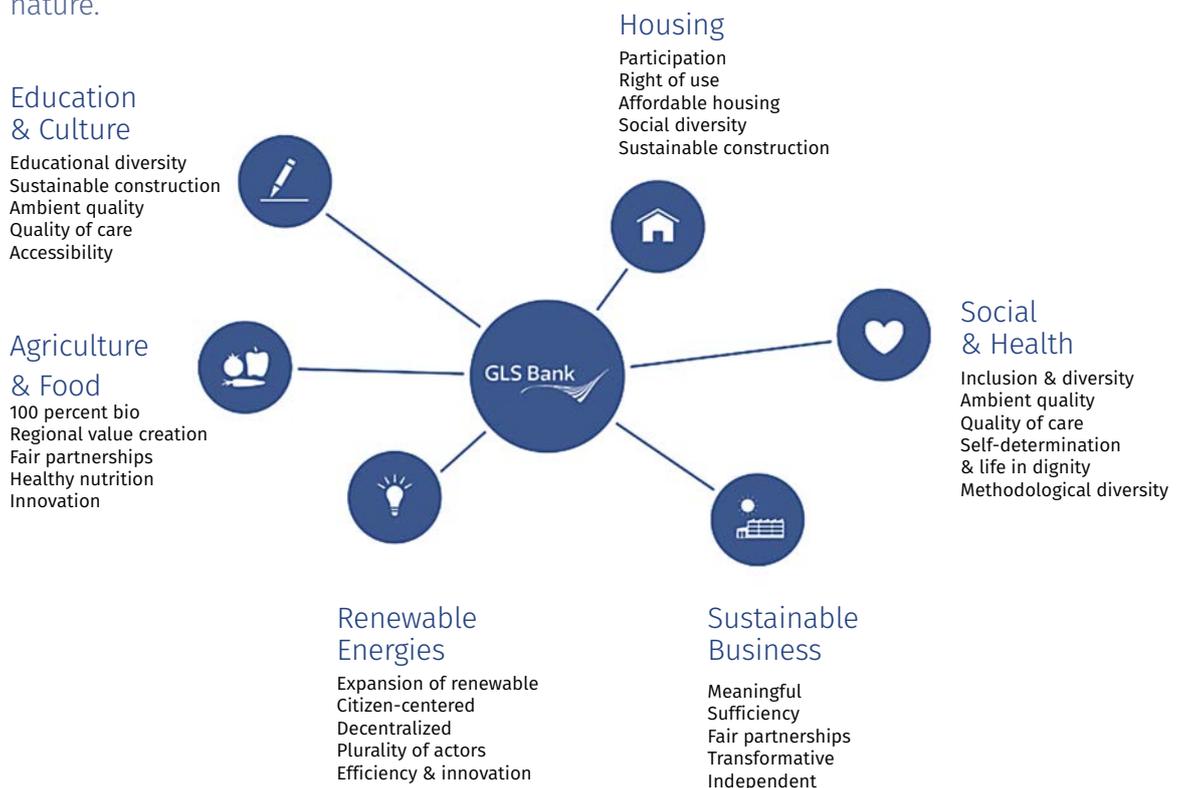


Figure 2: Visions of Change and Qualities of the Future.

It also means that significant effort has been made to put collected data to relevant use. This entails, for example,

“Integrating data in core processes, in response to sustainable finance regulatory requirements, to manage sustainability risks... always in connection to client data collection processes. Also, it entails translating data collection into added value for clients (i.e., ‘this is where you are and this is where you are going’).”

And

“Using data to develop internal competencies of client facing co-workers.”

Working in partnership with subject experts has been another approach to put collected data to use. Greenhouse gas (GHG) emissions of GLS Bank’s financing and investment activities are inputs for Limanalytics, an agile start-up partner of GLS Bank, to develop state-of-the-art models to calculate the sustainability risk of clients and thus open the door for future pricing differentiation. Information on a client’s GHG emissions is another avenue for GLS Bank to empower clients to address their impact:

“Many clients do not know their CO₂ emissions and are overwhelmed by what they see as offerings in the market. So now GLS Bank can give them this information.”

Another partner is the start-up Right Based on Science. They developed a scientifically sound X-Degree Compatibility model (XDC model) that can

be applied to the climate impacts of companies, buildings and financial portfolios⁴:

“In comparison to the Science Based Target Initiative, the XDC model is much easier to grasp because it calculates what rise in degrees fits with the current activities. Furthermore, it is more robust against green washing because you cannot exclude certain activities that are part of your turnover.”

This approach to enable the “active involvement of the client” features prominently in the products and services developed by GLS Bank. It informs its digitalisation efforts:

“GLS always tries since the beginning to be transparent. Clients who are interested can see who has been financed. New digital services can show the customer more directly what is done with their money. When you include clients in the digital infrastructure, it creates the possibility to open the black box.”

It also informs its commitment to transparency:

“We aim for 100% transparency for every loan. So every client has to sign off that this is okay. This is crucial because we want to know where the money from our loans goes and what impact it has.”

⁴For more information see: [XDC Model - right° \(right-basedonscience.de\)](https://www.right-basedonscience.de/)

As a result of these efforts, there is a ripple effect. Specifically:

“The ripple effect is triggered because GLS Bank is perceived as one of the most sustainable banks. We are seen as the bank where you can ask to partner for the transformation clients are aiming for, the bank measuring CO2 footprints, and the bank that gives insight into the loan portfolio. This means that we have many allies. For example, clients in the real economy see us as a transformation partner, other financial institutions approach us for advisory on governance issues, and our employees are more committed because they are proud to work for a bank that acts, knowing that waiting is often cheaper.”

Partnerships and collaborations are foundational to the work of GLS Bank both internally and externally. Alongside outward-oriented innovative thinking and engagement in pursuit of development that respects ecological ceilings and maintains socioeconomic floors, GLS Bank has promoted internal innovation and proof of value. Accordingly, GLS Bank has established

“revolutionary cells so that we can change [the organisation’s] cells completely.”

Prototyping has helped GLS Bank make visible the added value and the need for changes in systems, processes, and decision criteria at all levels of the organisation.

However, change is not always easy. When confronted with the disruptive potential of blockchain technology to make investing easier and cheaper, for example, the project team found it

“difficult to explain to the management board that while the penetration is low it will be different in 10 years. [...] costs are not linear but more like an S curve.”

GLS Bank has worked to overcome internal resistance to change in creative ways. Specifically, in working with system dynamics, GLS Bank has had to make changes to its business model to become agile and flexible. It has focused action on

“prototyping, learning, openness, transparency [...] and not on having a method for project management [that] will not help in creating a journey.”

“We don’t focus only on the output and outcome. We also want to know the Input and the Impact: IOOI!”



Step 5: Map the maturity of the initiatives so far

The different activities of GLS Bank are plotted in the four phases of Sustainable Market Transformation in Table 1:

Table 1: Initiatives of GLS Bank plotted in one of the four phases

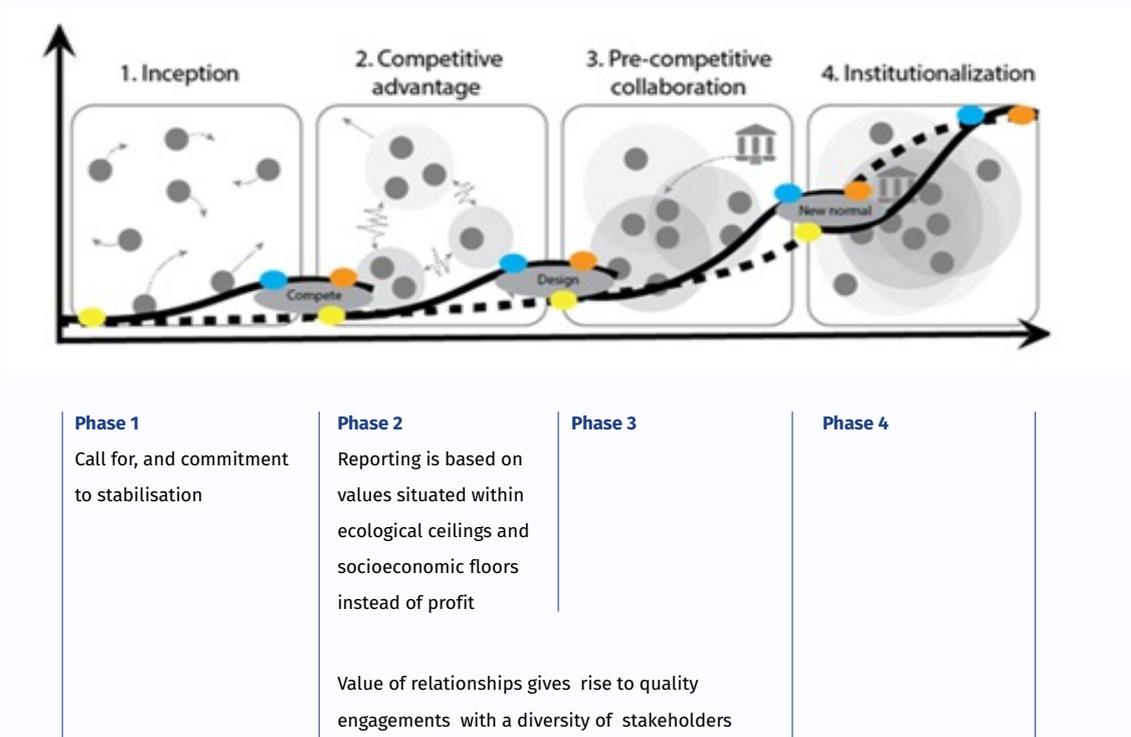


Table 1 indicates that most activities of GLS Bank stimulate the system dynamics of phase 2 and the transition to phase 3. A commitment to stabilisation (phase 1) and the consideration of thresholds means in practice that financing decisions are made not only for their financial returns but also for their impact on finite resources and contribution to the visions that GLS Bank has articulated for the five areas in Figure 1. Through collaboration and partnerships, climate impacts and client needs inform core activities of the bank.

The initiatives in phase two are changing the alternative system loop and the mismatch between benefits and costs loop. The changes are coming about through, among others, the science-based approach to informing financing decisions taking into consideration the sustainability risk of clients and opening the door for future pricing differentiation.

STEP 6:

USE THE STAKEHOLDER MATRIX – WHO NEEDS TO DO WHAT

Considering the dynamics around the initiatives so far, the sustainable market transformation that GLS Bank is in focuses on the transition from the end of phase 2 to the beginning of phase 3. In phase 1 the dynamics focus on initiating new practices, often in projects and as an add-on to the main activities. In phase 2, these new practices are used in the core of the organisation, so clients and other stakeholders learn the value of these practices compared to other competing practices. In phase 3, the dynamics shift to collaborating with other stakeholders to develop a sector strategy to make these practices more mainstream.

Some of GLS Bank's practices, like the reporting based on values situated within ecological ceilings and socioeconomic floors instead of on profit, are in phase 2. The approach is core to GLS Bank's commitment to advancing sustainable development. Other practices are characteristic of phase 3—in particular, the value of relationships, which GLS Bank recognises is essential and on which success is dependent upon.

“Relationships, one of our values, results in quality engagements with our stakeholders. We have entered into a wide range of relationships with our members, companies in our investment portfolio, network partners, the public, and our suppliers. Together, we create social-ecological value and build valuable relationships to drive transformation.”

The dynamic and ambitious goal to transform at scale means GLS bank is involved politically, and participates in a variety of local and global networks.

“To be effective in these transition processes, banks need both a normative angle and a factual angle. The normative angle results in commitment to change certain parts of the real economy. The factual angle makes it concrete and helps our employees to act upon this. This is also true for bigger banks.”

“We have a good dialogue with the government. For example, we have conferences together with regulators and other banks (Bavin).”

“There are many NGOs that support the activities we do.”

STEP 7: DEVELOP AND REFINE YOUR ACTIONABLE STRATEGY

Based on the knowledge of the current momentum in the market, it is possible to develop a strategy for the near future. This strategy should answer the question: Who should do what, and when should they do it? The effectiveness of the actions of one actor will depend on what others are doing.

GLS Bank's approach is changing unsustainable system loops. It is achieving this change through relationships with clients that involve providing them not only with access to financial products and services, but also with access to essential resources in support of their transformation (including the client's own CO2 footprint).

The approach is also predicated for co-worker relations within GLS Bank to help demonstrate the value of changing organisational priorities to include stabilisation and the respect of ecological ceilings and social floors both organisationally and in its financing.

Looking ahead, there are several strategies GLS Bank can pursue to amplify its efforts to change system loops and system rules. First, some strategies fit with the system change in relation to reporting for clients. As indicated before, this transition is in phase 1 moving towards phase 2. This implies that effective strategies should emphasise what has been learned from the alternative practices in phase 1, and how different actors can create shared value out of these practices in phase 2.

One strategy could be called a **knowledge action strategy**. The knowledge GLS Bank has regarding environmental ceilings and social floors might not be unique. But what certainly is unique, what makes its voice for stabilisation and alignment so strong, is that its knowledge is tailored to action and to a financial institution. It builds on GLS Bank's intermediary role and is designed to amplify it to transform its clients and the real economy.



The second strategy is called the **spotlight strategy**. Here, the approach is to differentiate, to make evident what puts GLS Bank at the frontier. In pushing ahead, GLS Bank is changing the rules of the system. The viability of GLS Bank does not need to be proven in current system terms. GLS Bank activities are redefining sustainability, and both society and the market need to learn what the difference is and how it contrasts with partial approaches focusing solely on risk. In the pursuit of stabilisation, GLS Bank is developing a new business model for itself. The redefinition of the future of sustainability is what providing clients with information about climate (with trajectory paths), the accompanying engagement of clients, and the development of partnerships implies.

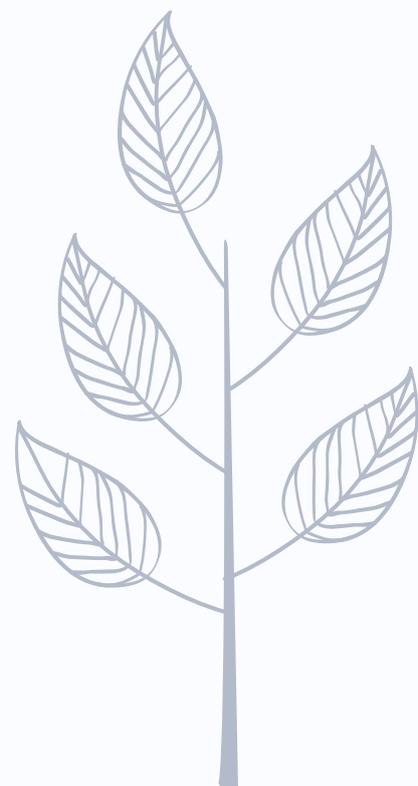
Furthermore, the focus of GLS Bank on stabilisation is in a different transition phase. As indicated before, the enactment of such a business model is in phase 2. Now, the focus will shift towards developing a sector approach so that parts of this business model can become the new normal. For this part of the transition, different strategies apply.

As the GLS Bank's approach illustrates, it is not about net zero. It is about alignment with a 1.5-degree global temperature increase. Accordingly, it is not an accounting exercise but a true transformation of the real economy. And it is this fundamental transformation that the world urgently needs. The effective integration of scientific methods for stabilisation by GLS Bank is where other banks will find themselves within a decade. In this context, the third strategy is **engagement** with competitors and regulators to scale up the work of frontier institutions like GLS Bank.

The final strategy is the **frontier strategy**. This strategy calls for GLS Bank to nurture itself and its relationships by asking the tough questions:

“Should we use the same approach related to social issues? What if we tried and did not find the right way to do this? On human rights and labour rights, should we move in the same direction? Will we not get the same results?”

It also calls for GLS Bank to courageously tackle these issues.



DISCUSSION AND CONCLUSIONS

This case study is part of the VALoRE programme. The overall objective of this OSIFE-funded programme is to strengthen the capacity of the financial sector in Europe to deliver a just transition to a low carbon, socially inclusive future. More specifically, VALoRE aims to influence the development of the Taxonomy of the EU Green Deal. The Taxonomy Regulation includes a clear requirement to respect Human Rights following the OECD guidelines. However, there is no agreed upon definition of 'social impact' beyond human rights. Inequality, job security, and equitable access to safe food, housing, energy, and health are yet to be included in the taxonomy of sustainable activities.

The principle-based approach to banking of the Global Alliance for Banking on Values (GABV) and its members shows what the role of financial institutions can be in the move towards a low carbon, socially inclusive future. This case study of the activities and influence of GLS Bank in Germany illustrated the key Principles of Values-based Banking that define GABV banking institutions' practices and culture. They are as follows:

1. Social and environmental impact and sustainability at the heart of the business model.
2. Business grounded in communities, serving the real economy, and enabling new business models to meet the needs of people.
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved.
4. business that is long-term, self-sustaining, and resilient to outside disruptions.
5. Transparent and inclusive governance.
6. All of the aforementioned principles need to also be embedded in the leadership and the culture of the member financial institution.

Furthermore, the analysis of this case study on GLS Bank shows that the current system dynamics focus on phase 2 to 3. In this transition between the two phases, a growing albeit not yet critical mass of actors are getting ready to design new business models aligned to a vision of a more ambitious and sustainable future for the sector. In order to effectively move to phase 3, actions will be needed by German regulators, and by competitors to facilitate relationships that result in agreed measurable goals and targets, and that co-create ambitious strategies. At the moment, between phase 2 and 3 only GLS Bank is calling for stabilisation, although the science-based approach pursued by GLS Bank is attracting the interest of market actors and potential clients.

GLS Bank can be considered an industry game changer. Without their presence, other actors in the financial sector would probably not imagine the extent to which scientific evidence can inform financing decisions or the evolution of the banking model that has come about.

To increase their impact, it is probably most effective if they apply a combination of strategies put forward in this paper, with an emphasis on the spotlight and engagement strategies. This would require plotting the transition of the market towards the frontier that GLS Bank continues to redefine and developing an eco-system that supports future sustainability à la GLS Bank.

APPENDIX 1

The theory on Sustainable Market Transformation is translated in eight steps for developing an effective strategy to stimulate systemic change in existing markets. The last step is not applicable in a case study setup, so this questionnaire is organised around seven steps:

- Step 1: Define the market
- Step 2: Focus on the main sustainability challenges in this market
- Step 3: Back-cast the envisioned future
- Step 4: Analyse the current system loops
- Step 5: Map the maturity of the initiatives so far
- Step 6: Use the stakeholder matrix to decide who needs to do what
- Step 7: Develop or refine an actionable strategy

Step 1: Define the market

Tackling complex problems can be overwhelming. The first key step is to define the market where the sustainability challenges occur.

Guiding Questions for step 1

- How would you describe the market you are focusing on?
- What are geographical or other borders for your practices?
- What are the main groups of clients in this market?

Step 2: Focus on the main sustainability challenges in this market

The second step is to focus on the main sustainability challenges in this market. A good way how to do this is by executing a sustainability materiality assessment. This is an assessment to prioritise the main sustainability challenges in a specific situation relevant to the organisation.

Guiding Questions for step 2

- What sustainability challenges have both a high level of influence on business success of the sector and have a high level of importance to stakeholders.
- More specifically, how do these problems relate to social inclusion?

Step 3: Back-cast the future you envision

The next step is to create a vision of what the market will look like if the solutions for this sustainability challenge are fully institutionalised. So, this step is not about the solutions themselves.

Guiding Questions for step 3

- In 20- or 30-years' time, what will society look like if we have solved the challenges selected in step 2?
- What would be the role of the organisation in such a future?
- What other actors / stakeholders will have changed once when we are in such a future?

Step 4: Analyse the current System loops

There are four generic system loops according to the theory on sustainable market transformation. When these four loops coincide, they create unsustainable outcomes every time. Each loop asks critical system questions that aim to explain the collective behaviour of actors in the system.

Guiding Questions for step 4

- **Market Dynamics:** What is the market rewarding and competing on. What does it take to be successful in the market?
- **Enabling Environment:** What are the goals of the governing bodies and what are they benefitting from? What regime - policies,

infrastructure, financial and tax systems, educational systems, laws, compliance mechanisms - have they built to safeguard and strengthen these goals?

- **Consequences:** Who in the system is affected by the negative outcomes of the collective behaviour - and who is not?
- **Alternatives and conditions for change:** Are there any viable alternatives that can be used to change the behaviour and move away from the negative outcomes; are the conditions to scale-up change present in the system?

Step 5: Map the maturity of the initiatives so far

In this step the objective is to create an overview of the relevant initiatives and how they are changing the underlying system loops. The phases are:

Phase 1: Inception – Actionable alternatives through projects and pioneering (pilots, charity, subsidy programs) next to the core business.

Phase 2: Competitive Advantage – Proven business models through innovation and competition (labels, rankings, branded programs) linked to or integrated in the competitive advantage of the business; value chain collaboration, selected group of multi-stakeholders in the program.

Phase 3: Pre-competitive collaboration – Critical mass through coalitions and platforms. Multi-stakeholder collaboration, pre-competitive agenda, structural collaboration with governments and civil society; Policy goals and indicators; Exploration of a viable business case for all stakeholders; Scaling-up solutions to the entire market.

Phase 4: Institutionalisation – Level playing field through legislation and coercive self-regulation, and/or new policies, legislation and/or financial (e.g. tax) incentives, 'licence to operate'; Compliance with law and enforcement.

Guiding Questions for step 5

- What are the most influential initiatives contributing to sustainable market

transformation? When you go back in time, what are other initiatives that contributed to the sustainable market transformation so far?

- What are promising initiatives out there that are not yet influential? How come? What does it tell us about the forces at play? What setbacks can be expected and how can you deal with them?
- What initiatives can foster a next phase in the market transformation process?

Step 6: Use the stakeholder matrix – Who needs to do what

The stakeholder matrix helps to determine what roles are most effective for each of the market actors in the current phase of the market.:

Guiding Questions for step 6

- Take a first relevant initiative from the previous step. Discuss what the right behavior is for each of the market actors.
- Do this also for a second and third initiative
- What are the common courses of action that are needed from each market actor to stimulate sustainable market transformation

Step 7: Develop and refine an actionable strategy

Knowing more about the momentum in the market helps to develop a strategy for the near future. This strategy should answer the magic question: Who should do What, and When should they do it?

Guiding Questions for step 7

- Which initiative is ready to be brought to the next phase?
- What initiative is not needed anymore so it is better to stop with it?
- What initiative is still missing that would be effective according to the stakeholder matrix?
- Who is not playing their role right? What do they need to do what is needed for sustainable market transformation?
- What would this require from your organisation? Ask you self where to take the initiative and where to join others, follow and support?



Global Alliance for
Banking on Values



Funded by

**OPEN SOCIETY
FOUNDATIONS**