BAUM Impulse

This paper will be published as an impulse for the BAUM conference on 11–12 November 2025 in Dortmund. This year, we will discuss “What kind of economy do we want? Visions for a sustainable economy and society”. This impulse will be prepared for public comment by guests at the conference on 12 November in order to further consolidate it. BAUM e.V. will then present this impulse to the German Federal Government, the European Commission and interested economic actors with a cordial invitation to discuss it.

A sustainable market design that strengthens Germany and Europe

The German economy faces the challenge of combining sustainable growth and competitiveness. BAUM e.V. welcomes the German government's coalition agreement, which paves the way for a socio-ecological market economy. Together with the government, we strive to achieve the goals of the Paris Climate Agreement and the 2030 Agenda for Sustainable Development. Our proposals based on this aim to strengthen trust in institutions and the power of the economy and to promote social cohesion.

Our vision: A socio-ecological market economy

BAUM e.V. supports the German government in creating a market design that combines ecological responsibility and economic stability. Our vision is based on the following principles:

- **Climate protection and resource efficiency:** The conditions for a prosperous economy and society have changed fundamentally. We are adapting, promoting innovations that strengthen the energy and material independence of the German and European economies while contributing to climate protection and thus stable living and economic conditions. Our guiding principle is circular economy within planetary boundaries.
- **Social justice:** We are committed to fair working conditions and respect for human rights in global supply chains. European transparency standards and their meaningful implementation increase competitiveness in the global market by

enabling companies themselves to better identify and manage potential risks. Fair and equal international cooperation has a positive impact on local communities and thus on overall value creation. The transparency created has a direct positive effect on business relationships and enhances the credibility of companies, Germany and Europe as trading and business partners for other economic areas.

- **Economic resilience:** Companies are key drivers of transformation. They develop innovations, open up new markets and create attractive jobs that are fit for the future. BAUM e.V. supports them in developing modern business models that combine ecological and economic sustainability with competitiveness and growth. Clear political frameworks and market-based incentives support and reinforce this dynamic.

Politicians are responsible for creating the regulatory framework for markets that function sustainably and ensure stability, innovation and prosperity for all, even in a dramatically changed situation.

Co-regulation: Catalyst for impact-oriented sustainability and economic policy

A central concern of BAUM e.V. is the practice of **co-regulation**, in which companies and politicians engage in constructive dialogue. Politicians are required to establish a reliable framework for business practice, which in turn has a quasi-regulatory effect on the relationships between companies. Smart policies support companies that transparently disclose their sustainability performance and, on this basis, benefit from market-based incentives for business innovation. Our proposals include:

- **High-quality and transparent reporting:** Companies that disclose their sustainability goals, measures, progress, risks and resilience factors in a high-quality and comprehensible manner make a key contribution to the functioning of the capital market. Investment decisions in favour of sustainable and thus low-risk business models can be made on the basis of a solid, meaningful database.

  Reporting that is business-driven rather than purely compliance-driven not only strengthens companies' strategic management capabilities, but should also be specifically supported by subsidies and tax incentives.

- **Incentive systems:** The step-by-step model described below rewards particularly sustainable companies and investments that are eligible for classification under the EU taxonomy, for example through preferential treatment in public tenders or reduced VAT rates for sustainable products and services. This supports the transformation of the economy. The description of the transition from

emission-intensive to sustainable business models that strive for climate neutrality or environmental positivity and actively contribute to the restoration of ecological and social systems is helpful. The EU taxonomy provides a structured reference framework for this, which makes progress visible and can direct investment to where change is actually taking place, while leaving room for dynamism.

The step-by-step model outlined below is a proposal for how these transitions could be qualified.

- **Strengthening the competitiveness of SMEs:** Small and medium-sized enterprises are key players in the sustainable transformation. They need planning security and access to innovative financing instruments in order to implement sustainability standards and modernise their operational infrastructure and processes. If government support assists the transformation, this can be combined with private financing if handled appropriately, thereby expanding the volume. A smart combination of public and private financing creates investment security and promotes partnership-based solutions that advance both environmental and economic goals. Industry solutions offered by chambers of commerce and industry, trade associations and government-supported helpdesks provide additional support for the transformation of the economy.

This approach reflects the fact that many economic areas around the world are establishing comparable reporting requirements and taxonomies, such as China, Japan, Australia, Brazil and many African countries. Our vision for the future is that companies operating in these countries will be able to cultivate forward-looking and cooperative partnerships on this basis – made possible by a smart European framework.

The role of government activities, particularly at the local level

When the government acts not only as a regulator and fiscal controller at the federal and state levels, but also as an investor in public institutions and a consumer of goods, cities and municipalities in particular are the places where the transformation becomes visibly apparent. They shape sustainable mobility, invest in climate-friendly energy supplies and promote the circular economy in construction. Municipal companies – such as public utilities, transport companies and waste management companies – play a key role in this because they are directly involved in providing public services and set sustainable standards through their investment decisions, including in terms of risk prevention. BAUM e.V. proposes:

- **Co-financing sustainable projects** such as solar parks, heating networks or energy-efficient schools, with municipal companies acting as implementation partners.

- **Sustainable procurement**, e.g. in canteens of public institutions that use regional organic food, in facility management, in construction and renovation projects in the spirit of the New European Bauhaus, initiated by municipal housing associations.

- **Education and dialogue** through citizen forums, local sustainability days or information campaigns organised by local authorities in collaboration with municipal companies to promote acceptance and participation.

Interim conclusion: Working together for a liveable future

BAUM e.V. stands ready to support the Federal Government in implementing the coalition agreement. Through constructive cooperation with the federal states and local authorities, we can shape an economy that is ecologically responsible, socially just and economically successful. Together, we can build trust in institutions and strengthen social cohesion – for a future in which no one is left behind.

BAUM e.V. invites all stakeholders to participate in this process and work together to develop solutions that resonate with the public.

Practical implementation: instruments and measures for a sustainable economy

Companies, platforms and retailers based in the EU are bound by applicable EU rules and provide evidence of their compliance. They take responsibility for their products and comply with national and European standards in a transparent and verifiable manner. The expansion of disclosure regulations and due diligence requirements are driving forces for global rules that make German and European corporate culture the benchmark. If Europe succeeds in becoming the most competitive, fairest and first climate-neutral continent in the world, the players involved will set a global standard. The increasing international adoption of European regulations such as the CSRD and the introduction of ESG criteria as a listing requirement on stock exchanges worldwide are helping to reduce competitive distortions caused by differing regulatory standards. Companies are increasingly investing in industrial innovation not only on their own initiative, but also to meet international standards and secure access to global markets.

When implemented wisely, EU initiatives such as the Corporate Sustainability Reporting Directive (CSRD) benefit the German economy. The German Sustainability Code (Deutscher Nachhaltigkeitskodex, DNK) is a smart implementation of the European Sustainability Reporting Standards (ESRS) that is well established and firmly anchored. Digital solutions help to organise the complexity of reporting topics efficiently and in line with the management approaches of the industry.

The proposals formulated here outline a market design for the socio-ecological market economy. It further develops the social market economy, builds on the already introduced and effective European emissions trading system and rising CO_2 prices, integrates the design ideas of regulatory initiatives such as the EU Directive on Deforestation-Free Supply Chains (EUDR), the understanding of corporate due diligence obligations for compliance with human rights issues in global supply chains (CSDDD), and the concretisation through the CSRD and Sustainable Finance Disclosure Regulation (SFDR). On this basis, we outline a market-based incentive model for sustainable business.

Our understanding of sustainable business practices is derived from our statutes and the current state of scientific knowledge in environmental and climate research. Our commitment to the Paris Climate Agreement has led us to recognise the urgency of embarking on the path to carbon reduction by 2030. The next two years offer a great opportunity to achieve this with the ambitious implementation of the CSRD and the development of transformation plans in companies.

Our commitment to contributing to the global sustainability goals gives rise to a systemic view of the 17 goals, which are interrelated and in some cases conflict with each other. Balancing them requires a high degree of commitment from all parties involved and a willingness to engage in sincere dialogue and respectful debate to find the best solutions. We see the economy as an essential player that needs to be addressed specifically. As the framework provider, politics has a key role to play in creating planning and legal certainty. Our vision for the future is a successful transformation.

The Planetary Health Check (2024) suggests that change must be initiated by 2030. Then we will have a 50 per cent chance of achieving the 1.5°C climate scenario, which is considered a socially and financially manageable limit. If we fail, we can expect greater disruption and, as a result, far higher economic and business costs than those required for forward-looking investment.

Sustainable business preserves corporate values and freedom through holistic management and optimised use of resources. Companies that operate sustainably offer attractive, affordable, intelligently designed products and services on the market. They challenge “business as usual”, gradually expand sustainably generated sales in the transformation process, and reduce grey value creation based on fossil fuels. Sustainable design creates products with positive sustainability effects and an appealing design.

Standardisation reduces the costs of providing information by companies and obtaining it by investors, customers and procurement departments. Circular economic models can be economically convincing thanks to a new understanding of balance sheet assets and the return flow of raw materials, and can relieve the burden on public and private households through lower waste volumes and lower costs. In order to scale up such exemplary business practices, it is essential that policymakers further develop the

regulatory framework in a smart, co-regulatory approach derived from the requirements for transformation: away from an economy based on fossil resources and towards a (core) circular carbon economy. Companies receive constructive support for the re-structuring of business models through partnership-based transformation financing and confirmation of supply through demand. They also need reliable political framework conditions.

The socio-ecological market economy is not a theoretical concept, but a practical guide for companies, politics and society. To make it a reality, clear rules, measurable goals and effective incentives are needed. BAUM e.V. proposes a market-based incentive model that rewards companies that see sustainability not as an obligation but as an opportunity. It guarantees maximum entrepreneurial freedom in a free and democratic constitutional order that takes planetary boundaries into account and integrates the principle of long-term sustainability into the development of business models, industrial products and services. Market-based incentives are created to ensure that goods and services offered on the market comply with ecosystem stress limits, rebuild regenerative capacities and, at the same time, realise the conditions for social acceptance of sustainable economic activity – preservation and expansion of future-proof jobs, compliance with human rights and principles of economic efficiency.

Our model is based on three pillars:

- **Transparency:** Companies disclose their sustainability performance – to customers, investors and the public.
- **Incentives:** Those who act in an exemplary manner benefit from tax breaks, preferential procurement and public recognition.
- **Cooperation:** Politics, business and civil society work hand in hand to create fair competitive conditions.

1 BAUM incentive model for the social-ecological market economy: New Deal for Smart Business Solutions

The model under discussion links government support to demonstrable sustainability achievements. Companies wishing to take advantage of structural incentives (e.g. subsidies, research funding and tax breaks, export credit guarantees, foreign direct investment, etc.) must demonstrate their actions in a transparent and verifiable manner.

1. **Comply with fundamental environmental and social standards**

    - in their own operations and in global supply chains
    - through CSRD/SFDR compliance and transparency reports on the impact of economic activity in locations and regions with significant value creation

2. **Embed sustainability in the core business**

    - with clear responsibilities and good governance structures for effective sustainability management (e.g. Chief Sustainability Officer (CSO) at C-level, sustainability expertise on the supervisory board, specialists and managers as sustainability ambassadors)
    - through integration into purchasing (e.g. through code of conduct, purchasing guidelines), finance, investments and enterprise risk management (ERM).

3. **Manage risks and exploit opportunities**

    - Climate scenario analyses, natural capital accounting and transformation plans show how the business model can become less risky and Paris-compatible. Accounting supports contributions to ecosystem restoration and the community, makes them traceable and improves dialogue with stakeholders.
    - Instruments such as IFRS 1 & 2, which have integrated the TCFD (Task Force on Climate-related Financial Disclosures), TNFD (Task Force on Nature-related Financial Disclosures) and Sustainable Performance Accounting (SPA) create transparency.

4. **Visible commitment** through **support for sustainable industry associations, economic initiatives and social businesses** that build implementation expertise in sustainability and provide concrete support to companies undergoing transformation. This visible commitment should be positively evaluated in ratings and scores and recognised by society.

    Instruments for this: membership, support and co-creation of sustainable economic initiatives, donations in kind and provision of resources (premises, pro bono services, etc.) as an element of social engagement, active participation in transformation initiatives.

5. **Implement and validate measures** through persons with professional liability, accredited auditing organisations and certificates.

    Validation of management systems (EMAS, WeImpact, ISO 26.000), credible labels, certifications, established industry standards related to sustainability (SA

8000, ISO standards) and external audits ensure quality and promote innovation.

How companies benefit:

Depending on their level of commitment, companies receive a positive rating – ranging from basic compliance (Level 1) to top performers (Level 4) – and benefit from bonus mechanisms such as tax credits or preferential contract awarding.

Companies use European sustainability standards, Sustainable Development Performance Indicators (SDPI) from UNRISD and the German Sustainability Code (DNK) for regular reporting. The DNK offers a platform recognised by EFRAG for the application of the European Sustainability Reporting Standards (ESRS) and Voluntary Sustainability Reporting Standard for SMEs (VSME) and supplements these with an additional module for companies that want or need to meet more extensive requirements because they are confronted with higher stakeholder expectations from banks, major customers and investors, for example.

Effects on businesses and the common good

The demand for greater sustainability is often perceived in business practice as an additional burden or even a significant competitive disadvantage. However, it should be noted that more sustainable business practices also have significant positive effects, as they reduce medium and long-term risks to the business model, among other things by reducing costs and securing supply chains. It strengthens democratic society and contributes effectively to the 1.5°C target of the Paris Climate Agreement, to the restoration of ecosystems and to the achievement of other Sustainable Development Goals (SDGs). If we succeed in developing the social market economy into a socio-ecological market economy, we will secure economic success in Germany and Europe, combined with a good quality of life, and strengthen social cohesion.

- **Economic and social added value:** Sustainable products and services become more competitive thanks to fair framework conditions; public procurement provides targeted incentives for ambitious players.
- **Trust and reliability through transparency:** Standards and transparent rules reduce distortions of competition, strengthen the credibility of economic and political decisions and thus the trust of citizens in politics and the economy.
- **Future security:** Companies that invest in sustainable structures today will be more resilient tomorrow to climate risks, supply chain disruptions and social tensions.

Companies that are particularly committed to sustainability **differentiate** themselves and **innovate** on their own initiative by

- actively contributing through systemic approaches and processes that **promote sustainable development in global supply networks and at the local/regional level** (e.g. by strengthening social cohesion, investing in ecosystem restoration).
- **promoting sustainable consumption and production** through strategic activities that go beyond the joint marketing of products.

Companies that demonstrate sustainable products and services that are leading in their industry are rewarded with lower sales tax. This can be justified by voluntary assumption of ecological and social responsibility (insetting) and lower follow-up costs for the general public. The investment capacity of companies and the price attractiveness of sustainable products and services increase. They are given preference in public procurement tenders, as is already possible under the current framework of federal and state procurement regulations.

A sustainable economy requires investment in

- innovations for the circular economy and climate protection as characteristics of a permanently viable, resilient economy that is less dependent on third countries,
- measures that protect and restore ecosystems,
- health in the workplace through sustainable management,
- training and further education for employees.

Our proposal: “Four-stage model” as an incentive system for progress

A smart incentive system links sustainability reporting and management with sustainable finance and policy, thereby strengthening market mechanisms that reward progress. The proposed four-stage model is the result of stakeholder dialogues in which it was introduced by BAUM members and DNK users without generating any lobbying advantages. It is based on transparent criteria and combines self-assessment with independent validation by qualified third parties. Not only the status achieved is evaluated, but also the dynamics of progress – those who are visibly on the way to achieving their goals benefit just as much as those who are already operating at a high level.

Level 4 – Top sustainability performers benefit from tax incentives: investment credits (similar to the Research Allowance Act), cooperative transformation financing and preferential access to sustainable procurement.

Level 3 – Advanced companies increase their credibility and visibility through standards with demonstrable impact, robust labels and certifications, impact assessments, external validation, and actively informing customers and business partners beyond the usual extent.

Level 2 – Integrated companies anchor sustainability in transformation plans and take action, report regularly using robust indicators (Sustainable Development Performance Indicators (SDPI) from UNRISD, Sustainable Performance Accounting (SPA), Sustainability Procurement Performance Indicators (SPPI)) and actively manage opportunities and risks.

Level 1 – Basic meets the requirements of applicable regulations (Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), etc.) and thus lays the foundation for further development steps.

Figure 1: Step-by-step model for the market-based performance approach (own illustration, Y. Zwick)

Cities and municipalities can also be integrated into the system: for transformation projects in resilient municipalities and cities, a co-financing rate with an incentive mechanism could be introduced that visibly rewards progress and innovative strength. Starting points are

- green investment allowances for municipalities with ambitious measures;
- bonus-malus system instead of case-by-case assessment: municipalities that achieve clear sustainability goals gain access to innovative financing approaches in line with the Green Deal;
- existing EU funding mechanisms (e.g. Just Transition Fund, REACT-EU).

The package of measures could be rounded off by municipal sustainability funds, from which companies can draw on funding for transformation projects that strengthen the

resilience of their business models and locations, thereby making a concrete contribution to the sustainable development of the municipality and region. Sustainable public procurement is a lever that specifically rewards companies for offering sustainable products and services.

The more concrete and effective the measures, the clearer the incentive for exemplary sustainable business practices and transformative projects in municipalities and regions should be. Sustainability is not an academic topic, but a concrete public service in municipalities and regions.

The outlined step-by-step model could serve as the basis for a new understanding of company law, based on European values, the European legal framework and established corporate practice, and become a prerequisite for doing business in Europe – as a licence to import, export and invest in Europe.

2 Consistency with good sustainability governance at federal level

The effectiveness of the measures should be documented in the national progress reports on the global sustainability goals. The governance of the German Sustainability Strategy will be strengthened by the update. The monitoring carried out by the ministries also includes the implementation of the sustainability action programme within their own areas of responsibility.

The modernisation of framework and market conditions includes reviewing all existing subsidies, public support activities and economic stimulus programmes for their sustainability impacts and aligning them with the 17 SDGs and their contribution to respecting planetary boundaries. In 2022, the Federal Audit Office submitted sensible proposals for climate tracking as part of the Federal Government's climate protection report. Climate- and environmentally harmful subsidies should be phased out gradually and swiftly in order to eliminate structural distortions of competition that hinder the transition to a sustainable economy. The federal government's budget planning should be further developed into impact-oriented budget planning in the sense of an ambitious spending review, for which the inclusion of all socio-economic sections of society, transformation and the ecological sustainability of the German business model are guiding principles.

3 Sustainable business practices must quickly become the norm – time is of the essence

Over the next two years, BAUM e.V. will be working with companies, organisations and partners to accelerate change. Our goal is a socio-ecological market economy that equally strengthens prosperity, ecological sustainability and social cohesion, supported

by established standards such as the OECD Guidelines for Multinational Enterprises and ILO core labour standards.

In this light, we see our involvement in associations and organisations such as Charta Digitale Vernetzung (Charter on Digital Networking), Klima-Allianz Deutschland (Climate Alliance Germany), Generation Restoration, Deutscher Naturschutzring (German Nature Conservation Union), as well as in initiatives with which we engage in constructive dialogue: Mission Wertvoll (Mission Valuable), Bundesverband nachhaltige Wirtschaft (BNW, German Federal Association for Sustainable Business), Forum nachhaltige Geldanlagen (FNG, Forum for Sustainable Investment), econsense, regional chambers of industry and commerce, and industry associations with which BAUM repeatedly works constructively to describe viable solutions and paths to a sustainable economy. Together with the JARO Institut für Nachhaltigkeit und Digitalisierung (Institute for Sustainability and Digitalization) and the BNW, BAUM offers a space within the Sustainable Procurement Initiative (INB) to provide information on sustainable procurement and purchasing options and to discuss pragmatic approaches. Together with 2bdifferent and Sustainable Event Solutions, the Sustainable Event Industry Initiative (INV) provides impetus for effective networking between clients and contractors. Together with the FNG, we organise the German TNFD Consultation Group, which makes nature, an existential factor, balance sheet-able. At the international level, we interact with the Business for a Better Tomorrow initiative, which brings together 18 organisations for sustainable business and social business from EU member states, as well as with the SDPI implementation network around UNRISD, the UN Research Institute for Social Development.

A **coherent regulatory framework** strengthens the competitiveness of Germany and Europe – and serves as a model. This requires:

- **effective instruments** such as emissions trading and CO_2 pricing,
- **rapid solutions** for external costs and tax law adjustments,
- **dialogue and cooperation** – we are ready.