Policy Options for a Belgian Sustainable Finance Strategy

Policy options report
From the perspective of financial market participants

Final report

Technical Support Instrument
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Directorate-General for Structural Reform Support
REFORM@ec.europa.eu
+32 2 299 11 11 (Commission switchboard)
European Commission
Rue de la Loi 170 / Wetstraat 170
1049 Brussels, Belgium

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Presented by
Trinomics B.V.
Westersingel 34
3014 GS Rotterdam
The Netherlands

Contact person
Mr. Frank Gérard
T: +32 496 38 92 78
E: Frank.gerard@trinomics.eu

Authors
Tessa Zell
Tatiana Cuervo Blanco
Jeanet Benschop
Rachel Lamothe
Frank Gérard
Jeroen van der Laan

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Abbreviations

BDA	Belgian Debt Agency
BIO	Belgian Investment Company for Developing Countries
CCIEP	Coordination Committee for International Environmental Policy
CDA	Climate Delegated Act
CDP	Carbon Disclosure Project
CDSB	Climate Disclosures Standards Board
CESGA	Certified ESG Analyst
CFDD/FRDO	Federal Council for Sustainable Development
CNC/NKC	National Climate Commission
CRR	Capital Requirements Regulation
CSIPME - HRZKMO	Conseil Supérieur des Indépendants et des PME/Hoge Raad voor de Zelfstandigen en de KMO
CSRD	Corporate Sustainability Reporting Directive
CTB	Climate Transition Benchmarks
DLV2	Stakeholder Report
DLV3	Diagnostics Report
DLV4a	Policy Gaps Report – from the from the perspective of financial market participants
DNB	De Nederlandsche Bank
DNSH	Do no significant harm
EBA	European Banking Authority
EC	European Commission
EIB	European Investment Bank
FMO	Dutch Entrepreneurial Development Bank
EIOPA	European Insurance and Occupational Pensions Authority
EPBD	Energy Performance of Buildings Directive
EPC	Energy Performance Certificate
ESAP	European Single Access Point
ESG	Environmental Social Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
FPB	Federal Planning Bureau
FSMA	Financial Services and Markets Authority
FTE	Full time equivalent
FOD	Federale Overheidsdienst (Federal Public Service)
G20	The Group of Twenty
GCEL	Global Coal Exist List
GDPR	General Data Protection Regulation
GFANZ	Glasgow Financial Alliance for Net Zero
GOGEL	Global Oil & Gas Exit List
HCF	High Council of Finance
HFCSE	Health, Food Chain Safety and Environment
IBR/IRE	Instituut voor Bedrijfsrevisoren
IEC	Inter-ministerial Economic Commission

IFDD/FIDO	Federal Institute for Sustainable Development
ISSB	International Sustainability Standards Board
JTF	Just Transition Fund
KIID	Key Investor Information Document
KPI	Key Performance Indicator
LEnvI	Low Environmental Impact
MS	Member State
NAP	National Adaptation Plan
NBB	National Bank of Belgium
NECP	National Energy and Climate Plan
NGO	Non-Governmental Organization
NPBI	National Promotional Bank and Institution
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
PAB	Paris-Aligned Benchmark
PACTA	Paris Agreement Capital Transition Assessment Tool
PAI	Principle Adverse Impact
PMV	Participatie Maatschappij Vlaanderen
PRI	Principles for Responsible Investment
PSF	Platform on Sustainable Finance
RRF	Recovery and Resilience Fund
RVO	Dutch Enterprise Agency
SBI	State Bank of India
SBT	Science-based targets
SC	Screening criteria
SDA	Sectoral Decarbonization Approach
SF	Sustainable Finance
SFDR	Sustainable Finance Disclosure Regulation
SFPIM	Federal Holding and Investment Company
SH	Significant Harm
SPF	Service Public Fédéral (Federal Public Service)
SME	Small or Medium sized Enterprise
SRIW	Regional Investment Company of Wallonia
TCFD	Taskforce on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
TSC	Technical Screening Criteria
TSF	Taskforce Sustainable Finance
TSL	Towards Sustainability Label
UCM	European Point of Single Contact in Belgium
UNEP-FI	United Nations Environment Program – Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UNIZO	Union of Independent Entrepreneurs
UWE	Union Wallonne des Entreprises
VBO FEB	Federation of Enterprises in Belgium

VOKA	Flanders' Chamber of Commerce and Industry
VVSG	Association of Flemish Cities and Municipalities

Introduction

Context

In line with the increasing efforts at the EU level to reorientate finance towards the transition to a sustainable economy, Belgium has received technical support for a scoping study for informing the development of a Belgian Sustainable Finance Strategy funded by the European Union via the Technical Support Instrument and implemented in cooperation with the Directorate-General for Structural Reform Support of the European Commission (DG REFORM). The purpose of the *Developing Policy Options for a Belgian Sustainable Finance Strategy* project is to:

1. provide the main elements and tools to the Belgian federal authorities for setting up a Belgian Sustainable Finance Strategy, supporting the financial sector to align with the sustainability-related goals with a clear vision and overarching framework;
2. strengthen the Belgian Federal Government and the institutions under its jurisdiction as an investor and enabler for ESG alignment in line with European and international obligations, and;
3. align Belgian actors with the European Sustainable Finance Strategy by equipping them with adequate tools and understanding of the sustainable finance disclosure and reporting regulations.

This technical support project focuses on two pillars: (1) policy options to make the financial sector in Belgium more sustainable (focus of this DLV5a report); and (2) to make Federal Government investments more sustainable (focus of the DLV5b report). As part of the Deliverable 5 (DLV5) of the project, this report offers a list of policy options to be considered by the Belgian Federal Government to address the issues and policy gaps faced by financial market participants and identified in Deliverable 4 (DLV4a). More broadly, the implementation of the proposed policy options is expected to support the alignment of Belgium with the Council's recommendations provided under the European Semester[1] by championing sustainable investment (recommendation 1) and by indirectly supporting the energy transition (recommendation 4).

Methods

This report is based on analyses of data gathered (1) through the Policy Options Questionnaire, which was conducted between 20th June and 8th July 2022 and (2) during the workshop on Policy Options held in Brussels on 28th June 2022. In addition, (3) interviews and (4) email exchanges were conducted with the FSMA and Febelfin; and information was triangulated with and complemented by (5) desk research, notably to analyse (international) best practices by other peers, legal sources and frameworks of reference. Finally, this report has been shared with selected stakeholders for their feedback and adjusted accordingly. Importantly, analyses and policy options are underpinned by the Belgian sustainability objectives agreed upon with the Steering Committee and which can be found in Annex A of the inception report (DLV1).

Prerequisite for a successful implementation

The successful implementation of these policy options is conditioned by the **sustainability vision** for the financial sector defined by the Federal Government - and in particular by the Minister of the Climate, the Environment, Sustainable Development and Green Deal, and by the Minister of Finance. This vision

[1] European Council (2022) Council Recommendation on the 2022 National Reform Programme of Belgium and delivering a Council opinion on the 2022 Stability Programme of Belgium

should entail (i) clear sectoral pathways that include targets for the financial sector, such that critical sectors are guided towards sustainable investments and alignment with European regulation, and (ii) a coherent set of policies and measures that enhance sustainable investments (e.g., support schemes for carbon-neutral technologies and carbon pricing). The vision should be concise and provide clear priorities and instructions for financial market participants on how to deliver on the vision and sectoral pathways [2]. This prerequisite applies to both the private and public sectors, i.e., it conditions the successful implementation of reports DLV5a and DLV5b. In the context of the private sector, the definition of this vision is critical, notably for ensuring that financial markets support the attainment of Belgian objectives and international pledges. Experience with the development of sustainable finance strategies in other European countries clearly shows the need to communicate the link between broad national Sustainable Development Goal (SDG) ambitions and the transition required from private stakeholders. This is illustrated in the report of the Coalition of Finance Ministers for Climate Action on the analysis of sustainable finance roadmaps.[3]

Reading guide and overview of policy options proposed

This report is structured around the following sections:

Chapter 1 - **Policy options to develop a clear long-term sustainable finance framework**: the policy options presented in this chapter lay the foundations for an enabling environment that will facilitate the implementation of the **EU sustainable finance framework** by financial market participants:

1.1 ***Strengthen the existing governance structure to ensure that long-term sustainable finance is sustained across legislative mandates***. This policy option proposes a structure and possible operations for a governance scheme that supports financial market participants in the implementation of European regulation and also proposes strategies to mainstream sustainability, by involving all concerned stakeholders from the beginning.

1.2 ***Developing a Sustainable Finance Ambition Statement for Belgium, including a timeline with targets and milestones for financial institutions and businesses to mainstream sustainability***. This policy option proposes the content of, and methods for, developing a Sustainable Finance Ambition Statement for Belgium, as supported by stakeholders, in order to facilitate and clarify the implementation of the EU sustainable finance framework.

1.3 ***Communicating clear sectoral pathways to guide the financial sector in Belgium towards sustainable investments in line with the EU targets***. This policy option offers key principles for communicating sectoral pathways, including the specific- and more pressing- investment gaps under each sector as outlined by the existing regional and federal pathways-, and what these investment gaps mean for the mobilisation of financial resources (i.e., where resources should be channelled).

1.4 ***Enabling the use of financial instruments that support sustainable investments.*** This policy option proposes six concrete actions to remove the friction and barriers that hinder sustainable investments in Belgium.

1.5 ***Developing a list of harmful activities to guide public and private investments.*** Acknowledging the need for transparency to reorientate investments, along with the specific activities which need increased financing to undergo their transition, this policy option presents principles to specify a list of harmful activities (the financing of which should be avoided), in

[2] The best practice "France 2030" identified in DV4b provides an example of format.
[3] The Coalition of Finance Ministers for Climate Action (2021). An Analysis of Sustainable Finance Roadmaps: Charting the Path to Financial System Transformation.

particular to align with EU regulation and existing lists. It also offers an overview and subsequent recommendations of possible lists of harmful activities.

Chapter 2 - **Policy options to increase the use of Environmental, Social and Governance (ESG) disclosure frameworks, including enhancing the availability and quality of ESG data**: The policy options presented in this chapter address the disclosure issues that can hinder sustainable investments, and the availability and comparability of data:

- **2.1** ***Improving the access to, and usability of, Energy Performance Certificates (EPCs) building on the information already available at national and regional level***. This policy option proposes concrete actions to enhance the accessibility and comparability of EPCs –which represent a solid proxy for the GHG footprint of buildings-, based on strong support from stakeholders.
- **2.2** ***Improvement of the current content and scope of sustainable finance disclosure, reporting and monitoring in Belgium***. This policy option proposes principles for the construction of a central data hub for listed companies and SMEs, such that data is fully aligned with existing and expected European regulation, and that the data disclosed is verified.
- **2.3** ***Creation of a central data hub which is publicly available to ensure that the data is available for all, and to avoid data competition between financial market participants***. This policy option proposes a gradual approach to develop and report on sector agnostic key performance indicators (KPIs). The main purpose of the option is to (1) facilitate mandatory reporting for actors that are subject to European regulation and (2) incentivise SMEs to report so that they may benefit from the benefits of ESG disclosures. This option should ensure complementarity with the EU efforts in that regard.

Chapter 3 – **Policy options to build Sustainable finance capacity**: the policy options presented in this chapter address perceived knowledge gaps on the EU sustainable finance framework, on sustainability-linked risks, on disclosures through the provision of information (on the sustainable projects applying for finance):

- **3.1** ***Setting up an ESG helpdesk to provide financial market participants with a basic understanding of ESG knowledge gaps, investment needs and reporting obligations, and to answer questions related to unpacking the EU sustainable finance regulatory framework***. This policy option combines several types of measures to address the knowledge gaps raised by stakeholders, including the development of capacity building activities, financial incentives, soft law to clarify the reference guidelines in the sustainable finance field, and the involvement of academics.
- **3.2** ***Developing technical assistance programmes for SMEs that could help bring the necessary knowledge tailored to specific actors***. Noting the urgency of integrating SMEs into sustainable finance frameworks in a context where the EU sustainable finance framework rapidly expands, this policy option proposes three actions to raise awareness and concretely address disclosure gaps at the SME level.
- **3.3** ***Improving the understanding and assessment of environmental and social risks (notably climate risks) within the financial sector***. This policy option proposes a list of concrete actions to (1) educate stakeholders about the nature and severity of sustainability-linked risks for financial stability, (2) strengthen the stakeholders' actions to mitigate and address risks by providing them with tools and methodologies and (3) intensify exchanges of practices through the construction of a dedicated workgroup.

3.4 ***Promoting platforms with pre-screened sustainable investment projects which are shovel-ready to be picked up by the financial sector.*** This policy option builds on the lack of sustainable projects raised by stakeholders and proposes a list of platforms that could be used to facilitate the identification of sustainable investments, along with measures to strengthen these platforms.

Chapter 4 – **Conclusions and recommendations:** this chapter summarises the policy options proposed. A summary table with the recommended timeline for implementation, the governance, impact and feasibility is presented to help the Federal Government prioritise the policy options and to enable policy makers to take informed decisions regarding the implementation of the options.

Annex A – Questionnaire: this Annex presents the Policy Options Questionnaire
Annex B – Overview of results of the questionnaire: this Annex presents the results of the Policy Options Questionnaire.
Annex C – Overview of results of the Policy Options Workshop

1 Policy options to develop a clear long-term sustainable finance framework

There is still a lack of clarity on the scope and the level of ambition of sustainable finance which is needed to guide investment choices. A clear long-term vision and pathways for reorientating financial flows towards sustainable investments would form the policy baseline needed for an integrated sustainable finance framework. This could be achieved by the following policy options.

1.1 Strengthen the existing governance structure to ensure that long-term sustainable finance is sustained across legislative mandates

Objectives, governance and timeframe

A governance structure with a clear mandate and agenda is imperative to support the effective implementation of the Sustainable Finance Strategy. Based on the open-ended responses in the questionnaire, consultations with the FOD Finance and the FOD HFCSE, the existing Belgian institutional framework and the project team's analysis, we propose the following core bodies for the governance structure, as presented in Figure 1 Erreur ! Source du renvoi introuvable.**. It is important that this proposed governance structure is discussed more in-depth with stakeholders:**

Taskforce Sustainable Finance (TSF)

The aim of the TSF is to ensure communication and coordination among all parties concerned by sustainable finance in Belgium, to work on the EU agenda and steer the discussion to input on the regulatory framework, and to take the required actions at the national level regarding the implementation of the Sustainable Finance Strategy. For the latter, this would start with the implementation of the recommendations provided in this report. The TSF could be **the responsibility** of the Minister of Finance and the Minister of Green Deal and/or Sustainable Development, with a clear mandate.

Governance structure of the TSF

The TSF should be **composed of three boards**

- The **members constituting the Main Board**, comprising of representatives from at least both the federal and federated entities (regions and communities): Finance, Health and Environment, Economy, budget, Foreign Affairs, and ideally employment and social affairs. It should also comprise representatives of the Task Force on the NECP (National Energy and Climate Plan). Ideally the Federal Public Services from finance, green deal and economy should lead the operation of the TSF, and prepare the agenda. The Main Board should be the main body, acting on behalf of the governments to address the needs arising. It should be responsible for implementing the sustainable finance strategy and its action plan, in collaboration with the two other boards (Financial Advisory Board & Policy Advisory Board, see below) and with the stakeholders in the frame of stakeholders roundtables, and with other institutions. The Task Force on the NECP should ensure the coordination with the ongoing works.
- The **Financial Advisory Board**, composed of the FSMA, BDA, NBB, and National Promotional Bank Institutions (NPBIs, i.e., SFPIM, PMV, SRIW, and Finance&Invest Brussels). This Financial Advisory Board provides technical advice to the Main Board on financial topics such as EU compliance, or

finance regulation, technical screening criteria, financial instruments, etc. by participating on ad hoc basis in TSF internal workgroups.

- The **Policy Advisory Board**, composed of the Federal Planning Bureau (FPB), the Federal Council for Sustainable Development (CFDD/FRDO), and the High Council of Finance (HCF). This Policy Advisory Board would provide advice and recommendations to the Main Board on policy topics such as providing investment figures or projections (from the FPB e.g.), determining the economic sectors to focus on, etc. by participating on an ad hoc basis in TSF internal workgroups.

To carry out all activities, a **Bureau** should be constituted, with staff from the different administrations, or with new staff. This bureau would be the operational body of the TSF, organising the meetings (workgroups and the Roundtables, see below), preparing the material, drafting the different papers and reports, liaising with the stakeholders.

The survey conducted during the first half of 2022 shows that the Federal Government (34%), followed by FSMA (17%) and NBB (16%) are considered the most important stakeholders for the governance structure [Q15]. From the open-ended responses, it follows that the Federal Government should be responsible for the monitoring of the strategy and compliance, acknowledging the link with the EU framework. Stakeholders also emphasise the need to include NGOs, academia and sectoral experts to maintain stability across legislative mandates.

The Taskforce Sustainable Finance will also rely on and **collaborate with other structures, institutions**, or centres to carry out its agenda. Among these external entities, the most important at this stage are:

- The energy dialogue between the 3 regional and the federal entities (ENOVER/CONCERE), as the energy competences are spread among the four entities. The first concrete file that should ideally be dealt with the regions (as it is a regional competence), is the delivery of Energy Performance Certificates (EPC) for buildings. In this frame, the TSF should request the energy Ministers and administrations, to find a solution in this framework. The TSF could also ask the support of the concertation group to communicate energy and climate related pathways (possibly together with the National Climate Commission - CNC/NKC).
- **The Federal Institute for Sustainable Development** (IFDD/FIDO), to support the TSF in communicating the Ambition Statement (see recommendation 1.2), and for their expertise regarding sustainable finance.
- The **DNSH expertise centre and helpdesk** from the Recovery and Investment Plan (or PRI) should carry out an ex ante assessment of projects applying as Recovery and Strategic Investments (similarly to the RRF process). The DNSH expertise centre aims at developing methodological tools for project developers, training and providing support to project developers.
    - The guidance for the NRRP[4] (national recovery and resilience plans) is used as the basis of the DNSH guidance, and relies upon the technical screening criteria in the delegated acts under the Taxonomy Regulation[5]. The DNSH expertise centre will also follow up the progress made regarding the other environmental objectives.
    - The DNSH expertise centre is also part of the inter-federal DNSH network which is coordinating and exchanging practices & expertise between the DNSH experts and approach of the different entities (regions and federal) in the frame of the RRF.

[4] European Commission (2021) https://ec.europa.eu/info/sites/default/files/c2021_1054_en.pdf

[5] Where a measure 'contributes substantially', pursuant to the Taxonomy Regulation, to one of the six environmental objectives, this measure is considered compliant with DNSH under the NRRP

  - This DNSH expertise centre and helpdesk could provide the required helpdesk and support training on the application of the DNSH principle to the TSF.
  - The centre would support the assessment of the needs and the possibilities for public investment, in particular in the context of Belgium's commitments to combat climate change and its objectives in the field of the green and digital transition.

The TSF should be organised through the following **working structures**:

- **The Bureau:** to carry out all activities, dedicated staff would be needed for the day-to-day management, and should be completed by members who are following the work of the European Commission and the coalitions in which Belgium participates, to ensure continuity and consistency. Given the work to be done, depending on the activities the TSF is expected to conduct, and the level of ambition, we estimate this would require at least 4 to 8 FTEs with different complementary profiles (financial, economic, environment, statistical, legal and administrative). These could be existing civil servants from the different administrations, to be specifically dedicated to operating the TSF, or new staff could be hired.
- **Internal Workgroups**: these will take place only with representatives of all members of the TSF (Main Board, and Advisory Boards), via closed sessions. These workgroups would be established for well-defined topics (e.g., the establishment of a workgroup on capacity would steer all activities related to raising awareness, implementing training programmes, etc.). They would ensure the continuity of the work on the regular activities that the TSF has to conduct, regarding coordination, follow up of EU developments, monitoring and reporting. The decisions in these workgroups would belong to the federal entity representatives (Federal Public Services). Consultation and exchanges with the regions would happen in any case as the regional public services are also members of the Main Board.
- **External Roundtables**, with representatives of all members of the TSF (Main Board, and Advisory Boards) and external stakeholders, via open sessions. These roundtables would organise the consultation and involvement of the concerned stakeholders for the specific topics to be addressed. This could be open to all relevant stakeholders listed in the stakeholder report (DLV2) of this study. We see the evolution of the stakeholders in two steps:

  As **a first step** the TSF would invite all concerned stakeholders to participate in the work planned in the roundtables. We highly recommend communicating the planning of the roundtables where feasible, to steer the contribution of the stakeholders. The interactions with the TSF could be either on a permanent basis (i.e., members are kept informed about all works, progress, and have the possibility to interact with the TSF), either on ad hoc basis only when the TSF requires their involvement. It is recommended to organise these interactions in a hybrid way, mixing ad hoc and permanent, depending on the topics. These roundtables would progressively rely on well organised structures like sectoral associations, recognised sustainable finance networks (Solifin, Central Label Agency, Ethibel, Fairfin, Financité, etc.) or emerging initiatives such as the Impact Finance Institute[6]. These could become tier one partners.

In a **second step**, we could expect the stakeholders to organise themselves in a Sustainable Finance Hub or any other similar structure. It should comprise all required stakeholders listed below (the list is not

[6] The IFI should be officially established end of November 2022, with as founding parties: Solifin; SFPIM; BIO; King Baudouin Foundation; Foundation for Future Generations; Impact Capital; Incofin; KOIS Caring Finance

exhaustive and stakeholders may be added), to ensure the representativeness of all society interests. It is too early to determine how such hub could be designed. An important aspect to consider for the roundtables, is to ensure a balanced representativeness between the different stakeholders' interests. It is essential to ensure the representation of:

- The financial and insurance sectors, including asset managers, represented by Febelfin, PensioPlus, Assuralia;
- The business and economic sector, represented by FEB/VBO, UWE, UNIZO, VOKA, UCM. Particular attention should be paid to ensure the representativeness of SMEs;
- The frontrunner companies, represented by Ecopreneur, Ashoka;
- CSOs (Civil Society Organisations) active in this field, such as IEW; BBL; IEB; CNCD; FinanceWatch; Greenpeace International; Biodiversity Coalition; ACODEV; the Future Generation Foundation; the Belgian Federation of philanthropic Foundations; the Youths Forum (Forum des Jeunes); Combat Poverty, Insecurity and Social Exclusion Service;
- Unions (such as CSC/ACV, FGTB/ABVV, CGSLB/ACLVB, GTI, UNI, SNI, SDI);
- Sustainable finance networks (such as Solifin, the forum Ethibel, Fairfin, the Central Label Agency, Financité, or the IF Belgium – Sustainable Finance Institute), or other sustainable finance suppliers (such as Triodos, Credal, Trividend), and expertise centers (e.g., Guberna, Brueghel);
- The IRE/IBR, to represent auditing companies;
- Academics and research centres, such as ICHEC, Ugent, ULB, Unamur, Antwerp University, Umons;
- Other national stakeholders, such as the Climate Coalition; the National Council for Cooperation, Social Entrepreneurship and Agricultural Enterprise, the CCIEP (Coordination Committee for International Environmental Policy), and the IEC (Interministerial Economic Commission);
- International institutions and organisations such as the European Coalition for Corporate Justice; E3F.

The Dutch Sustainable Finance Platform is an illustration of another type of governance, consisting of governmental, sectoral representatives, and knowledge partners (see Box 1).

Box 1 International example: DNB Sustainable Finance Platform (the Netherlands))

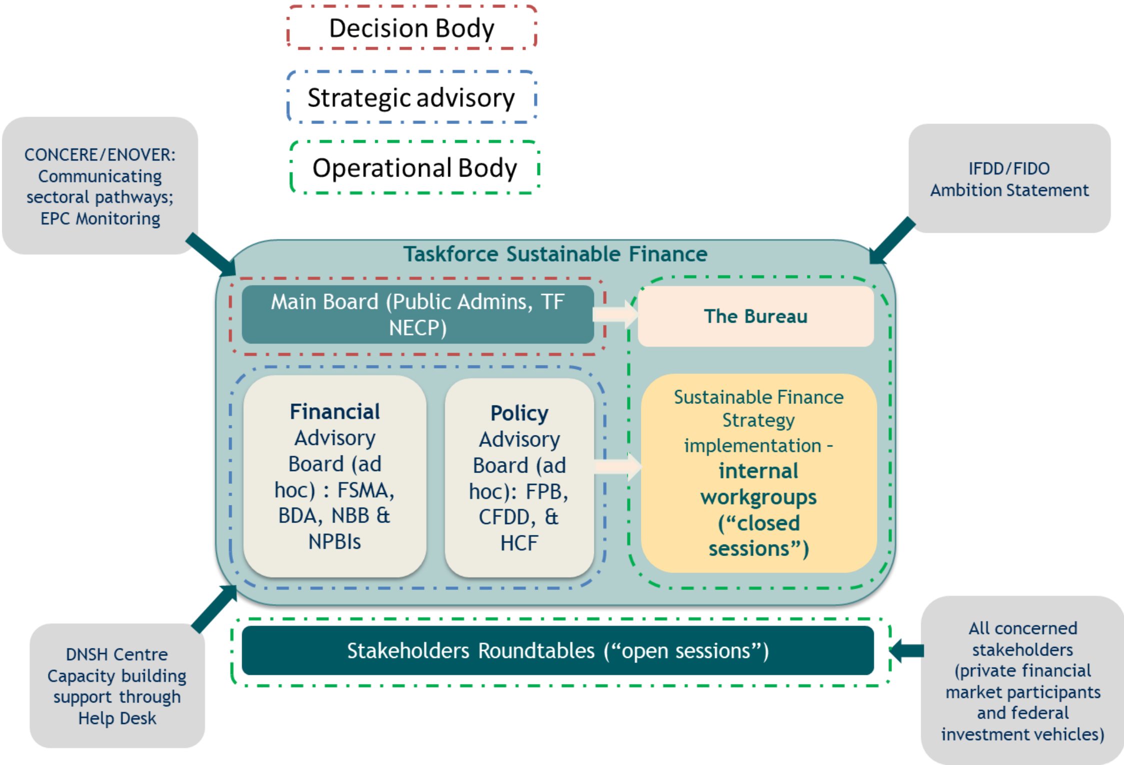
In 2016, De Nederlandsche Bank (DNB) established the Sustainable Finance Platform, consisting of governmental and financial market representatives, and knowledge partners. Its objective is to promote and increase awareness of sustainable funding in the financial sector and foster cooperation. The initiative is led by the Dutch Central Bank and the Ministry of Finance take a seat on the platform. Actors within the platform perceive it as being easier to connect with one another, the government and supervisory authorities. This provides a powerful encouraging impulse to sustainable finance. The platform's members can decide to establish a working group dealing with a specific theme, such as climate risks, climate adaptation, communications on sustainability, SDG Impact Assessment, PCAF, circular economy, real estate, biodiversity and carbon pricing. The members of each working group represent a wide range of parties from the financial sector. Together, they focus on a theme and present their findings to the full platform. The platform discusses the findings during its bi-annual meetings, adopts positions and publishes definitive reports.

Regarding the **process to decide on the agenda and operation of the Roundtables**, we propose the following approach:

- The topics to be addressed in the Roundtables could be either proposed by the TSF directly (all members can propose), or by stakeholders making a direct request to the TSF. The main Board should decide to set up the Roundtable.

- The Bureau would then invite stakeholders to the Roundtable, with precise information on the aim and activities, expected duration and input from the stakeholders. The TSF staff host the Roundtable, fixes the agenda, and deliverables. The Main Board is responsible for endorsing the final deliverables (e.g., it could be a capacity building programme developed together with the stakeholders).

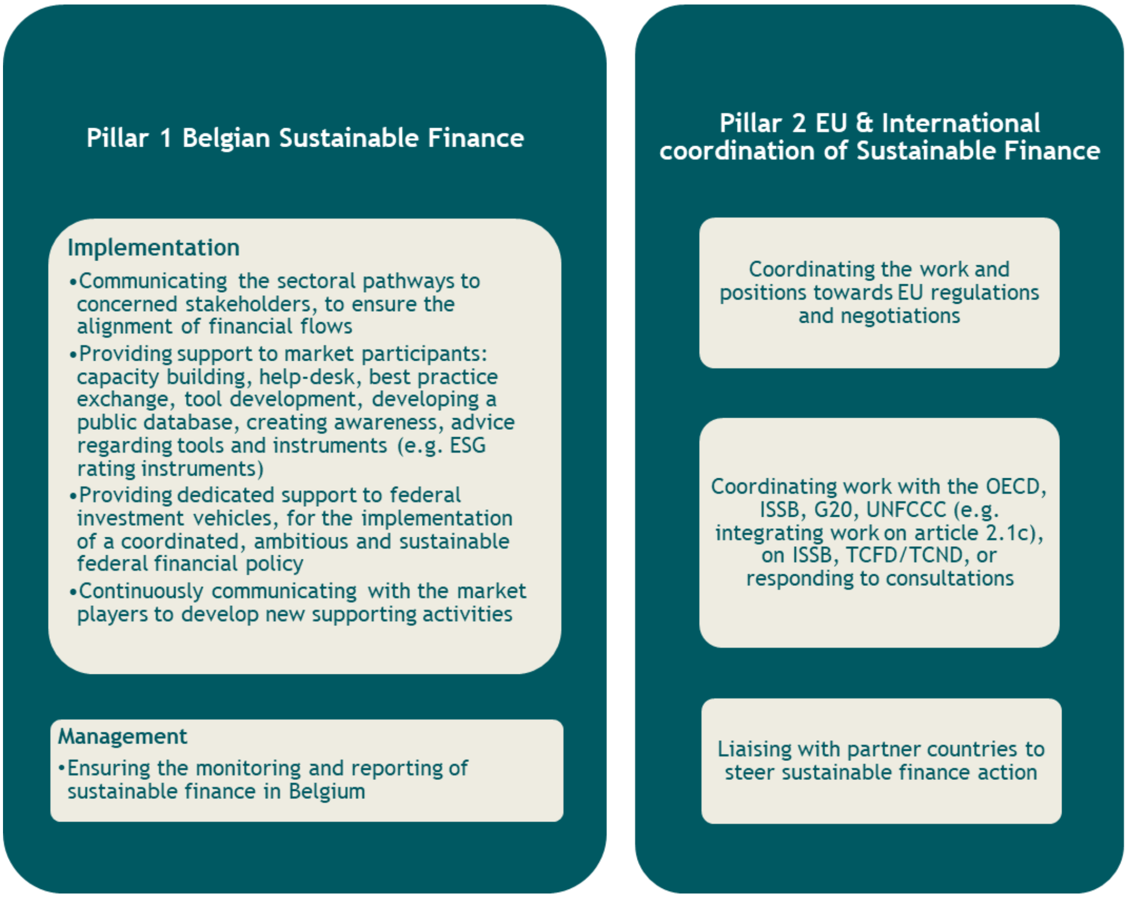
Figure 1 Proposal for the governance framework of Belgian sustainable finance



Pillars and functions of the TSF

To anchor the work and governance of the TSF, it is essential to strengthen its mandate, to endorse the needed responsibilities, to monitor its achievements and adapt its mission accordingly, to clarify its functions and roles across the two **pillars presented below with different aims.**

Figure 2 Two Pillars of the Taskforce Sustainable Finance TSF



The **functions of the TSF** will differ between the two pillars. The main functions are:

- **Sustainable Finance Strategy implementation**
    - This TSF would be responsible for implementing activities decided under the Sustainable Finance Strategy and decided by the Minister of Finance and the Minister of Sustainable Development or by the Federal Government, to scale up sustainable finance action and expertise in Belgium. Responsibilities could consist of the development of capacity building activities and providing information and support on sustainable investments and disclosure. One concrete example could be a roundtable on obtaining a better understanding of sustainability risks (see policy option 3.3). It would focus on monitoring and evaluation (M&E) activities for financial market participants including SMEs, and other capacity building activities. The TSF could also function directly or indirectly as a helpdesk for companies to get the right information to help them comply with the EU sustainable finance framework.
- The TSF could, on the basis of the aggregated information received from different institutions, following the evolution of the curve of sustainable investments (on the basis of aggregated data

collected through the disclosure exercise of companies and financial institutions), ensure the high-level **monitoring & reporting of sustainable finance** in Belgium, relying, among others, on:

  - The supervisory authorities, FSMA for instruments under its responsibility, and NBB for the other market players (not covered by FSMA);
  - Belgian Debt Agency (Green OLO);
  - Federal Planning Bureau;
  - the reporting from NPBIs, for example for the Impact Fund under SFPIM, or from the regional NPBIs;
  - other providers such as auditors for company reporting, labelling of financial products under SPF environment, green budgeting under Bosa.
- **Coordination & dialogue to implement the Sustainable Finance Strategy (with other institutions)**
  - Concertation at the Belgian level is needed given the spread of the competences and sectors between the four entities (3 regions and 1 federal entity);
  - Coordination is key to communicate the importance of the sustainable finance policy agenda to the stakeholders concerned. The TSF would be responsible for the **development and communication of the Sustainable Finance Strategy with a medium-term (<5 years) perspective.**
- **Coordination & consultation to implement the Sustainable Finance Strategy (with stakeholders)**
  - **Efficient information exchange between the TSF and the Stakeholders concerned with the Sustainable Finance Hub is key.** One option to deepen the cooperation between public and private sector would be to utilise the Roundtables to host exchanges, when the Strategy gets a more detailed shape with a focus on priority sectors;
  - Responsibilities could consist of bringing together key stakeholders for structured and objective-driven dialogues in the Roundtables and ensuring interaction between financial instruments and organisations for selected thematic areas and sectors. Examples of these roundtables could be 'communicating sectoral pathways' (see policy option 1.3). Existing pathways such as the National Energy and Climate Plan (NECP) should be communicated urgently. The TSF should consult the institutions responsible for the ESG agendas (but not necessarily linked to sustainable *finance*). There could also be a roundtable on setting the direction and prioritising national KPIs (see policy option 2.3.).
- The TSF could **prepare positions and have an advisory function** towards the Federal Government. It could concretely coordinate the positions towards EU regulations and negotiations, but also regarding international developments (such as standards or norms). It could also take the initiative to formulate advice or recommendations to the Federal Governments, or address specific requests when a political action is necessary (e.g., when common work is required between the four entities, such as for the EPC, see recommendations 2.1, the TSF could request the Federal Government to organise it, through the CNC/NKC)
- The Main Board of the TSF is also responsible for **safeguarding the link with the broader sustainability vision of the Federal Government.** One of the first actions could be for FIDO/IFDD to develop an ambition statement and communicate this with stakeholders (see section 1.2 'developing a Sustainable Finance Ambition Statement).
- The TSF could develop the **networking with other European Member States**(e.g., via Benelux), to take specific initiatives in the field of Sustainable Finance. These could include the exchange of practices, research on potential synergies (e.g, setting up collaboration or co-construction of

capacity building programmes), the organisation of common events aimed at market participants active in the different markets (e.g. to financial institutions present in Belgium and The Netherlands, France, Luxembourg, etc), the development of common rules or actions (e.g., in case there is willingness to move faster than the EU agenda with partner countries)

- The TSF should also be **responsible for communicating the sectoral pathways** to the expected investors, the concerned market participants, and to all stakeholders. This should be done with the corresponding organisation, which could be an institution, an administration, a department, a commission or committee. E.g., to communicate the National Energy and Climate Plan and its related investments, this should be done by the joint meeting on the National Climate Committee (NKC/CNC) with the concertation body on Energy (ENOVER/CONCERE) (as leading the revision of the NECP). The Federal Plan Bureau could also have a role in quantifying and communicating sectoral pathways. These organisations would provide the required information to the TSF to enable the information to be aggregated, in order to support the commitment for sustainable public and private investments.
- The TSF could propose the preparation of **new tools** to support the development of financial and corporate products.
- The TSF could **establish a helpdesk to build capacities and raise awareness**. An internal workgroup could be dedicated to developing training sessions and programmes, dissemination of information, facilitating the exchange of good practices, and conducting awareness-raising activities. Depending on the needs, the workgroup could address specific topics via Roundtables, involving external expertise (e.g., academics or NGOs to deliver training sessions, and companies to define the content of the training). In the first instance, the help desk could mainly rely on close **collaboration with the DNSH expertise centre**, to extend their expertise to a broader range of players.
- The TSF could develop a **watchdog function** to closely follow up the development of the EU regulatory framework, but also international developments (such as ESG auditing standards).
- The TSF could steer the **creation of IT solutions**, and of databases to collect and store publicly available data (cf. recommendations in section 2.3).
- **Development of an exclusion list and the list of harmful activities:** one of the Workgroups within the TSF should be dedicated to developing the expertise towards the management of these lists and defining their use. This workgroup should be composed of the DNSH expertise centre, the new Centre of Excellence for Climate Research[7], the Study Committee for public Investment[8], the Federal Planning Bureau, BOSA (particularly for green budgeting), the Financial Advisory Board (FSMA, NBB, DBA), NPBIs (particularly SFPIM). The expertise of the Workgroup, via the presence of the concerned administrations, would be strengthened according to the evolution of the EU Taxonomy, and its delegated acts, expanding the ESG criteria. In the first instance, the focus would be on climate adaptation and mitigation. This internal Workgroup would involve external actors with the required expertise via dedicated Roundtables, such as frontrunner players like the forum Ethibel, or the new Impact Finance Institute, companies and/or their sectoral associations (federal and regional), expert NGOs, or suitable Academics.
- **Provide specific support to the public financing organisations** (SFPIM, BIO, National Lottery, see DLV5b for the full overview of actors). A dedicated workgroup within the TSF, composed of

[7] Which is currently being set up.
[8] This Study Committee for Public Investment, or Comité d'études des investissments publics, will be established by the Federal Government as an independent body aiming to bring together existing expertise and developing the necessary expertise in order to structurally improve the efficiency of the public investments

the main organisations such as SFPIM, could work towards a coordinated investment strategy (this is further explained in the DLV5b report on the Federal Government as investor).

The TSF and its entire work package (i.e., the two pillars), especially pillar 1 on the Sustainable Finance needs to **target the two categories of market participants**:

- Private participants, comprising the companies or investees (corporates, SMEs, etc) and the financial market participants (e.g. insurance undertakings, investment fund managers, social entrepreneurship fund, investment firms, or collective investment in transferable securities)
- Public vehicles, comprising:
  - Financing out of EU (external) with BIO, ENABEL, CREDENDO, FINEXPO, SBI, state-to-state loans
  - Financing within EU (internal) with SFPIM, BDA (for Green OLOs), the National Lottery, Synatom, NIRAS-ONDRAF, Second and third Pension Pillar, NBB

The TSF will not be responsible for the compliance with the EU regulatory framework, as this is the responsibility of the financial supervisors. E.g., day-to-day financial sustainable finance monitoring, or corporate risk assessment are the responsibility of the supervisory authorities at national / European level according to the governance specified in European regulation.

In the survey, more than half of the respondents (53%) replied that the governance structure should be established in the short-term [Q14], while less than half (43%) considered it as a medium-term action. Only one respondent said it is not needed. Given this balance between the short and medium term, we consider that it is key to build on the existing framework (i.e. the TSF) to spare time and effort, strengthening its mandate in order to give it the required recognition to carry out all activities and coordinate all parties (internally, i.e. within the TSF, and externally with stakeholders).

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: the proposed governance structure gives Belgian actors the agenda and mandate to implement the sustainable finance strategy. Building on the existing framework is the most straight forward and rapid approach. Moreover, dividing the TSF into three Boards helps to clarify the role of each Board (leading or advising). Having two Advisory Boards (for financial advice and policy advice respectively), which are involved on ad hoc basis means that the board members are always available to provide advice, but are not involved when not needed. This avoids too many members being involved all the time, and the work becoming too much of an administrative burden. Given the scope of ESG, many administrations should be involved, from both the federal and the regions. This risk is that it is becoming a heavy structure to manage. Therefore, we highly recommend limiting the Main Board to the administrations, to establish a clear link with the concerned Ministers and the Governments, and to establish the link with the stakeholders progressively via the Roundtables. At this stage, we do not see a need to make a clear body or structure with the stakeholders, as these are numerous and diverse, and it is not fully clear how much each stakeholder would contribute to the activities. Hence, we recommend to work via the Roundtables, and, if the evolution suggests it is needed, more officially establish the interaction with the stakeholders.
- **Potential risks**: for the effective implementation of the policy option, there needs to be political-level agreement on the Belgian sustainability vision, with clear targets and ideally investment needs. Without a strengthened mandate, the structure may face difficulties in

coordinating actions and possibly the preparation of positions. A weak mandate towards the other structures like ENOVER/CONCERE, FIDO/CFDD, or the DNSH expertise centre may jeopardise the collaboration with these structures. Without a clear political signal towards the stakeholders, there is also a risk that the TSF does not catalyse or steer sustainable finance action in Belgium. The proposed structure looks complex, but is in practice the most efficient way to involve a large variety of actors (administration, businesses, NGOs, academics etc.) of all sectors (to cover all sustainable finance related topics). The main risk is that it could appear complex while it is not the case. Hence, appropriate communication is required.

- **Impact on stakeholders**: The TSF will require the administrations concerned to dedicate some staff to be operational and conduct all activities, in order to implement the sustainable finance strategy. Depending on the role the DNSH expertise centre would play, its reinforcement would also be required. If the TSF is well staffed, based on its agenda, we estimate that it should hire between 2 and 4 FTEs to operate properly. Consultation via the Roundtables could be straight to the point if properly framed. Therefore, the resource burden for stakeholders could be considered low, because all the actors already fulfil their role in the sustainable finance landscape of Belgium and this policy option focuses on coordinating their work. With the governance structure in place, overlap between workstreams could be avoided leading to higher efficiency and a lower resource burden for stakeholders.

1.2 Developing a Sustainable Finance Ambition Statement for Belgium, including a timeline with targets and milestones for financial institutions and businesses to mainstream sustainability

Objectives, governance and timeframe

The objective of this policy option is to provide the building blocks to draw up a Sustainable Finance Ambition Statement for Belgium (hereafter: ‘Ambition Statement’).

The Ambition Statement is a long-term policy framework with clear milestones and targets, critical to orientate short-, medium- and long-term public and private[9] sustainable investments[10] and capital mobilisation priorities, as well as to set goals in disclosure and monitoring considerations in line with the EU sustainable finance framework. This Ambition Statement should include a clear timeline with targets and milestones and could take the form of a short document (e.g., 5-10 pages) signed by the Federal Government.[11] For the publication of the Ambition Statement, the Federal Government has two alternatives: First, the Ambition Statement could be published as a separate document ahead of the launch of the Sustainable Finance Strategy. However, this option implies that the Federal Government should agree on the content of the statement (i.e., priorities) very soon. Alternatively, the Federal Government could include the Ambition Statement as part of the Strategy (e.g., in the introduction).

[9] The DLV5b report focuses on a collective approach to mainstreaming sustainable finance for the federal investment vehicles.

[10] As defined by the SFDR (art 2(17)), "‘sustainable investment’ means an investment in an economic activity that contributes to an environmental objective,(…) or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance". See Regulation (EU) 2019/2088

[11] See as example the letter published by the Dutch Minister of Finance in June 2022 with the subject: *Policy Agenda for Sustainable Financing* (Kamerbrief Beleidsagenda voor duurzame financiering). The speech Toespraak Kaag bij jubilieum 10 jaar SFL. Rjksoverheid.nl (2022) also provide a good example of setting clear ambitions in the field of sustainable finance by the Dutch Government.

In Box 2, we present the main elements that should be included in this Ambition Statement, based on the contributions provided by stakeholders through the consultation activities conducted for this study. Timelines, targets and milestones that will be included in the Ambition Statement should consider those formulated within EU initiatives (e.g., EU Green Deal, Fit for 55), regulatory framework (e.g. CSRD) and voluntary initiatives (e.g., sectoral net-zero alliances, SBTi, etc.). This policy option does not envisage the creation of additional mandatory targets or guidelines that overlap or contradict the current (and upcoming) pieces of the EU sustainable finance framework. As a result, the risk of creating a competitive disadvantage for Belgian financial institutions through the increase of regulatory complexity and costs compared to other EU countries will be avoided.

As such, the Ambition Statement should set a direction and level of ambition, indicating the gradual but determined approach that the Federal Government will follow to comply with current and upcoming regulations and targets. It would also ensure mainstreaming and alignment with the global trend towards sustainable finance, while stimulating actors to take more ambitious actions faster than the global and EU agenda, which can be pursued in cooperation with peers moving forward such ambitious measures.[12]

Box 2 Recommendations for key elements to include in the Sustainable Finance Ambition Statement of Belgium.

Taking into consideration the needs and proposals provided by stakeholders, the project team recommends that the Sustainable Finance Ambition Statement of Belgium includes:

- Recognition of the **opportunities**, **challenges and risks** of the sustainable finance transition that the different actors of the financial sector in Belgium face today[13], and how these vary across regions and economic sectors.
- **Conceptualisation of sustainable finance** with a clear and concise definition that considers the vision of the Federal Government (e.g., including the relevance given to environmental, social, and governance aspects, potential difficulties and opportunities). This should include the intention of aligning the Belgian financial sector with the double materiality approach, in line with the EU sustainable finance framework.
- **Ambition statement on the long-term policy agenda** for sustainable finance for Belgium with set goals (e.g. a reminder of national climate goals for 2030 and 2050 to align with the Paris Agreement and Belgium's climate neutrality target), alluding to the fundamental role that the Federal Government and regional authorities will play in realising this ambition, and including disclosure and monitoring considerations. The establishment of this common ambition led by the Federal Government will open the way for a sense of shared responsibility toward the same targets among Belgian market participants.[14]
- **Intermediate targets** that will allow the achievement of the long-term goals. Intermediate targets will allow financial market participants to track their progress, keep pace with the transition and advance at the same speed – which in parallel increases opportunities for sharing best practices. As such, the goal of intermediate targets is to set a direction and indicate that a gradual approach is followed.[15] These

[12] For example, as indicated by the Steering Committee, Belgium already accepted invitation by the Netherlands to join the BENELUX Sustainable Finance Platform.

[13] In the framework of this study, DLV2 mapped all the relevant stakeholders within the broader financial ecosystem in Belgium, which included 'federal authorities', 'regional authorities' (public and private), , 'private entities', 'NGOs & Civil Society', 'academia, research institutions & experts in personal capacity. Stakeholders were also categorised according to their role within the financial system, including 'regulators, 'trade unions & business associations, 'suppliers of finance, 'raters, auditors & actuaries' and ' academia, research institutions & experts in personal capacity'. For more information, refer to DLV2.

[14] To illustrate, examples of long-term goals could be along the lines of: *1) By 20XX, all financial, institutions in Belgium comply with Net-Zero commitments/coalitions (i.e. IIGCC); 2) By 20xx, all Belgian federal public expenditures are made based on the systematic consideration of environmental, social and environmental issues; 3) By 20XX, high accessibility to reliable ESG data of Belgian financial institutions and companies is ensured in Belgium, ensuring the transparency and comparability a-cross regions.*

[15] To illustrative, examples of intermediate targets would be 1) *By 20XX, all financial institutions operating in Belgium will have their balance sheets in line with the 1.5°C Paris Agreement scenario;* 2) *By 20XX, the Belgian financial industry engaged with fossil fuel companies, and divest from those unwilling to shift their business models towards low carbon trajectory. 3) By 20xx, price externalities of financing harmful activities are integrated into banks' funding costs and lending rates in Belgium ; 4)By 20xx, there is sufficient information publicly available to assess with high certainty the exposure of Belgium financial institutions towards fossil fuel assets; 5) By 20XX,the*

intermediate targets should be established in close collaboration with the concerned stakeholders, with a robust framework to put them into practice.

- **Description of a clear timeline in line with the intermediate targets and sectoral pathways,** including how upcoming efforts will build on the progress made so far (i.e., describing when the upcoming measures are expected to occur). This timeline should specify upcoming activities, including expected regulatory changes i.e., *"By the end of [], a set of guidelines will be published to provide insights on []"*).
- **Declaration of the commitment of the Federal Government to strive for coherence with the EU Sustainable Finance framework and avoid overlapping ("***The Federal Government committed to an ambitious implementation of the* **(…)** *EU Sustainability Reporting Directive* **")**. This declaration should specify that the Federal Government **recognises** that many financial institutions and businesses active in the Belgian market are also present in other EU Member States, and therefore, that the Belgian ambitions will seek consistency and avoid any potential competitive disadvantage.
- **Definition of stakeholders' roles to achieve the set targets** (i.e., what are the roles and specific actions that the Federal Government is expecting stakeholders to play in the sustainable finance transition and in what timeframe). This definition of roles will clearly recognise the varying capacities of stakeholders to transition towards the long-term goals. For some stakeholders, this definition of roles is important to understand the level of interaction and coordination of different regional and federal authorities. As such, such definition of roles should not only include participants from the financial sector but also other groups of actors such as academia, and civil society, as suggested in DLV2 (see footnote 13) (e.g., *"Financial institutions are expected to set quantitative long-term and interim targets by [] (…) with balance sheets in line with 1.5 C scenario, as well as qualitative targets by []")*
- **Definition of the role of the Federal Government**, and other core stakeholders such as the regulator (i.e., FSMA) will play in the transition in line with the long-term ambition and intermediate targets. It should be explained how the Federal Government will seek to facilitate, enable, and support stakeholders (also specific groups such as SMEs) to achieve the set targets and meet expectations. This definition should outline that the Federal Government **recognises** the independence of financial institutions to set more ambitious targets and bottom-up strategies tailored to each organisation. For instance, it should include how the Federal Government will contribute to overcoming the most immediate barriers (e.g., lack of data). *(e.g., The Federal Government will safeguard the implementation by bringing "points X,Y,Z" forward in our Governance structure")*
- **Recognition of the role of the regions,** and how these will be engaged in the process (e.g., by considering how specific barriers may be more acute in any of the regions and how regional targets could help overcome them)
- **Ambition statement with regards to the use of specific standards, specifying what are the standards that the Federal Government will follow and thus that stakeholders are expected to follow** (e.g., *"The goal of the Federal Government is to align with ambitious international standards such as those specified by the []", "The Federal Government support the use of global sustainability reporting standards by []"*. Including a **target on the level of public** investment **in the transition to a sustainable economy and infrastructure** was suggested by stakeholders (e.g.., % the GDP invested annually).
- **Statement on how sustainability risks should be addressed so that** stakeholders are able to develop risk assessment strategies in accordance with these recommendations.
- **Clarification** that the Ambition Statement will be treated as a living document, that will be updated as needed.

Timeframe: Since there were a variety of views on the urgency of this policy option during the consultation activities, though for some actors, it is seen as a critical step to moving forward[16], we recommend developing the Ambition Statement in the short term to keep the current momentum going (created in part by the stakeholder engagement activities carried out for this study).

Governance: The preparation of the Ambition Statement should be led by the *Taskforce Sustainable Finance and the Federal Institute for Sustainable Development (FIDO/IFDD)*, which would define the 'level of ambition', to be endorsed by the Ministers of Finance and Environment, to be submitted to the Government. Once validated, the Ambition Statement should be made publicly available. For its drafting, NBB and FSMA should be consulted as key Financial Advisers, via a dedicated workgroup. Thereafter, it is

general public in Belgium is aware of the importance of the consideration of ESG aspects in investment decisions and demand providers of financial products greater accountability and transparency

[16] In the survey, the majority of stakeholders indicated that this is should be short-term policy option [Q5]; however, during the workshop, not all stakeholders appeared to agree with this sense of urgency.

recommended to consider consulting some core stakeholders (e.g. Solifin, Central Label Agency, Ethibel, Febelfin, FEB/VBO, FRDO/CFDD, academics, as well as selected leading businesses and NGOs) to provide feedback on a first draft of the Ambition Statement. These consultations should be as effective as possible (i.e., engaging only core stakeholders), to avoid the risk of delaying the publication of the Ambition Statement.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: The Ambition Statement will provide stakeholders with a clear long-term policy framework and direction to orientate their activities in line with Belgian sustainability priorities. This would avoid continuous discussions about the Sustainability objectives the Government would like to achieve, and ensure the mobilisation of financial means/resources towards these priorities. Throughout the consultation activities, several stakeholders indicated this as a critical element that is missing and that prevents having a certain common perception of sustainability challenges and pathways for an integrated sustainable finance framework.
- **Potential risks**: for the effective development of an Ambition Statement, the political level needs to agree on a common vision, including the Federal Government, and ideally the Regions. The greatest risk to this policy option is that an agreement on such a common ambition and principles to follow is not reached given the variety of applicable international principles and standards. However, the Ambition Statement should be communicated as a living document progressive regarding its level of ambition, and based on the Coalition Agreement. This will ensure a real and bold commitment, while already opening the door for the next steps. The development of the Ambition Statement does not require a change in law, nor is it expected to face relevant technological constraints. It is perceived as a risk by stakeholders that the market does not follow the international standards that are non-binding that will be included by the Government in the Ambition Statement
- **Impact on stakeholders:** the resource burden for the TSF is considered between limited and high, with only selected stakeholders being involved in the development of the Ambition Statement. The higher the ambition level, the longer it will take to finalise the statement. The resource burden for stakeholders is considered low, as only selected stakeholders will be involved in the development of the Ambition Statement. During the consultation activities, some stakeholders expressed concerns about the risk of creating a competitive disadvantage for Belgian financial institutions in the case that this policy option increases their compliance burden and regulatory costs compared to other EU financial institutions.

1.3 Communicating clear sectoral pathways to guide the financial sector in Belgium towards sustainable investments in line with EU targets

Objectives, governance and timeframe

The objective of this policy option is to provide the financial sector with more clarity about sectoral transition strategies, the specific- and more pressing- investment gaps under each sector as outlined by the existing pathways-, and what these investment gaps mean for the mobilisation of financial resources within those sectors (i.e., where resources should be channelled).

This study has shown that the lack of clarity about sectorial pathways[17] has hindered the reorientation of financial flows to activities that are instrumental to the sustainable transition of the Belgian economy. This policy option, therefore, responds to the stakeholders' demand to link sectoral goals and investment gaps with a broader analysis of interventions and additional levers required from the financial sector to bridge these gaps [Q13], which would contribute to decreasing the perceived risk of investments.[18] Stakeholders also pointed out that banks that have set climate targets are already using available sectoral pathways and, therefore, lacking sectorial plans (or pathways) have impacted investment decisions in some sectors.

Concretely, based on the questionnaire, the recommendations of the Glasgow Financial Alliance for Net Zero (GFANZ) on sectoral pathways for financial institutions, and the project team's analysis, this policy option should address the principles outlined in Box 3.

Box 3 Key principles of communicating sectorial pathways

In order to guide the financial sector in Belgium towards sustainable investments, this policy option should:

- **Communicate the link between investment needs to reach environmental, social and governance targets (e.g., targets included in the National Energy and Climate Plans (NECPs) for climate** and energy **targets, Long Term Strategy, and** National Pact for Strategic Investments**) and the detailed steps (i.e., what needs to happen) at** the **sector** level **to bridge the investments gaps in a specified timeframe**. These steps should be in accordance with the plans and sectoral scenarios already developed**.** It is not the aim of this policy option to duplicate the work already developed for current plans and their associated reports.
- **Allow financial institutions to understand the underlying assumptions behind set targets and commitments to identify where actions need to be taken and to drive decision-making (e.g., assumptions behind technology development and/or adoption, retirement of assets, market changes, future energy mix). This will allow commitments to be translated into financing targets (See Figure 3**Erreur ! Source du renvoi introuvable. **for an example based on the 2050 targets for the building sector).**
- **Enable industry to set out clear short- medium and long-term plans to drive their operations and associated investments in line with the sectoral environment, social and governance targets[19].** For example, by ensuring better communication and thus understanding of sectoral pathways, a company within the construction industry would be able to align its commercial/product development strategy with the sectoral plans to achieve **environment**, social and governance targets; and increase efforts to direct investments to cover those needs.
- **Allow financial institutions to plan and shape their lending, investment, and insurance activities, and related services considering different needs across sectors;**
- **Allow the Federal Government to understand the main investment gaps** that will most likely not to be filled by the financial sector and thus where additional interventions may be needed.

On the basis of these key principles, Figure 3**Erreur ! Source du renvoi introuvable.** presents our recommended approach for this policy option. In short, building on sectoral strategies responding to national and EU targets, the focus of this policy option is on the **communication of these pathways** along three main pillars i) scope and ambition of the pathway to help the financial sector e.g., understand which subsectors and activities are included in the pathways and which require more or less mobilisation of resources; ii) underlying assumptions to achieve the pathway to enable decision making by facilitating

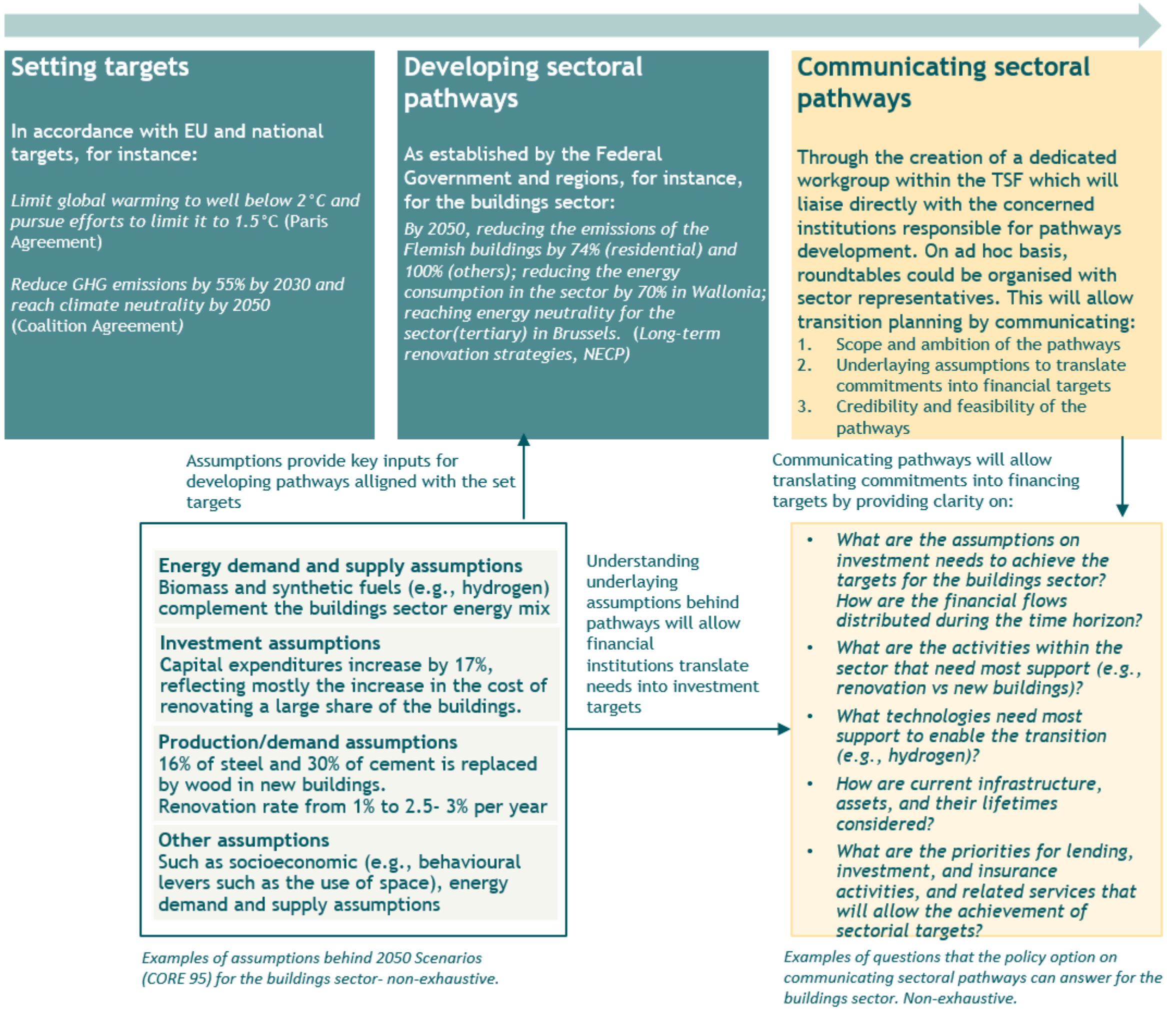
[17] This report uses the Glasgow Financial Alliance for Net Zero (GFANZ) definition of pathways: "goal-oriented scenario or combination of scenarios answering the question, *What needs to happen?,* to accomplish a specific objective (e.g., what are the steps needed to reach net zero by 2050, limit global warming to 1.5 degrees C, with low or no overshoot)" (GFANZ, 2022)

[18] Such analysis (linking sectoral targets with investment gaps) would provide a useful benchmark for financial institutions to shape, for instance, their lending and insurance activities in line with the sectoral targets. This minimises the risks to financial stability as disruptive changes are avoided. For example, improving the communication of the transport sectoral pathways would decrease transition risks for the financial actors active/interested in the sector as the role of technology development in achieving the sectoral targets (e.g., use of hydrogen) is made clearer and thus policy developments can be better anticipated (e.g., enabling regulation to allow the use of hydrogen for transport services).

[19] These plans should be in line with other relevant plans/obligations such as those imposed under the ETS.

the understanding of what is required from the financial sector to achieve the envisaged targets, and to contribute to decreasing the perceived level of risks as transparency increases; and iii) credibility and feasibility to facilitate engagement of financial actors by showing that the pathways are the result of rigorous analysis (e.g., scenario analysis). The focus of this policy option is *not* to impose investment obligations that undermine the stability of the Belgian financial sector.

Figure 3 Schematic representation of policy option 1.2 . based on the example of the buildings sector. Own elaboration based on GFANZ (2022), EC (2021a) and CLIMACT (2021)



Governance: The operationalisation of this policy option could be achieved through the creation of a dedicated Workgroup within the TSF (involving the 3 Boards), which would liaise directly with the institutions responsible for pathway development. On an ad-hoc basis, roundtables could be organised with sector representatives (i.e., associations) and civil society organisations when considered necessary.

Timeframe: Regarding the timeframe for the implementation of this policy option, over half of the respondents replied that it should be established in the short-term, while about one-quarter considered it as a medium-term action [Q11]. The project team suggest the Federal Government opt for starting the first phase (in the short-term) with a focus on improving the communication of sectoral pathways linked to climate targets (e.g., targets included in the NECP). The sooner the financial sector has more clarity about its role in (and benefits from) contributing to achieving sectorial climate targets, the faster financial flows will be orientated to bridge existing investment gaps following a clear enabling vision from the Federal Government (e.g., described in the Ambition Statement). For this, ENOVER/CONCERE is an example of a group involved in the development of the pathways which could be engaged. In the case of climate targets, the organisation of the ad-hoc roundtables would be ideally synchronised or replaced with the already existing climate roundtables working on the NECP updates. In this process, tools such as the Sectoral Decarbonization Approach (SDA) by CDP could be used to fill in the data gaps where GHG reduction targets are not yet known.[20] At a later point and using the lessons learned from this first phase, the communication of the sectoral pathways, linked to other environmental, social, and governance targets could follow.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: the proposed approach allows Belgian actors to translate sectoral pathways into sustainable investments. This is key for the financial sector to understand its role within the long-term vision, and therefore, contribute to de-risking (at least partially) some investments.
- **Potential risks:** for the effective implementation of the policy option, it is important that the interdependencies between sectors are identified and articulated. In addition, there is the risk that this policy option places an excessive burden on the stakeholders involved. To avoid this risk, the priorities of the communication strategy should be clearly defined early in the implementation phase so that resources are efficiently allocated.
- **Impact on stakeholders:** the resource burden for stakeholders is considered medium, as the operationalisation process proposed for this policy option (including a dedicated workgroup within the TSF engaging institutions responsible for pathways development, and roundtables eventually) would require active participation from different types of stakeholders.

20 The Sectoral Decarbonization Approach (SDA) is a scientifically-informed method developed by partners (CDP, WRI, & WWF) of the Science Based Targets to set GHG reduction targets necessary to stay within a 2° C temperature scenario. The SDA allocates the 2°C carbon budget to different sectors, taking into account e.g., mitigation potential. Emission reduction targets of specific activities or companies can be derived based on the relative contribution to the total sector activity and their carbon intensity relative to the sector's intensity in the base year. See https://www.cdp.net/en/campaigns/act-assessing-low-carbon-transition-initiative

1.4 Enabling the use of financial instruments that support sustainable investments

Objectives, governance and timeframe

The objective of this policy option is to remove existing barriers hindering the use of financial instruments relevant for sustainable investments and adopt measures to stimulate and enable their development.

In DLV4, we pointed out that it is the role of the Federal Government – in cooperation with other key players such as FSMA- to ensure that barriers that may be hindering the use of financial instruments relevant for sustainable investments are resolved and mechanisms to facilitate their application in place. These barriers may include, among others (i) lack of regulatory frameworks governing alternative financing solutions, (ii) limited capacity to introduce innovative financing sources, (iii) high borrowing costs, and (iv) long-pay back periods of sustainable investment and inappropriate loan conditions, (v) lack of up front capital especially amongst vulnerable socio-economic groups, etc. In order to harness the potential of financial markets to 'on their own' allocate resources efficiently, there is a need for policies that address central market failures and frictions that are barriers to more sustainable investments, such as those mentioned above. Therefore, the efforts of the Federal Government should be placed first on removing these barriers and aligning policies accordingly[21]. To do so, as part of the Belgian Sustainable Finance Strategy, we recommend the Federal Government does the following:

- **Support the design of equity and debt financial instruments, including but not limited to those designed to meet the needs of SMEs.** Survey data illustrates that lending conditions for SMEs in Belgium eased between 2013 and 2015 and remained stable until 2018, however, deterioration of conditions has been reported since then through the end of 2020.[22] The Federal Government, therefore, could support (and coordinate efforts to ensure coherence and relevance) via a dedicated workgroup of the TSF, composed of the Main Board and representatives of the Financial Advisory Board, particularly the NPBIs that promote alternative equity and debt financial instruments that serve different actors (incl. SMEs), such as leasing and factoring[23]. This could be achieved through the SFPIM. For example, it could build on the experience of the Association of Flemish Cities and Municipalities (VVSG) to implement leasing contracts targeting SMEs considering key sustainability principles.[24] In addition, the Walloon Government has experience in mobilising citizens' private savings on behalf of SMEs through a tax-efficient loan mechanism.[25] The assessment of such initiatives would help the Federal Government to direct support more efficiently.
- **Recognise regional efforts on ESG public investment (in the frame of national strategic investments), and performance contracting.** The Federal Government could play a key role in promoting the exchange of practices and experience in the use of these mechanisms at the regional level and assessing the impact of their eventual wider application. A clear example is

[21] OECD (2015) Aligning Policies for a Low-carbon Economy
[22] OECD (2022) Financing SEMs and Entrepreneurs 2022: An OECD scoreboard
[23] Factoring refers to measures through which SME receive advance payment of the invoices issued without waiting for the agreed settlement term.
[24] VVSG owns the materials and provides maintenance services through the duration of the contract, and includes the guarantee that at the end of the contract the materials will be taken back, and used for producing new materials. Through the lease, next to implementing sustainability principles, purchases are reduced and replaced by services, reducing investment costs. Interreg North Sea Region (2021) Leasing: ownership from a new angle
[25] Wallonie service public (2021). Walloon Long-Term Building Renovation.

the Flemish Government's CO_2 performance ladder used as a CO_2 management support system that helps organisations reduce their carbon emissions.[26]

- **Increase the confidence of private investors.** The Federal Government can do this by (i) setting stable, predictable, and coherent policy goals, and (ii) designing, implementing and aligning policy instruments to achieve the goals.[27] In the Ambition Statement proposed (policy option 1.2) the Federal Government can present how it plans to support investments in priority areas in the coming years so that private investors would feel more confident in the Government's commitment to financing (and guaranteeing) the sustainable finance transition. As noted by stakeholders, governmental measures aimed at risk-sharing that give confidence to investors (such as subsidies or guarantee-schemes) could bring into consideration more sustainable projects that are not financially attractive to finance providers.
- **Incentivise venture capital sustainable investments through increased dissemination of information about sustainable venture funds** A sectoral breakdown of venture capital in Belgium shows a great prominence of the biotech and healthcare sectors, in contrast with the energy and environment sector (the sector only captured 1.5% of venture capital investments and 1.9% of total private equity or EUR 28 million)[28]. For this, SFPIM could support the dissemination of initiatives such as the "Welvaartsfonds"[29] in Flanders (focused on companies that are making the transition to a sustainable and ethical business), which the Flemish Government will provide with initial capital of EUR 240 million OECD(2022), and which is seen as an example of good cooperation between the Federal and Flemish authorities.

Timeframe: There were a variety of views about the urgency of this policy option during the consultation activities. For half of the respondents to the survey, enabling the use of financial instruments to encourage sustainable investments is needed in the short term; while for the other half, this is only needed in the medium- and long-term. Interestingly, 25% of the respondents indicated that pushing forward specific measures to increase transparency in the design and use of (innovative) sustainable financial instruments in order to avoid greenwashing is not needed. This is explained by the fact that stakeholders perceive that the current EU sustainable finance framework already provides a sufficient basis to ensure transparency of financial products in Belgium, in particular the SFDR. In line with this, it is our recommendation to consider prioritising some of the actions listed above in regard to financial instruments, instead of pushing forward additional measures to increase transparency which may result in unnecessary overlap with the EU SF framework.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: The actions suggested under this policy option will target the most relevant barriers that are hindering the use of specific financial instruments by the private sector. These barriers were identified throughout the consultation activities by stakeholders.
- **Potential risks**: as this policy option will mainly seek to support efforts already initiated by the private sector, increase the confidence of investors, and ensure coherence and learning between regional authorities, the major potential risk is that the development (and improvement) of

[26] CO2 Performance Ladder (2022) The Belgian government is going to work with the CO2 performance ladder
27 In line with the recommendations provided by Kato, T., et al. (2014), Scaling up and replicating effective climate finance interventions
[28] The biotech and healthcare sector captured 52% of venture capital investments and 18% of total private equity or EUR 278million in 2020. In contrast, the energy and environment sector only captured 1.5% of venture capital investments and 1.9% of total private equity or EUR 28 million[28] OECD (2022) Financing SEMs and Entrepreneurs 2022: An OECD scoreboard - Figure 5.2. Sectoral breakdown of venture capital and all private equity in Belgium
[29] See https://www.welvaartsfonds.eu/

financial instruments by the private sector is faster and, by contrast, the implementation of the actions suggested under this policy option not timely.

- **Impact on stakeholders:** the resource burden for stakeholders is considered low, as the Federal Government will mainly lead the implementation of the measures suggested under this policy option.

1.5 Developing a list of harmful activities to guide public and private investments

Objectives, governance and timeframe

The objective of this policy option is to provide recommendations on lists that identify and illustrate harmful activities for the purpose of guiding and incentivising divestment from those activities, based on existing information already available in the market. Public and private investors can use such lists in the pre-screening process to avoid investments in harmful activities at all times, and possibly use them as exclusion (fully or partially) lists, depending on their ESG vision and policy. Besides the exclusion of activities, disclosure on investments in harmful activities could be considered.

The current reporting framework under the Taxonomy Regulation is geared towards reporting what is sustainable, rather than identifying and reporting what is considered harmful. This leaves a gap because investing in green activities does not automatically imply divestment in harmful activities. This is underlined in the proposal of the Platform on Sustainable Finance for the extended EU Taxonomy, which states that sustainable finance must inherently involve building a sustainable finance system which clearly signals and incentivises finance for green activities that make a substantial contribution to solving environmental crises, but also signals and incentivises finance to transition activities away from significantly harmful performance that is causing or worsening environmental crises.[30] This wider discussion of environmental transition and transition finance is developing in the global markets and in international discussions, such as in the International Platform on Sustainable Finance and in the G20 Sustainable Finance Working Group. Article 26 of the Taxonomy mandates the Commission to explore how to extend the Taxonomy beyond green activities to address low-impact and harmful (red) activities. The envisaged effects of reporting on what is harmful are that - based on the disclosure on such activities - policies can be developed to stop the harmful investments and consumers and private investors can also adapt their demand based on the transparency.

Before we make our recommendations, it is important to clarify the definitions[31] of an exclusion list and a list with harmful activities respectively for this policy option:

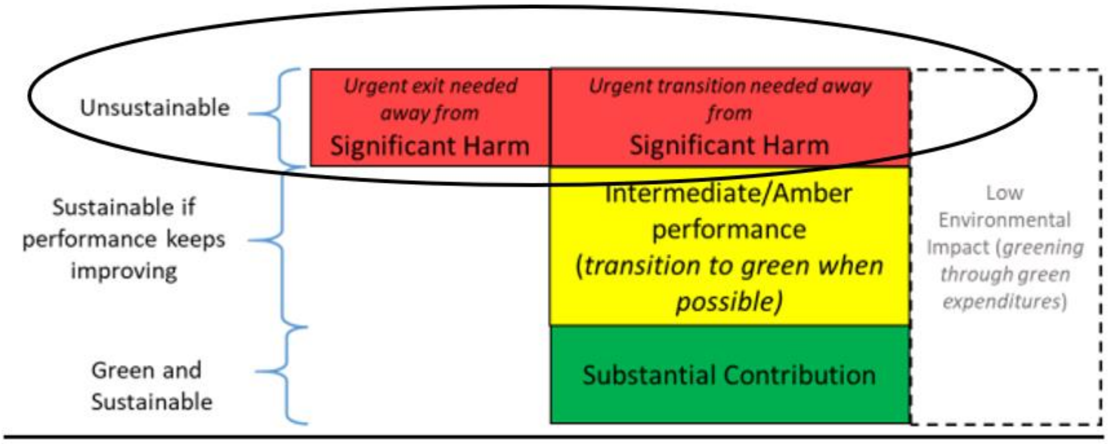
Exclusion list: The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria. The list presents what an investor does *not* invest in. Investments are pre-screened to avoid that any activities that are on the list will be financed.

List with harmful activities: the proposal for the extended EU Taxonomy distinguishes between the (i) activities that investors must urgently transition, or exit, away from (Significant Harm (SH) activities), (ii) Intermediate Performance (IP) ("Amber" transition) activities which need to transition in order to

[30] Platform on Sustainable Finance (2022) The Extended Taxonomy: Final report on Taxonomy extension options supporting a sustainable transition
[31] Based on the UN Principles for Responsible Investment

have a sustainable contribution, and (iii) Low Environmental Impact (LEnvI) activities, which do neither harm nor contribute to the EU Taxonomy objectives. For the harmful list, the initial focus is on the SH activities, because the Platform's proposal prioritises the identification of activities that cannot transition to mobilise green finance for their decommissioning investments. Figure 4 below illustrates the SH activities.

Figure 4 Simplified graphic showing the unsustainable activities as part of an extended taxonomy.



Source: adapted from the proposal of the Platform on Sustainable Finance for the extended EU Taxonomy.

The responses from stakeholders to the questionnaire show mixed results on the urgency of the policy option to develop a list of harmful activities. More than half of the respondents see the need in the short-term, while one-third of the respondents do not see the need. In the workshop, it became clear that the stakeholders that do not see the need base this on their fear that such a list is not in line with the EU framework, or they see it as a double effort considering the proposal for the extended taxonomy. This means there was no clear-cut opposition to building on the EU list (existing for, e.g., the environmental objectives of the taxonomy in a first stage, and for social and governance objectives later on). Our conclusion is that in the short-term, the list could provide transparency on the financing of activities detrimental to climate change, biodiversity loss, environmental degradation, and further aggravate current environmental and social crises. It could give direction to public and private investments on which activities should not be financed at all times, or should at least disclose if financing still occurs for some harmful activities, and by explaining that the list is an evolving document which could be expanded.

Table 1 below presents several frameworks and policies which could be considered by the Federal Government to develop the list of harmful activities. Most policies and frameworks focus on the environmental aspects, because these are the most developed with quantitative thresholds and criteria compared to social and governance aspects.

Table 1 Frameworks and policies to be considered for the list of harmful activities

Policy/framework/list	Content	Application
Do no significant Harm (DNSH) principle	For an activity to qualify as sustainable under the EU Taxonomy, it should provide substantial contribution to one or more of the six environmental objectives and does not cause significant harm to any of the other (5) environmental objectives of the EU Taxonomy at the same time.	**Activity level:** For each activity, the Technical Screening Criteria (TSC) in the Delegated Acts of the EU Taxonomy Regulation lay out thresholds to define compliance with the DNSH principle, next to the Substantial Contribution (SC) criteria.
Principle Adverse Impacts (PAIs) under the SFDR	Financial market participants need to report on mandatory and voluntary PAI- indicators under the SFDR. The indicators provide transparency on the negative, material, or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by a legal entity. Examples include GHG emissions, carbon footprint, hazardous waste ratio, deforestation, exposure to controversial weapons.	**Entity level:** A methodology could be developed to identify PAI laggards (red), PAI intermediate performers (yellow) and PAI leaders (green) so that risk can be avoided, and more capital can be allocated to more sustainable companies and solution companies.[32] Laggards (red) can be selected for exclusion depending on the risk and severity of the negative impact identified, the total cumulative negative impact across all PAI indicators identified and the probability of successful engagement. The government could build an exclusion list at the entity level.
EU Climate Transition Benchmarks (CTBs) and EU Paris-Aligned Benchmarks (PABs)	For the CTBs, the underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio is on a decarbonisation trajectory and is also constructed in line with the MSS of the Delegated Acts. The PABs are more ambitious than the CTBs, because the benchmark portfolio's GHG emissions are aligned with the 1.5-degree scenario and illustrates investors that are at the forefront of climate mitigation through a shift of their investment allocation from GHG intensive activities - notably fossil fuels - to renewable energy and energy efficiency.	**Product level:** The CTBs focus on *transitioning* assets rather than excluding assets. Therefore, the climate benchmarks are not considered appropriate for the disclosure of the exclusion list.[33] The TEG report[34], however, suggests some baseline exclusions for controversial weapons and the violation of the UN Global Compact. For the PABs, the TEG recommends exclusions for companies that exceed thresholds related to revenues from coal exploration (>1%), oil exploration (>10%), natural gas exploration (>50%) and related processing activities, or they derive from electricity generation with a GHG intensity of lifecycle GHG emissions above 100 gCO2e/kWh.
EU Ecolabel Regulation (ongoing)[35]	The objective of the Ecolabel is to provide a transparent framework for (labelling) "green" financial products. The JRC technical report on the development of the EU Ecolabel criteria for financial products contains a list of excluded environmentally harmful economic activities beyond the EU Taxonomy in several sectors (e.g., use of pesticides, deforestation, fossil fuel exploration, use of asbestos products etc). The report states that investment funds and insurance products shall not contain equities or bonds issued by companies that derive more than 5% of their revenue from the	**Product level:** Reporting on the exclusions takes place when companies want to apply for the ecolabel. Using the exclusions for all investments of the Federal GovernmentFederal Government would make it geared towards environmental frontrunners and many investments would not be eligible.

[32] Storebrand Asset Management (n.d.) Principal Adverse Impact Statement.
[33] EU Technical Expert Group on Sustainable Finance (n.d.) Climate benchmarks and Benchmarks' ESG Disclosure.
[34] EU Technical Expert Group on Sustainable Finance (2019) TEG FINAL REPORT ON CLIMATE BENCHMARKS AND BENCHMARKS' ESG DISCLOSURES.
[35] JRC (2020) Development of EU Ecolabel Criteria for Retail Financial Products.

Policy/framework/list	Content	Application
	excluded activities listed, as well as that no green loans should be made to companies whose activities are in the exclusion list nor project loans shall finance the excluded activities. Regarding sovereign bonds, exclusions apply to issuers that have not ratified several international environmental agreements.	
Towards Sustainability Label (TSL)[36]	The TSL has exclusion criteria for sovereign bonds, which are aligned with the EGBS. The TSL also has a list of harmful activities on which the FI needs to report in the field of weapons, tobacco, coal, oil & gas, power generation. Thresholds are developed for the harmful activities which cannot be exceeded in order to be eligible for the 'phase out margin' of the TSL. This means that companies can obtain the TSL, while they are still engaging in harmful activities to some extent ("Comply or explain").	**Product level:** The disclosure of indicators under the TSL is in line with the reporting under the SFDR and EU Taxonomy. Since the reporting of the TSL is voluntary, it may be difficult for FIs to endorse the exclusion criteria under the TSL. On the other hand, the TSL could apply to all types of investors in the Belgian market which makes it attractive for the government to signal the importance of the TSL exclusion list.
EIB Energy Lending Policy[37]	The EIB Energy Lending Policy focuses on eligible activities related to energy efficiency, -supply, -infrastructure and carbon pricing, but it also excludes the support to energy projects reliant on unabated fossil fuels.	**Activity level:** Investors can use the eligible activities to guide its energy-related investments and divestments from fossil fuels, although the EIB Lending Policy does not provide a ready-to-use exclusion list for activities outside the sphere of fossil fuels. The FPS Foreign Affairs and FPS Finance have developed a position related to projects implemented by the Multilateral Development Banks (MDBs) which contain investments in fossil fuels. This position is based on the EIB Lending Policy, but also contains criteria defining cases in which oil or gas projects in developing countries can still be financed.[38]
Exclusion lists based on EU the Just Transition Fund Regulation[39]	The JTF (Article 9) shall not support the decommissioning or the construction of nuclear power stations, the manufacturing processing and marketing of tobacco products, investments related to the production, processing, transport, distribution, storage or combustion of fossil fuels.	**Activity level:** The exclusion criteria are less exhaustive compared to the frameworks described above. Moreover, there is no framework for disclosure available. Still, it is important to follow the development of the DNSH criteria for EU funding eligibility for all EU funds. The InvestEU programme and RRF already have strict DNSH criteria, and DNSH criteria will be applicable for all EU funds in the near future.

[36] Central Labelling Agency (2021) Revised Towards Sustainability Quality Standard Final Criteria.
[37] EIB (2019) Supporting the Energy Transition.
[38] FPS Foreign Affairs (2022) Belgian position related to fossil fuel projects of MDBs, internal document. Draft.
[39] European Union (2021) Regulation (EU) 2021/1056 on the establishment of the Just Transition Fund.

Policy/framework/list	Content	Application
EU Green Budgeting Reference Framework/ Draft list with harmful activities for green budgeting exercise (BOSA)[40]	The European Commission has initiated a non-exhaustive green/brown list, as a tool to identify typical items with green/brown relevance in national budgets. The list could provide a starting point for Member States for budget tagging. The list is considered indicative only and it is up to Belgium to reflect on the list and integrate it into their own expenditures.	**Activity level:** all budgetary items (e.g., revenues, expenditures, subsidies etc.) are indicatively categorised per (sub)-sector and indications of harmful measures are described. Although expenditures are outside of the scope of this project, the categorisation of fossil-fuel related measures can be used as a starting point for the Belgian Federal Government to work on a list with harmful activities. The list is unfortunately not developed with the EU taxonomy in mind, so it should only be used as a high level guidance for activities which should not be financed.
Private initiatives that rank companies based on their fossil fuel reserves (non-exhaustive)	**Carbon Underground 200**: ranks publicly owned oil and gas companies based on their fossil fuels reserves.	**Entity level:** Used by the University of Gent, whereby companies in this database cannot be part of the investment portfolio.[41]
	Global Oil & Gas Exit List (GOGEL) and Global Coal Exit List (GCEL): public databases that covers 887 oil & gas companies and 2800 companies with a coal-based business model respectively operating in the upstream and/or midstream subsector of the industry.	**Entity level**: The databases can guide public and private investors decisions related to the exclusion of certain companies.
	MSCI Global Fossil Fuels Exclusion Index: focused on the exclusion of companies with high fossil fuel reserves. **MSCI Global Low Carbon Target Index:** focused on reducing the exposure to companies most vulnerable to stranded assets and how these companies could transition. **MSCI Global Low Carbon Leaders Index:** focused on increasing exposure with low current emissions and fossil fuel reserves. [42]	**Entity level:** The MSCI Global Fossil Fuel index can guide public and private investors decisions related to the exclusion of certain companies. The MSC Global Low Carbon Target Index can guide the assessment of the Federal Government to decide which companies they would like to support to become fossil free. The MSC Global Low Carbon Leaders Index can be used to select investments into companies with low current emissions and fossil fuel reserves. This methodology is similar to the assessment of companies that score high on PAI indicators under the SFDR.

[40] Draft document for internal use, shared by client on 10/17/22.
[41] Universiteit Gent (n.d.) Kader Duurzaam beleggen Universiteit Gent.
[42] MSCI (n.d.) Beyond Divestment: Using Low Carbon Indexes.

Below, we present a two-step approach for the development and publication of an exclusion list by the Federal Government, which can function as inspiration for public and private financial market participants (step 1) and how to enhance disclosure of harmful activities in the future by public and private financial market participants (step 2).

Step 1: Publication of the list with excluded harmful activities (exclusion list)
Objective: excluding harmful activities in the pre-screening investment process
Applicability: public and private investors

In the responses to the Policy Options questionnaire, stakeholders urged the Federal Government to advocate for the agreement of the extended Taxonomy at EU level – as it clarifies how to report on harmful activities – but they at the same time acknowledge that this could take a long time. Therefore, to increase transparency on harmful investments in the pre-screening process, we recommend that the Federal Government establish an exclusion list based on the proposals in the table above which will be (1) leading for the government's own investment decisions (see DLV5b report on the Federal Government as investor) and to give guidance for market participants (focus of this DLV5a report). Although the list will be non-binding for private investors, the list could guide private investments.

For the exclusion list, based on the assessment above, we recommend using a list which combines general exclusions focused on E, S, and G together with exclusions to divest from fossil fuels focused on the climate aspects of 'E' :

General exclusions referring to the companies and investors that breach or violate the 10 principles of the UN Global Compact related to human rights, labour, environment and corruption, as well as companies that engage in harmful activities related to controversial weapons, pornography, fur & leather, gambling (this list is non-exhaustive and can be extended). The TSL provides relevant examples for these general exclusion criteria.

Exclusions to divest from fossil fuels referring to investments related to the production, processing, transport, distribution, storage or combustion of fossil fuels, considering these should not compromise the deployment of the similar renewable-based fuels. The PABs and the TSL provides recommendations on thresholds for companies that derive revenues from fossil fuel investments. Considering the Coalition Agreement emphasises a total divestment from fossil fuels, the language from the JTF meets this objective best to exclude "*investments related to the production, processing, transport, distribution, storage or combustion of fossil fuels*". The reporting on the PAI indicators can be used to identify the worst performers. There are several privately managed databases available that rank public and private companies based on their fossil fuel reserves and coal-based business models, as well as rank good practices of companies engaging in low carbon activities. In the DLV5b report, we recommend that – in case the Federal Government wants to select indexes to rank companies engaged in fossil-fuel related activities - to start using indexes based on *exclusions* rather than indexes which explain *"good practices"*. This is because excluding activities provides a stronger signal to the market.

This exclusion list can be published on the public and private investors' websites which describe their due diligence policy in respect of the adverse impact of investment decisions.

Step 2: Disclosure of harmful activities
Ambition-level 1 – applicable to investors in financial products which fall within the scope of the SFDR (article 8 and article 9).
Objective: to report on harmful activities in the Belgian economy, so the Federal government has the broader picture of harmful activities still being financed in the Belgian economy

The current reporting under the SFDR could be used to report on harmful activities for investors that are already subject to the SFDR. Article 4 (6) and (7) of the SFDR[43] clarify what needs to be disclosed for sustainability indicators for climate- and environmental, and social adverse impacts respectively. Investors are required to report a statement on their website which describes the due diligence policy in respect of the adverse impact of investment decisions. Annex 1 Table 1 of the SFDR[44] contains a template and indicators to disclose investments within companies (at entity level). Three indicators already relate to the exclusion list presented above: exposure to companies in the fossil fuel sector (4), the violation of the EU global compact (10) and controversial weapons. These indicators can be used as a starting point for the reporting on the harmful list in the funds prospectuses, website product information and Key Investor Information Documents (KIIDs), along with their due diligence policy.

[43] (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)
[44] SFDR (Ibid) Annex 1

The reporting could gradually evolve with other indicators[45], for example in Table 2 and 3 of Annex 1. In this context it should be noted that the reporting on PAIs only applies to financial products that have environmental or social characteristics as their main objective (Article 9), as well as products that promote those objectives (Article 8). This means that financial products with none of these objectives are not included (referred to as 'Article 6').

Ambition-level 2 – applicable to all financial market participants
Objective: to report on harmful activities in the Belgian economy, including investments not subject under the SFDR, so the Federal Government has the broader picture of harmful activities still being financed in the Belgian economy.

To accelerate the transition towards sustainable goals, a higher level of ambition is needed to enhance reporting on harmful activities by financial market participants. Since the proposal of the Taxonomy Regulation, it has become increasingly clear that many Taxonomy users could benefit from an extension of the Taxonomy framework to introduce other performance levels[46], as this would introduce greater transparency and clarity for investors and ensure market practices are aligned across the EU. At the same time, there are trade-offs which must be considered as well, such as the higher level of complexity of the extended Taxonomy framework for the different economic actors, the possible costs of additional reporting obligations (Platform on Sustainable Finance, 2022). Finally, it should be reminded that the original Taxonomy is just starting to be used and the impact of its use cannot be formally assessed at this stage. Currently, there is no mandatory disclosure framework available at EU level to enforce financial market participants to start reporting and disclosing on harmful investments. An EU binding status of the reporting on harmful activities would imply a change of the EU Taxonomy Delegated Act, whereby it would be modified to disclose on KPIs related to amber and red activities.[47]
However, this step-by-step approach at EU level (first the green Taxonomy, with the Extended Taxonomy only coming in the undetermined future), should not prevent the Federal Government of Belgium to set a clear target ensuring full transparency on harmful activities, which are still financed in the Belgian economy. Member States can always move faster than the EU agenda by imposing mandatory disclosure to all market participants on harmful activities. Belgium would then become a frontrunner in improving the transparency, highlighting these harmful activities, that should ideally be phased out as quick as possible, to comply with the long-term sustainability goals. As there is currently no mandatory reporting framework in place that obliges all market participants to start disclosing on harmful investments at EU level, Belgium would have to decide to enforce new legislation (law) for the financial market participants imposing such disclosure requirements. Unless this is coordinated with other Member States also acting as frontrunners, this regime would create an unequal playing field with other MSs not applying such mandatory regime. Enforcing such a law would probably take some time, to agree on the list, and then make its disclosure binding.

Alternatively, to progressively increase the ambition level, the government could opt for voluntary disclosure by financial market participants for a certain period of time, and impose disclosure for those not reporting by then. This could be enshrined in the government's communication to financial market participants in a Sustainable Finance Ambition Statement.

Effectiveness, potential risks and impact on stakeholders[48]

- **Effectiveness**: increased transparency on harmful activities supports a better and faster assessment of sustainability risks for investors, which will lead to making harmful activities more expensive to finance. Increased transparency on harmful activities contributes to accelerating the pace of the transition towards more sustainable economic activities. A list of harmful activities prepared by the TSF and endorsed by the Government emphasises the sustainable priorities and provides a long-term stable framework for divestment. Imposing disclosure will increase the effectiveness of the measure. The faster it takes place, the more efficient its implementation will be.

[45] ESMA (2021) Final Report on draft Regulatory Technical Standards. https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf
[46] Platform on Sustainable Finance (2022). The Extended Taxonomy: Final report on Taxonomy extension options supporting a sustainable transition.
[47] Platform on Sustainable Finance (2022). *Ibid.*
[48] In this report, the feasibility assessment is based on three pillars: i) technical feasibility, which considers whether technological or technical constrains may hinder the implementation of the policy option; ii) political feasibility, which considers whether the policy option would fail (or not) to garner the necessary political support for legislative adoption or implementation, and iii) legal feasibility, which assesses whether a change in law is required or not to implement the policy option.

- **Potential risks**: If investors are asked to stop investing in some companies this will disincentivise the existing transition efforts of these companies and ignore the benefits of their engagement. There is a risk that it may not only lead to decommissioning of significantly harmful activities and companies, but also drive their selling to non-European or less climate-conscious investors, potentially below value, without any positive impact on climate.[49] However, this risk of stranded assets will increase over time, if investors continue investing in harmful activities, while these harmful activities will in any case be phased out in the medium and long term. Frontrunners will face the most limited impact, compared to those investors still owning harmful assets in the future. A mandatory disclosure may negatively influence the competitiveness of market participants, due to potential additional costs, and more complex reporting requirements. On the other hand, disclosure can facilitate engagement strategies, because it can be the starting point for conversations between financial market participants and the Federal Government on how to transition away from harmful activities.
- **Impact on stakeholders:** As the consultations on the EU Extended Taxonomy show, the disclosure of harmful activities could add a higher level of complexity to the reporting while the reporting on the original Taxonomy has just started. Therefore, the Strategy should emphasise a gradual evolution from using exclusion lists in the pre-screening process to disclosure on the harmful activities and provide the right level of capacity building to mitigate the cost of additional reporting obligations and the potential reputational risks linked to the increased clarity on non-aligned disclosure for financial market participants.

[49] EFAMA (2021) Brown taxonomy: an opportunity to transition away from significantly harmful activities

2 Policy options to increase the use of ESG disclosure frameworks, including enhancing the availability and quality of ESG data

Stakeholders welcome the establishment of a common data acquisition platform, such as the European Single Access Point (ESAP) [50], but concerns remain about the availability of data and the quality control. Stakeholders also encourage the coordination across regions to ensure that data which is available at the regional level can be compared at national level (e.g., the data on residential mortgages which could be used to develop incentives for homeowners to renovate their homes). The Belgian Sustainable Finance Strategy should therefore target the accessibility and reliability of ESG data. Furthermore, the study results point out that the scope and content of ESG disclosure could significantly be improved. The impact and urgency of improving the quantity and quality of ESG disclosure depends on the sector and thus a prioritisation is recommended in the short-term. Improving the ESG disclosure of SMEs (to a proportionate extent) and the disclosure of ESG data in the real estate sector, have been prioritised by certain stakeholders.

2.1 Improving the access to and usability of Energy Performance Certificates (EPCs) building on the information already available at national and regional level

Objectives, governance and timeframe

The objective of this policy option is to improve the access and usability of EPCs to help financial market participants and corporates report on their client's carbon footprint.

Within Belgium, the residential buildings sector represents 23% of GHG emissions[51], it is therefore key to address this sector as a priority when it comes to climate policy. The building sector is currently considered one of the main sectors to reduce GHG emissions in the Belgian economy, requiring important investments to be made by households, public institutions owning/occupying any type of building, and companies. For financial institutions to understand and thereafter report on the status of their clients' buildings carbon footprint, it is key to collect on the ground information on carbon emission of buildings. This policy option also indirectly influences the real economy, because the energy performance of buildings could be linked to financial benefits or stimuli for energy renovations. The latter aspect becomes even more pressing during these times of energy crisis.

In January 2022, the EBA published the final draft implementing technical standards (ITS) on Pillar 3 disclosures on environmental, social and governance (ESG) risks. For their real estate portfolios, financial institutions will be required to disclose information on the energy efficiency of the underlying residential and commercial real estate collateral, including the distribution of collateral by energy performance certificate (EPC) label and energy consumption.[52] One of the most relevant data points identified at the

[50] This EU initiative will set up a single EU access point to financial and non-financial company information providing centralised access to publicly available information of relevance to financial services, capital markets and sustainability. The ESAP will be established by 2024.
[51] IEA Statistics (2014) CO2 emissions from residential buildings and commercial and public services (% of total fuel combustion) – Belgium.
[52] Within Belgian context, the NBB Circular of 8 December 2020 requires financial institutions to gather relevant energy performance data and take it into account in their risk management. It also requests to report to NBB on EPC

Belgian level relates to the energy performance of buildings, which can be disclosed through EPCs.[53] EPCs were introduced under the Energy Performance of Buildings Directive (EPBD), under which EU Member States started to implement their own EPC schemes. EPCs can help streamlining ESG data collection for the EU Taxonomy, SFDR and CSRD, as they provide a good proxy to GHG emissions within building activities, because the energy performance reflects the energy use of the building. An analysis of prudential data[54] shows that a large proportion of Belgian mortgage portfolios are guaranteed by properties whose energy inefficiency makes their owners potentially vulnerable to higher energy prices, if they have a variable contract or if their fixed contract comes to an end in the short term. Figures reported by the main mortgage lenders in Belgium show that approximately one-third of new mortgage loans granted in 2021 for which banks had the EPC label were associated with a property with an EPC category E or F (based on the EPC scale applicable in the Flemish Region) and approximately another third, with C or D. In addition, for almost half of all mortgage loans granted in Belgium in the year 2021, the banks did not have any information on the EPC, showing that they are struggling to put in place the National Bank of Belgium's recommendations to collect EPC-scores.[55] In the current context, these guidelines seem more justified than ever and the sector should do everything possible to be able to measure the risks linked to the energy inefficiency of their mortgage portfolios and, where necessary, take appropriate corrective measures.

Financial institutions, and other organisations subject to SFDR disclosure rules, need to collect EPCs from their portfolio, to be able to report on carbon emissions. In the previous deliverables, the 'unavailability' 'inaccessibility' and 'incomparability' of EPCs for financial actors and consumers at a Belgian level were identified as major barriers. Regarding the unavailability, the most pressing problem is that EPCs do not systematically exist for all buildings. They exist for housing only at trigger points (the moment of sale or rent of a house/apartment), hence they represent a limited share of the entire building stock.

In Belgium, EPCs and the performance of buildings in general fall under the competence of the regions, which have complete autonomy to develop the measures needed and therefore no incentive to ensure the harmonisation of tools. The following table summarises the discrepancies between the regional regimes regarding EPC.

Table 2 Characteristics of EPCs in the three Regions

Characteristics	Brussels[56]	Flanders	Wallonia
Mandatory EPC	Housing >18m^2 at trigger points; Offices >500m^2, at trigger points; Public building >250m^2 has to display its EPC[57];	Housing (homes, studios, apartments) at trigger points[58]; Small non-residential since 2020 at trigger points;	Housing at trigger points[61]; Public building has to display its EPC[62] (valid 5 years);

data for new residential mortgage loans. See https://www.nbb.be/en/articles/circulaire-nbb202045-collecte-et-reporting-dinformations-sur-lefficacite-energetique-des

[53] Energy performance certificates provide information to consumers on buildings they plan to purchase or rent. They include an energy performance rating and recommendations for cost-effective improvements. (Source: European Commission (n.d.) Certificates and Inspection

[54] NBB (2022) Financial Stability Report

[55] NBB (2021) Verzameling en rapportering van informatie betreffende de energie-efficiëntie van vastgoedblootstellingen

[56] Environnement.Brussels (n.d.) Le certificat PEB

[57] https://environnement.brussels/thematiques/batiment-et-energie/obligations/la-performance-energetique-des-batiments-peb/le-certificat-peb/le-certificat-peb-batiment-public/decouvrir-le-certificat-peb-batiment-public

[58] EPC-PEDIA (n.d.) EPC toepassingsgebied en geldigheid.

[61] Wallonie (n.d.) Obtenir un certificat PEB

[62] Wallonie Énergie SPW (n.d.) Le certificat PEB de bâtiment public

Characteristics	Brussels[56]	Flanders	Wallonia
		All non-residential from 2023 at trigger points[59]; Public building has to display its EPC[60];	
Available in central database	EPB Certificates registry for housing in Brussels[63]	Building registry[64]	Energy administration
Database publicly accessible	Accessible to all citizens	Via notary act or signature of rental contract	Publicly communicated to purchaser or tenant before the act
Duration of storage & accessibility	Permanent	NA	Until the act

The three regions use different methodologies to calculate the EPCs, meaning the score could mean a different level of performance in each region, as EPCs are based on calculated energy use (and therefore carbon emissions) and not on measured energy use. All banks are present in the three regions, and therefore face the same difficulty in producing a proper report reflecting the real performance of the building stocking. There is probably a need to separate the figures by region, to avoid mixing incomparable data. The differences between the certificates are presented in Annex D.

To improve EPC collection and usability in Belgium, for reporting purpose, the policy option should include the following actions:

Establish a Workgroup within the TSF

Most of the competences concerning buildings and energy efficiency are dealt with at regional level. However, some closely related competences (e.g., financial rules, GDPR) are under the responsibility of the Federal Government. Coordination between the four entities is therefore essential. The actions taken by the NBB towards the regional authorities could be strengthened via the existing coordination bodies (e.g., CONCERE/ENOVER). This would also require involving the concerned parties: banks, real estate (and other building owner- and occupant representatives) and auditors.

The Federal Government could bring the different regions together to discuss these issues and try to come up with a common approach. In response to the Policy Options questionnaire, the Federal Government (41%) and the NBB (18%) are mentioned as being mainly responsible for the implementation. The Federal Government should play a facilitating and enabling role at the political level to advocate for a broader application of mandatory EPCs, the data sharing of the Regions and a re-interpretation of GDPR in Flanders. The NBB could play a role in the data collection and updating the data, building on the initiative they have already started of the 'NBB Circular' presented in the DLV4a report, through which they collect EPC data from banks and insurance companies.

Therefore, we recommend establishing a dedicated Workgroup with representatives of the four Energy Administrations, representatives of the finance administration, and the NBB. A dedicated Roundtable could be established to involve representatives of the financial sector, real estate, auditors and companies responsible for producing and providing their EPCs (e.g., FEB/VOB). This workgroup and/or Roundtable should precisely define the aim, the terms and the scope of the measures to take, including the possible alternatives, and introduce the topic to the regions, while the detailed discussion regarding

[59] https://www.vlaanderen.be/energieprestatiecertificaat-voor-een-niet-residentieel-gebouw-epc-nr
[60] Vlaanderen (n.d.) EPC voor publiek gebouw
[63] Leefmilieu Brussel (n.d.) Register van de EPB-certificaten van de brusselse woningen
[64] EPC-PEDIA (n.d.) Gebouwenregister

the feasibility in each of the three regions should be carried out within ENOVER/CONCERE. The feasibility concerns political, technical, regulatory and administrative aspects.
The workgroup should explore options to:

- increase the availability of the EPCs, at least for non-residential buildings
- improve the accessibility of the EPCs, to all concerned parties, via a centralised system
- improve the comparability of EPCs produced across the 3 regions

This could be done by asking to set up a dedicated workgroup in the frame of the concertation group between the four entities for energy topics (ENOVER/CONCERE). An alternative could be to delegate this to the NBB to coordinate with the regions.

Availability

There are several actions that should be taken to increase their availability, ideally in a harmonised way between regions:

- **EPCs should become mandatory for all non-residential buildings where it is not yet the case,** as soon as possible, and ideally before 2024. In the questionnaire, 64% of the respondents flagged this policy option as being needed in the short-term. All agree it is needed. [Q18]. However, given the fact these EPCs are only currently produced at trigger points (rental or sale) this would imply an important change, mainly for building owners (especially when occupiers do not change regularly, such as shops, commercial centres, private offices). It is expected that EPCs of public buildings are available. The workgroup would explore with the regions what is planned regarding the production of EPCs for non-residential buildings. It should discuss the possibility to ensure their production as soon as possible for all non-residential building (except for public buildings which should already display their EPC). **Mandatory (for rental and purchase) residential EPCs should be centralised in a public database**, for each region (ideally with common or at least similar access application/interface). The Workgroup would explore with the regions what is planned regarding the storage of EPCs. It should discuss the possibility of ensuring their central storage (at least at regional level) as soon as possible (cf. the 'Çentral data Hub' under accessibility). Financial institutions should progressively build their knowledge regarding their residential building portfolio, in order to improve its energy performance. However, most of these EPCs do not exist. **EPCs should become mandatory to get access to mortgages** (considering it is part of the solvability of households). The workgroup would explore with the regions what is planned regarding the availability of EPCs for residential buildings to financial institutions.

Accessibility

- The **Regions should be encouraged to disclose EPC information** by making it publicly accessible, under conditions and only for the concerned institutions (e.g., a bank only has access to its client's portfolio). This information could be part of the 'Central Data Hub', which is described in the subsequent policy option on the creation of a central data hub (section 2.2).
The Federal Government – together with the NBB – should advocate for data sharing between the Regions. This would be done via the workgroup. In response to the questionnaire, the Federal Government (41%) and the NBB (18%) were indicated as the main responsible actors for the implementation [Q19].
- The GDPR is a European Regulation and should consequently be implemented in a similar manner across Member States. Flanders gives the GDPR as a reason to not provide the data, or to only

disclose it for a limited duration, or on an anonymous basis, which hampers the accessibility and usability of the data. One agenda topic of the workgroup should therefore be the interpretation of the GDPR in the different regions and how GDPR processing agreements can be developed to improve permanent access to EPC data. In Brussels for example, residential EPCs are publicly available for anyone willing to consult them, for tenant or buyer candidates to access the information easily (at the beginning of the rental or purchase process).In Flanders, credit providers can access EPC information from the Energy Agency, but only for purposes of building renovations and by signing a GDPR processing agreement.[65]

- The data should also be usable for **prudential reporting**. Banks need to split mortgage portfolio by EPC labels. Based on these splits, the regulator can assess the transition risks of banks. If portfolios contain more low labels (E, F, G) compared to high labels (A A+) , this could mean a higher transitional risk for the banks. Consequently, they could face more difficulties in obtaining access to finance or expect higher rates. This risk assessment could also provide the baseline for the banks to follow up on their climate commitments. This assessment would require a change in regional and federal law to share the information with credit providers for obtaining a mortgage.[66] The workgroup should address this topic to ensure the harmonisation across the three regions, in line with a federal requirement to provide EPCs to the bank, particularly in Flanders and Wallonia (as EPC are publicly available in Brussels).

Comparability

- As illustrated above, EPCs give a label (from A++ to G) representing the level of energy performance of the building. This level is determined on the basis of the specific energy consumption (kWh/m^2), which was calculated with a large set of parameters belonging to the building. The three regions do not use the same ranges to attribute a label (see example above). Therefore, the three similar labels are not comparable. Hence, besides the EPC, the underlying raw data should be disclosed (such as information from the Cadaster like m^2, but also kWh/m^2). This information can be found in the report (stating the EPC label), but the label should be accompanied by the raw data. The workgroup should request the regions to communicate both the EPC label and its underlying raw data. This would solve the issue of the non-harmonisation of the current EPC data.
- Complementary, one respondent suggested in the questionnaire to make an agreement to store data at lowest level of interpretation (i.e., raw technical data) with other cadastral data. The workgroup should explore whether this could be set up at national level (under FPS Finance), adapting the cadastre requirement, provided the regions would deliver the information.
- As long as the EPC data is not made publicly accessible**, the NBB needs to come up with a methodology to estimate the EPCs based on data that is available** (heating plan, age, size, actual energy consumption etc.) to fulfil its reporting obligations to the European Central Bank.[67]

[65] Wolters Kluwer (2021) Vlaanderen greeft kredietgevers van 1 oktober (beperkt) toegang tot EPC-databank
[66] Federal Government (September 2021) Verplichte verzameling EPC-certificaten door kredietgevers. Non-public document.
[67] The ECB has already stated that it expects institutions to disclose climate-related risks that are material to them. In 2020 the ECB published a review that was the first of its kind, looking at its supervised institutions' disclosure of climate-related and environmental risks. The review found that, in 2020, only 3% of the institutions met the ECB's minimum expectations. In 2022, the ECB published an updated version of its analysis, which saw this figure increase to 6%. In this report, the ECB looked at whether institutions already disclose information about EPCs for their financed real estate portfolios, which may be an important indicator of exposure to transition risk. More than 80% of institutions still do not do so. Some institutions (around 4%) disclose EPCs only for their residential real estate portfolios and others (around 3%) only for their commercial portfolios. In its supervisory priorities for 2022-2024, the ECB has already committed to follow-up on banks' disclosure practices and their adherence to supervisory

These proxy data can be collected directly via the concerned undertaking, but are not always available (not all companies record their energy consumption). EPCs are a theoretical calculation based on construction and technical characteristics of a building, while energy consumption is based on real measurements (and hence also depends on behaviour). EPCs and real consumption are therefore not comparable, and mixing them up (collecting EPCs for some premises and measured data for others) would lead to confusion. Therefore, we recommend concentrating all efforts to collect EPCs, according to the ECB's expectations, and record the underlying data (i.e. kWh/m^2). Measured data should be considered as a very last resort option.

During the stakeholder consultations, insurance institutions flagged that Belgium should advocate for the harmonisation of EPC data at the EU and global level, given the international scope of (institutional) investors. However, we do not recommend addressing such harmonisation in the frame of the Sustainable Finance Strategy, as the scope and motivation goes well beyond the sustainability risk assessment and ESG disclosure in Belgium.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness:** improved measurement of risks related to energy inefficiency is needed to come up with corrective measures, and to correctly assess sustainability risk exposure. The EPC data will also enhance an important part of the reporting under the EU Taxonomy when it comes to transitional risks. Given the importance of the real estate sector in the decarbonisation plans of the Belgian Federal Government, this policy option is perceived as highly important to obtain transparency on the decarbonisation potential of the building sector. Consequently, the Federal Government can use the data for building renovation policies with a focus on a just transition, and banks can use the data for risk assessment of their mortgage portfolios. Given the spread of building and energy related competences, establishing a common work stream with the four entities, together with the main concerned parties, i.e., NBB, banks and real estate, is the most efficient option to improve the availability, accessibility and comparability of EPC.
- **Potential risks**: the largest hurdle to the implementation is the lack of political will to impose the production of EPCs and to share and disclose EPC data at regional level (the Federal Government and financial sector (e.g., the NBB) remaining the requesting parties). The fear exists for some stakeholders that lower energy labels will lead to more expensive mortgages and worse financial conditions, meaning that this will also entail a political debate about the opportunity to share EPCs (it is thus not only a technical concern). From the perspective of borrowers, sharing EPCs with banks can lead to increased credit rates for clients that have low scores. This could lead to higher credit constraints for clients that do have the least resources to transition to better EPC labels. This policy option therefore needs to be implemented within a coherent policy framework in which measures are taken to compensate the actors that have least resources. Ideally, all measures should be taken to prioritise the renovation of worst performing buildings, owned or occupied by low-income households. This should be mainstreamed in the renovation wave measures or programmes.
  Changes are needed in the regional frameworks, which require strong coordination and political willingness.

expectations laid down in the ECB Guide on climate-related and environmental risks. See https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter220706_Kelly~f0d8e57c47.en.pdf

- **Impact on stakeholders**: From the perspective of the NBB and the Federal Government, the improved measurement and sharing of EPC data is considered a low resource burden for all concerned stakeholders (the Federal Government, the Regions, financial institutions, auditors and the real estate sector).

2.2 Improvement of the current content and scope of sustainable finance disclosure, reporting and monitoring in Belgium

Objectives, governance and timeframe

The objective of this policy option is to improve the current content and scope of sustainable finance disclosure in Belgium by defining a limited set of integrated, well-designed, and comparable key performance indicators (KPIs) that are applicable to all actors.

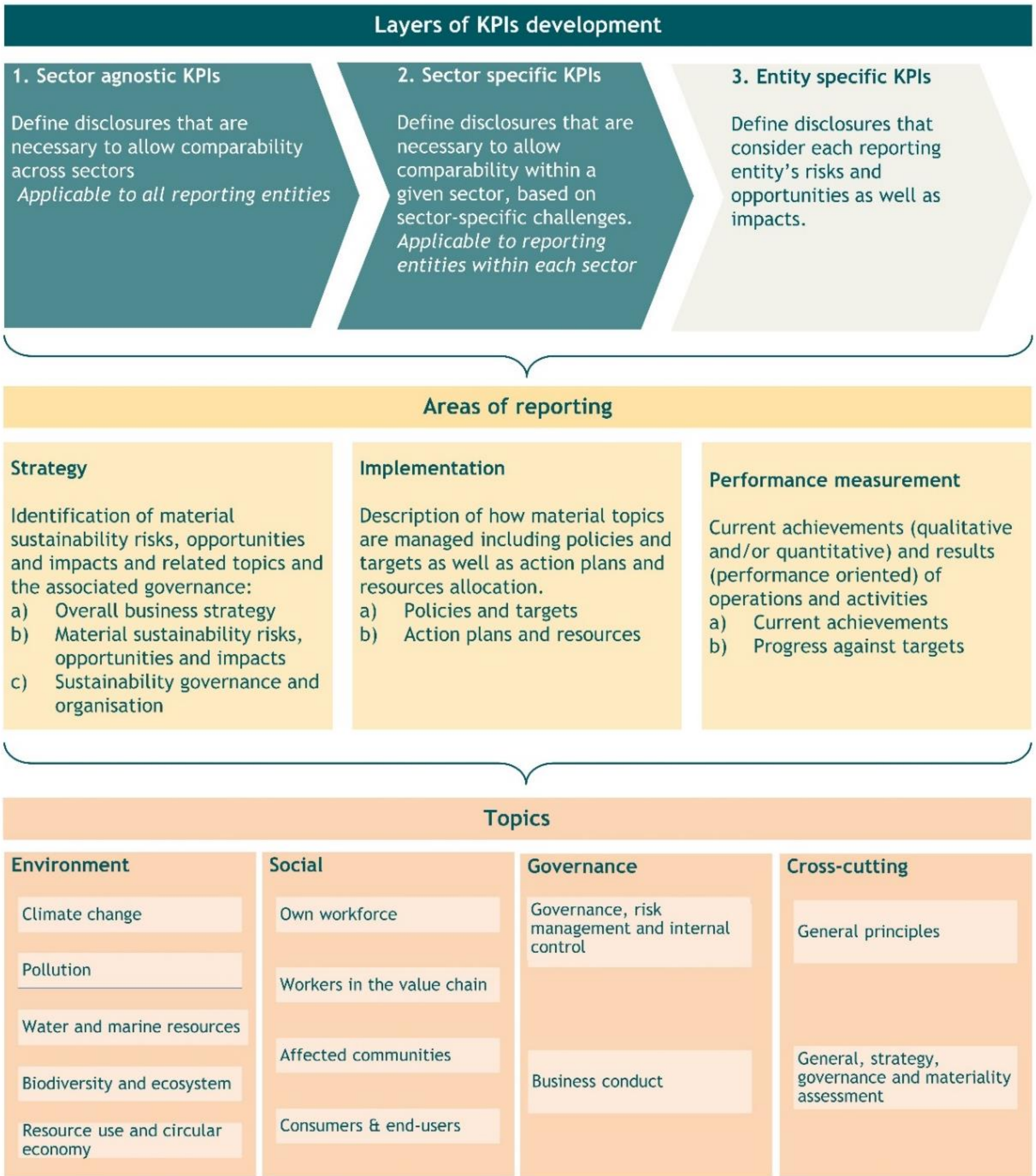
For the Belgian financial sector to make decisions and produce its own sustainability reporting, quality information is a pressing need as demonstrated throughout the consultation activities in the reports under DLV3-4. During the first few years of reporting in line with the EU sustainable finance framework, financial institutions may find it difficult to get all the required information from companies and other economic actors (e.g., to assess Taxonomy alignment), as disclosure requirements are not mandatory for all.[68] Therefore, this policy option aims to improve the current content and scope of sustainable finance disclosure in Belgium by defining a limited set of integrated, well-designed, and comparable key performance indicators (KPIs) that are applicable to all actors. In essence, setting a short list of KPIs will help establish a sustainable finance disclosure framework for Belgium combining the urgent need for ESG data of actors subject to EU obligatory reporting requirements such as banks, insurance companies and large corporates, and also enabling SMEs to cost-efficiently respond to the numerous requests for information they receive while benefiting from the multiple benefits of early sustainable finance reporting.

The recommendations provided below for this policy option are in line with the proposals provided by the European Financial Reporting Advisory Group (EFRAG)'s Project Task Force on the preparatory work for the elaboration of possible EU non-financial reporting standards (PTF).[69] The EFRAG submitted the proposal for the final draft EU Sustainability Reporting Standards (ESRS) to the European Commission in November 2022.[70] As highlighted by the EFRAG, having a set of limited KPIs would need to i) fit financial institutions' needs ii) meet the generic quality criteria (including relevance, calculability and verifiability) of sustainability information, and iii) include both sector-agnostic and sector-specific information.

This policy option should aim to **establishing a gradual approach for sustainable finance disclosure starting from the definition of a set of sector agnostic KPIs (or 'core' KPIs)**. During the stakeholder's engagement activities stakeholders expressed their support for such a short list of KPIs, provided that this is in line with the EU framework, in particular with the ESRS. For this policy option, it is recommended to consider the three layers of KPI development (sector agnostic-, sector specific- and entity specific KPIs); as well as the three areas for reporting (strategy, implementation, and performance measurement)[71], as illustrated in Figure 5.

[68] Under the CSRD SMEs listed on EU regulated markets would have to fulfil the proposed new sustainability reporting requirements only 3 years after they apply to other companies. The disclosure requirements of this proposal would not apply to SMEs with transferable securities listed on SME growth markets or multilateral trading facilities (MTFs). In addition, for reasons of proportionality, they would not apply to micro-enterprises listed on EU regulated markets.
[69] One of the key provisions of the Corporate Sustainability Reporting Directive (CSRD) is that companies in scope would have to report in compliance with European sustainability reporting standards (ESRS) adopted by the European Commission as delegated acts, on the basis of technical advice provided by EFRAG. See https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS_MAIN_REPORT.pdf
[70] EFRAG (2022,e). First set of draft ESRS.
[71] As recommended in Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting (EFRAG 2021)

Figure 5 Considerations to develop a list of core KPIs in line with the ESRS recommendations



Based on Figure 5, this **gradual approach for sustainable finance disclosure in Belgium would entail** the following actions**:**

- **Defining sector-agnostic** KPIs, which could be taken as the first step towards enhancement of ESG reporting in Belgium targeting all actors. From the list of KPIs considering the 13 ESRS areas[72], sector-agnostic KPIs would need to be defined in line with Belgian priorities and prepared on a basis that does not contradict the mandatory reporting. Following the ESRS will ensure alignment with other reporting obligations under the EU sustainable finance framework (see Box 4), as the EFRAG assessed comprehensive ESRS' coverage of the EU Taxonomy, CSRD and SFDR,[73] as well as the upcoming work EU Commission's work on Taxonomy's usability

[72] Environment (climate change, pollution, water and marine resources, biodiversity and ecosystems, and resource use and circular economy); social (own workforce, workers in the value chain, affected communities, consumers and end-users); and governance (governance, risk management and internal control, and business conduct).

[73] See EFRAG (2022c-d) Annex II- CSRD requirements for the development of sustainability reporting standards and their coverage by the ESRS Exposure Drafts and Appendix III – SFDR Principal Adverse Impacts in the ESRS

(including for SMEs).[74] This is also in line with the recommendations provided by the Platform on Sustainable Finance (PSF), which recommends that reporting is made for the turnover, capital and operating expenditure alignment KPIs, where information is readily available.[75] In addition, with the ESRS, the EFRAG sought reconciliation with the TCFD and IFRS frameworks. The ESRS Drafts include in total 137 disclosure requirements: general (22), environment (51), social (44) and governance (20).

Box 4 KPIs outlined by key EU sustainable finance regulatory initiatives. Based on (EFRAG, 2021a)

Sustainable Finance Disclosure Regulation (SFDR):
Proposed 51 Principle Adverse Impact (PAI) indicators identified in the draft ESAs RTS on 2 levels: mandatory list of PAI indicators and an additional list of PAI indicators; by topic: environmental, social or governance indicators[76] KPIs are both quantitative (e.g., carbon emissions, share of investment in the fossil fuel sector, etc.) and qualitative (e.g. how negative impacts are integrated into risk policies).

EU Taxonomy "Article 8" Delegated Act:
Defines disclosure requirements for undertakings subject to the Taxonomy Regulation. It sets out the different KPIs and forms of disclosure to be used by the various types of in-scope entities, including:

- Non-financial undertakings should disclose the proportion of their turnover derived from products or services associated with Taxonomy-aligned economic activities and the proportion of their capital expenditure and operating expenditure related to assets or processes associated with Taxonomy-aligned economic activities.
- Financial undertakings should disclose KPIs which relate to the proportion of Taxonomy aligned economic activities in their financial activities, such as lending, investment and insurance. These are referred to as the Green Asset Ratio (GAR) for credit institutions or banks, and Green Investment Ratio (GIR) for asset managers.

Corporate Sustainability Reporting Directive (CSRD)
Companies in scope would have to report in compliance with the ESRS

Capital Requirements Regulation (CRR):
No KPIs; only some indicators about remuneration policies and ESG disclosures

In order to define sector-agnostic KPIs, a prioritisation for a Belgian framework could be made considering that these first set of 'core' KPIs should ensure coherence and reasonable coverage of sustainability aspects, including if possible, all ESG factors. On this point, however, some stakeholders indicated that the environmental factors should come first, as there is currently more guidance available to report against them, and increasingly more experience in this reporting. At the same time, the necessary data to report under 'core' KPIs should be readily available (or measures to ensure this availability put in place). In addition, the selection of 'core' KPIs for Belgium (especially those not-climate related for which there may be larger information gaps) could consider the recommended WEF-Stakeholder Capitalism Metrics and disclosures which resulted in 21 core KPIs.[77] During the consultation activities conducted for this study, stakeholders suggested the shortlist of 'core' KPIs should include metrics related to (at least) energy efficiency, GHG emissions, water usage, and waste. To complete this list, stakeholders called for benchmarks to complement the "raw" list of KPIs to ease the comprehensibility and comparability of the indicators.

[74] Led by the subgroup on data and usability of the EU Platform on Sustainable Finance
[75] PSF (2021) Platform considerations on voluntary information as part of Taxonomy eligibility reporting

[76] SFDR reporting obligations are set by the European Commission Delegated Act supplementing Regulation (EU) 2019/2088: Annex I of the Delegated act, which prescribes the indicators on principal adverse sustainability impacts that financial market participants have to publish as per Regulation (EU) 2019/2088.
[77] WEF (2020) Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation

Next to these considerations, for the selection of priority KPIs the following aspects should be taken into account:

- **Relevance and usefulness** of these KPIs for the users of reporting (e.g., financial institutions, or large professional clients). Reporting must be fit for purpose and drive decisions.
- **Timing of the EU sustainable finance framework**, in particular the publication of the ESRS, as well as the upcoming EU Commission's work on Taxonomy's usability (including for SMEs) [78]. This will help to decide whether it can be reasonable to wait or not before taking additional disclosure initiatives at the Belgian level for specific actors.
- **Level of maturity,** prioritising KPIs that are widely adopted and have general recognition and acceptance in Belgium. For instance, climate disclosure requirements, despite remaining companies' coverage and methodologies standardisation issues (e.g., scope 3 GHG emissions and measure of the CO_2 emission intensity per production unit), are generally more advanced than some other environmental and social and governance topics.[79] Labels widely used at the national level in Belgium such as the TSL could provide a good starting point to identify the information that is available today.
- **Level of urgency,** prioritising KPIs for specific topics based on the priorities defined by Belgium and the short-term commitments and targets. The relevance of the targets is described in policy option 1.2. (Ambition Statement).
- **Time horizon,** focusing first on KPIs that describe backward-looking information.
- **Communicate value creation and ensure goal orientation,** SMEs should be encouraged to report 'core' KPIs and explained the importance of doing so, including benefiting from higher visibility, improved access to credit, benchmarking opportunities and improved monitoring of trajectories towards sustainability targets. [80] In addition, as recommended by stakeholders, it is very important to explain the reasoning behind the prioritisation of KPIs and that the intention is not to downplay any sustainable finance aspect. Moreover, it must be communicated how actors can achieve better KPIs (i.e., ultimately the purpose of ESG reporting is to improve practices toward the sustainable transition).
- **Provide sufficient guidance in relation to tools available in the market to facilitate SMEs disclosure.** For instance, regarding climate-related KPIs, the CDP Climate Disclosure Framework for SMEs already provides comprehensive guidance about the resources SMEs need to measure their climate emissions, set greenhouse gas reduction targets, and report on their progress based on key frameworks and standards such as the TCFD, CDSB and the GHG Protocol. On this point, the Federal Government could consider endorsing specific tools widely used in Belgium (such as those by CDP) to further increase consistency. In addition, to support SMEs in their climate disclosure, the SME Climate Hub has developed free, practical resources specifically tailored to support SMEs.[81] The JRC-assessment *Data Platform Support to SMEs* should also be considered, as it provides an up-to-date scan of existing platforms and solutions for SMEs in the market. Recommending the use of tools such as the CDP/ACT to develop sectoral-pathways and targets[82] are key to facilitate the disclosure of KPIs related to the 'strategy' area of reporting.

[78] Led by the subgroup on data and usability of the EU Platform on Sustainable Finance
[79] Based on Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting (EFRAG 2021)
[80] This is in line with the recommendations provided by the Joint Research Centre in the report Data Platform Support to SMEs for ESG Reporting and EU Taxonomy Implementation (JRC 2022)
[81] The SME Climate Hub has a dedicated "tools and resources" section. See https://smeclimatehub.org/tools/
[82] ACT assessments act as a road map to assist companies in their low-carbon transition planning. The outputs from the application of the ACT sector methodology – a rating and company-specific feedback report – provide a robust measure for peer and sectoral company comparison.

Based on this background, the project team suggests the sector-agnostic KPIs list in Belgium should include the KPIs presented in Table 3. We note that this list should be considered preliminary and adjusted based on the overall priorities of the Sustainable Finance Strategy (and outlined in the Ambition Statement). In addition, this list would need to be reviewed and updated over time by the TSF based on new KPIs/standards being published (e.g., ESRS, ISSB, EFRAG, TNFD, etc.).

Table 3 Selected 'core' KPIs

Proposed short list of sector-agnostic KPIs (preliminary and to be adjusted based on priorities):
Climate change 1. Scope 1 GHG emissions (quantitative), tons of CO_{2eq} 2. Scope 2 GHG emissions (quantitative), tons of CO_{2eq} 3. GHG intensity per net turnover (quantitative), tons of CO_{2eq}/EUR 4. Policies implemented to manage climate change mitigation and adaptation (qualitative)
Other environment: 1. Total water consumption in m^3 per net turnover (quantitative), m^3/EUR 2. Total amount of waste generated m^3 per net turnover (quantitative), ton/EUR 3. Area of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas (quantitative), ha 4. Turnover derived from products or services associated with the EU Taxonomy-aligned economic activities (quantitative), %
Social and governance 1. Percentage of employees per employee category, by age group, gender and other indicators of diversity (quantitative), % 2. An explanation of the operations considered to have significant risk for incidents of child labour, forced or compulsory labour (qualitative) 3. Total percentage of employees who have received training on the organisation's anti-corruption policies(quantitative), %

Additional aspects to consider for the further development of this KPIs- based framework are:

- **Complementing sector agnostic KPIs with sector-specific KPIs,** as essential KPIs may differ by sector according to the most material topics. This was also noted by stakeholders during the consultation activities. The sector specific KPIs would apply to all entities within one reporting sector based on the sectorial pathways (as per policy option 1.3). The definition of the sector should be derived from the NACE classification system in accordance with the EU Taxonomy regulation.
- **Ensure that the KPIs adequately cover the three areas of reporting:** strategy, implementation, and performance measurement, following the recommendations by the EFRAG[83]
- **Enable relevant SMEs' disclosure for both sector-agnostic and -specific KPI:** an approach to developing proportionate SME disclosure could be focused on the prioritisation of SMEs that will be within the scope of the disclosure. The prioritisation could be, for instance, in terms of their size (i.e., prioritising medium-sized over small and micro-enterprises), sectors/activities in which they operate, and market (i.e., regulated or non-regulated). The provision of a simplified reporting template is key to promote disclosure.

Governance: In relation to the governance of this policy option, stakeholders indicated that the communication related to a common disclosure framework (e.g., core KPIs) should be first done by the Federal Government, as a neutral and credible actor. We suggest the operationalisation of this policy option to be led by a dedicated workgroup of the Taskforce Sustainable Finance to setting the direction

[83] EFRAG (2021) Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting

and prioritising national KPIs. The workgroup should be composed of three Boards (Main, Financial Advisory and Policy Advisory Boards). As a follow-up, a Roundtable could involve the concerned stakeholders such as business and sectoral associations. FRDO/CFDD and other councils such as the National Labour Council (CNT-NAR) are existing bodies that organise multi-stakeholders forums and that could support the operationalisation of this policy option. For SMEs, guidance, training and awareness-raising actions to facilitate sustainable finance disclosures are crucial. In addition, SME's associations with support from academia and/or institutions should be involved in order to shape a framework for SMEs. For the public oversight of sustainability assurance it should be considered to engage organisations such as FSMA (e.g., via the Collège de supervision des réviseurs d'entreprises (CRS)), to understand which is the most appropriate role for them given its current mandate (which would eventually need to be expanded to include the suggested KPIs additional reporting obligations).

Timeframe: Using these KPIs should be highly recommended but remain voluntary in a first phase. The central datahub (see recommendation 2.3) should thereafter be developed for these KPIs, to ensure it manages the common data from all businesses in a harmonised way. To ensure the use of these KPIs, the business associations should be closely involved to agree on a realistic set for the enterprises to comply without difficulties. A progressive increase in the number of KPIs could be accompanied by a progressive binding character (e.g., a first set of 5 KPIs could remain of voluntary use during the first 2 years, and then become mandatory while an additional 5 KPIs could be added).

Effectiveness, potential risks and impact on stakeholders

- **Potential risks** from a political, technical and/or legal feasibility perspective: for the effective implementation of the disclosure of a set of core KPIs both the political levels would need to agree on the priorities for disclosure. The Federal Government may consider this simplified KPI-short list of disclosure to be imposed by law. Other risks that may arise and that are not further explored in this study could be linked to the Belgian legal framework (such as privacy and antidiscrimination legislation). Stakeholders also raised concerns about timing-related risks (i.e., the time that will be needed to put into practice a set of KPIs from the agreement on specific metrics and requirements to actual data gathering).
- **Impact on stakeholders:** the resource burden for stakeholders is considered high, as several stakeholders will be requested to disclose additional KPIs under this policy option. During the stakeholder consultation, some actors expressed their concerns about an additional set of KPIs as some already have to fulfil the 'extensive' transparency requirements set out by the EU and have additional sectoral obligations (i.e., insurers have their own KPIs at a sector level). Therefore, some believe that "adding another national layer may prove burdensome and costly without creating any added value" and that "gold-plating on the Belgian level (…) is inefficient, incoherent and costly". From this, the willingness to help develop concrete KPIs that respect the Belgian and EU legal framework was also expressed throughout the consultation. In the case of FSMA, the oversight of the assurance of disclosed KPIs would come with a significant burden, which may require the allocation of more resources.

2.3 Creation of a central data hub which is publicly available to ensure that the data is available for all, and to avoid data competition between financial market participants.

Objectives, governance and timeframe

The objective of this policy option is to avoid data competition between data users, through making ESG data publicly available through a central hub to the extent this is possible in Belgium.

Data accessibility of ESG information for companies is a challenge, especially for smaller and more specialised institutions, as they typically rely on third-party data vendors for critical information, such as ratings. Bigger firms, on the other hand, often have access to in-house research and are able to calculate proprietary ESG scores.

Making data publicly available to the largest extent possible would overcome the risk of the emergence of more ESG data providers in the market with limited or no added value in the context of sustainability disclosure. In the questionnaire, almost a quarter of the respondents (21%) mentioned there is no need for a hub if data collection under ESAP exists [Q23]. At the same time, it is still unclear when the ESAP will be operational, and it is not expected to contain all the required data.[84] It was confirmed in the workshop that a central data hub could function as an intermediate step to feed into the ESAP to address the issue of 'urgency' of data needs to comply with the EU regulation (see workshop conclusions).[85] The content and focus of the data hub should feed into the ESAP developments as much as possible, amongst others avoiding (too) divergent ESG data requests from companies.

The hub should **provide information on the requested mandatory indicators** of the EU Taxonomy, SFDR and CSRD (see Box 4 under the previous section) and **collective templates**. In addition, the hub will facilitate a database which also collects data based on a short list of core-KPIs that are applicable to all (as presented in the previous policy option on 'Improvement of the current content and scope of sustainable finance disclosure, reporting and monitoring in Belgium').

In the box below, we provide an example of existing good practice and how it could be applicable to the Belgian context.

Box 5 Impaakt database[86]

The **Impaakt database** provides ESG data from companies with the objective of helping investors and citizens avoid greenwashing through impact data, scores and articles. Good practices from this database include:

- ✓ The data is publicly accessible
- ✓ The methodologies underlying the scoring are transparent. **For every score,** the underlying impact research and data can be reviewed
- ✓ The data is assessed by experts: Companies submit the data, after which an expert assessment is done by the Impaakt team

[84] The Council's position suggests a gradual phasing in of the ESAP platform between 2026 and 2030. This ensures that sufficient time is available to define and implement the required technical aspects of the project. Since the position of the EP is still pending, the date on which the ESAP will become operational is still unclear. See: Easy access to corporate information for investors: Council agrees its position on the European Single Access Point (ESAP).

[85] The ESAP will set up a single EU access point to financial and non-financial company information providing centralised access to publicly available information of relevance to financial services, capital markets and sustainability. The Commission adopted a legislative proposal for the ESAP in November 2021, after which the ordinary legislative procedure followed. The procedure will approximately take 18 months and the first submissions to the ESAP are expected in 2024.

[86] https://www.impaakt.com/

- ✓ The database offers room for exchange and peer review between the experts managing the platform, investors and companies, to constantly improve the data

Ongoing initiatives in Belgium
At the national level, the NBB is already collecting non-financial data from banks for supervisory purposes. There is also work ongoing at the level of the Belgian banks, whereby banks have started a pilot to collect CSRD data from fifty companies. Febelfin is currently facilitating this pilot, whereby they are developing a common reporting tool for banks. This initiative is still work in progress, but should be kept in mind for the creation of the datahub, whereby the ongoing data collection from listed companies for mandatory data requests could be complemented by additional relevant ESG data from non-listed companies and SMEs.

At the stakeholder workshop and in the questionnaire, the nuance was brought in that banks should have access to other type of data than the general public. If all data would become public, it will become difficult for financial actors to verify and understand what the underlying data consists of, as reporting entities may report on a more aggregated level for confidentiality. A clear distinction should therefore be made between publicly and non-publicly available data, whereby the datahub should focus on information that could be made public. Banks could be the users of the non-public data to assess their clients eligibility for financial products whereas NGOs and the general public could be the users of the public data in their role as watchdogs and providers of capacity building.

Since making data publicly available does not automatically lead to more reliable data, measures need to be taken by the Federal Government to assess the reliability of the data. In the questionnaire, one stakeholder suggested a role for IBR/IRE (Instituut voor Bedrijfsrevisoren) to train and incentivise auditors in the field of ESG [Q23]. Another respondent suggested a role for larger companies within the same value chain to support the data collection of SMEs [Q23]. These supporting measures are further described in chapter 3 on increasing ESG capacity. See the section on governance below.

Governance: in response to the questionnaire, the Federal Government (30%), business associations (16%), and the NBB (15%) are mentioned most as being responsible for the implementation [Q22]. This illustrates that the central data hub should be a public-private effort. A proposition would be to host it in **a public-private Workgroup** on “ESG data governance” in the proposed governance structure. This workgroup on ESG data governance could be requested by the TSF on Sustainable Finance to make an assessment of the data which is already being collected and how it can be made available for data users, for example, the information in the Cadaster in relation EPCs of real estate (responsibility of the Ministry of Finance) or company reporting (responsibility of the Ministry of Economic Affairs), also ensuring i.e. protection of sensitive and possibly confidential data.[87] Febelfin could be requested to consult financial institutions as one of the main users of the database on usability aspects.

Timeframe: in the questionnaire, more than half of the respondents (57%) replied that the data hub should be established in the short-term [Q21], while less than half (39%) considered it as a medium-term action. The divergence between the short- or medium-term could come from the opinion of stakeholders that the central data hub should align with ESAP, while the content of the ESAP is still unclear. One respondent said it is not needed.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: More ESG reporting could lead to a better picture of the transitional and physical risks in Belgium to act upon. This will provide transparency to public and private investors on where to invest, with the ultimate objective being to encourage investment in sustainable assets. Moreover, a central datahub could build capacity for the NGOs and civil society to fulfil their role of watchdog and to keep the worst performers accountable. For companies, it could be an incentive to improve their reputation related to sustainability.

[87] See https://economie.fgov.be/nl/themas/ondernemingen/kruispuntbank-van

- **Potential risks**: A major risk related to the effectiveness of the measure is that companies will not use the database for their reporting once it is in place. We recommend to the proposed workgroup on data governance to consult companies on their appetite to report in the datahub, before developing the database. From the stakeholder consultation for this project, it appears that stakeholders which participated in the project are supportive of the datahub, but we recommend consulting a broader range of companies in Belgium. From a technical perspective, IT challenges could be expected when setting up the database, which could be mitigated by hiring the right expertise. Risks could also be foreseen related to the operations of the database, for example, that data is never fully comparable – because of the aggregated level of the ESG data – and the confidentiality of some data. For these reasons, a certain level of data gaps and incomparability will remain. These risks could be mitigated by focusing on a set of critical KPIs first and improving the transparency of reporting for those KPIs (e.g., by including underlying data), and gradually expanding to not overburden companies.
- **Impact on stakeholders:** the data should be saved in a central hub, so credit providers can access the data base rather than obtaining the data from companies directly. This will lead to a win-win situation for both data providers and data users: fewer data requests for client as well as for credit providers. The publicly accessible character of the database implies that the Federal Government needs to reserve resources for the development and maintenance of the database, as well as hiring potential experts in-house or externally to review the ESG data from companies. For the development and maintenance of the datahub and IT-aspects, the Federal Government could rely on a third party.

3 Policy options to build ESG capacity

To increase sustainable investments in Belgium and for actors to comply with the EU Sustainable Finance Regulatory framework, the Belgian sustainable finance strategy should support public and private financial market participants in building sustainable finance expertise and raise awareness within the organisations and their clients by building capacity (see Box 6 for the definition of capacity building used in this report). In this context, the project thus far has made evident that capacity building for ESG issues should emphasise the real, concrete and long-term interest for an undertaking, emphasising the reasons for mainstreaming sustainability into their strategies and practices. In order for public and private financial market participants to make the transition to a sustainable economy where ESG holds a primary place, capacity should be built around data gathering and analysis and complying with the EU Sustainable Finance Regulatory framework. Illustratively, financial institutions are subject to the Sustainable Finance Disclosure Regulation (SFDR) and will need data from SMEs to report. Given the low level of awareness of SMEs on the need for non-financial disclosure and their low capacity to do it, financial institutions cannot obtain the necessary data to report. Even though SMEs do not have to comply directly with the EU regulatory framework regarding reporting, they might be asked to provide data to financial institutions and large groups directly exposed to the EU framework.

Box 6 Defining capacity building[88]

> "Capacity-building is defined as the process of developing and strengthening the skills, instincts, abilities, processes and resources that organisations and communities need to survive, adapt, and thrive in a fast-changing world."[89] In that regard, capacity building does not only provide the tools for direct issues faced in operations and projects, but also allows individuals and organisations to access more resources and skills for additional issues (e.g., by helping them to identify and scope additional issues, by equipping them with knowledge on existing networks, on key-resource persons and on data sources that are relevant to their practices). In the context of this project, capacity building refers to the competences needed along the value chain to comply with EU sustainable finance regulatory requirements, but also to support the effective mainstreaming of ESG or sustainability with economic activities in Belgium. By value chain we understand all actors concerned directly or indirectly by sustainable finance, such as the financial institutions & asset managers, companies (as investee, and data provider), institutional investors, etc.

3.1 Setting up an ESG helpdesk to provide financial market participants with a basic understanding of ESG gaps, investment needs and reporting obligations, and to answer questions related to unpacking the EU sustainable finance regulatory framework

Objectives, governance and timeframe

The objective of this policy option is to provide recommendations for the development of an ESG helpdesk that has a supporting role for the Taskforce Sustainable Finance. The primary tasks of the helpdesk will be to assist financial market participants in understanding how to integrate ESG aspects in investment needs and reporting obligations, particularly targeted at requirements stemming from the EU sustainable finance regulatory framework. The ESG helpdesk should assist in developing sufficient capacity for dealing with ESG related topics for Belgium's financial market participants.

In order for financial market participants to adhere to EU sustainable finance regulations and policies, as well as to have a basic understanding of ESG related gaps, investment needs, and reporting obligations, it is crucial to build the capacity needed to support those involved in the financial market. Raising

[88] This capacity building definition is based on the one of the United Nations (UN). See https://www.un.org/en/academic-impact/capacity-building
[89] UN (n.d.) Capacity-building

sufficient awareness on ESG related issues, is also a precondition for ensuring related measures and obligations related to sustainable finance become effective. For these objectives to be met, it is necessary to set up a capacity building initiative. The need for capacity building would be realised in a helpdesk[90] giving insight into and guidance for ESG initiatives, ratings and schemes that exist in the Belgian national context and align with the EU sustainable finance regulatory framework. The purpose of the helpdesk is also to give guidance to organisations tailored to specific needs and interests. Therefore, the helpdesk can exist at the national level, while serving individual organisations' needs. For example, for SMEs the ESG helpdesk could be of assistance in providing gradual insight into the increasing amount of ESG-data to be provided in line with ESG-related disclosures. Options for technical assistance to SMEs in particular are further developed under policy option 3.2. With the purpose of the helpdesk in mind, the desk is envisioned to be a supporting entity to the Taskforce Sustainable Finance as presented under policy option 1.1, where necessary being able to provide training and assistance to the TSF. At the same time, it serves its own purpose of stimulating knowledge and capacity building for ESG gaps, investment needs and reporting obligations. In line with the governance structure presented in policy option 1.1, we envision the relationship and possibilities to be explored between the helpdesk and the already existing DNSH centre. In an e-mail exchange between the project team and the DNSH centre, it became evident their current primary purpose is to ensure compliance with EU regulatory requirements related to DNSH. This currently means the DNSH centre reviews federal projects falling under the EU Recovery and Resilience Fund (RRF) and the *Nationaal Herstel en Investeringsplan*, whereby the centre uses DNSH criteria, compliant with the six environmental objectives, from the Taxonomy Delegated Acts. The centre also mentioned that as the EU is integrating the DNSH principle through more policies, the role of the expertise centre should evolve at a similar pace. The centre also aims to make the DNSH principle trickle down to project level through training, public procurement information and more[91], being a valuable part of or addition to building capacity through the ESG helpdesk. Taking the above into account, for the ESG helpdesk to serve its purpose best, we propose the following actions to shape it:

Enhance the role of experts, academics and other training providers and institutions (e.g., universities) in building capacity on sustainable finance. Within the context of this policy option, it has become evident that stakeholders see a multitude of actors involved in building ESG capacity in Belgium. Stakeholders suggested that, in cooperation with the Federal Government, experts (notably from academia and research institutions)[92] could play a key role in making EU regulatory requirements understandable for companies and investors, e.g., providing training on relevant topics or providing academic programs for future generations working in finance. As such, (academic) experts would have a key role in the development of the helpdesk and in shaping its content. As per the example, biodiversity is an ESG topic raised by different stakeholders to be difficult to assess due to an internal lack (within already existing ESG teams) of high-level expertise on the topic. In cooperation with academia, the helpdesk could identify relevant KPIs for biodiversity, in turn giving practical guidance on this ESG topic. Business associations could also play a role in providing trainings, see for example the training developed by Febelfin in box 7 below (best practice 1).

[90] While a helpdesk as proposed in this policy option is not known to exist, there do exist similar helpdesks serving the purpose of information provision and guidance. The Helpdesk for GPP, for example, is an initiative from the European Commission set up to support public authorities to green their purchasing decisions through Green Public Procurement (GPP). Asset manager J.P.Morgan, second, has a website dedicated to be a "menu" for sustainable investing, whereby ESG products from different asset classes and regions are presented for investors to create "ESG-friendly" portfolios
[91] The DNSH centre in addition to this sees potential in the following areas: DNSH assessment of public expenditure and investments; building capacity throughout the government; being a reliable partner for questions and advice; providing a streamlined, unified approach to the DNSH principle; green budgeting exercise
[92] Based on survey results DLV5 – policy option 3.1 (originally)

Invest in building specific capacity for making sustainable investment data more operational and communicate the link between needs and concrete steps. Policy option 1.3 (communicating clear sectoral pathways) shows that currently, investment needs are expressed in numbers as opposed to being linked to concrete investments. Investment need numbers solely show there is a need, but lack direction on which investments are actually necessary. With the helpdesk making investment need data more operational and linked to products and investment types, it would assist in directing financial market participants in an ESG-orientated direction and assist individual organisations in identifying actual investment needs. Accordingly, it would assist financial market participants in delivering investment results within the EU sustainable finance and climate transition timeframes.[93]

Recommend the use of specific existing EU and additional guidelines by type of actor for both mandatory and voluntary disclosure. The action here is twofold, as it concerns both mandatory and voluntary disclosure. For the mandatory disclosure part, it is key that a distinction should be made between which disclosure requirement applies to which actor, mapping existing guidance on this topic and recommending those most comprehensive. Considering the existence of voluntary disclosures on sustainable finance and ESG in the EU, the second part of this action consists of the clear mapping and visualisation of those initiatives most relevant to different actors. The endeavour should be instrumental in overcoming the ambiguity and lack of clarity in the EU disclosure framework and communicating the relevant guidelines to different actors, thereby taking on a financial education role.

Promote the use of financial incentives in the private sector that could help increase ESG capacity and the level of awareness of the EU sustainable finance framework within the sector. Financial incentives could provide a strong initial incentive to mainstream ESG aspects into private sector businesses, simultaneously increasing knowledge on ESG topics and mainstreaming sustainable finance more generally in (reporting) in the private sector. Accordingly, it could help driving accountability and signal the importance of ESG integration internally and externally, as positive incentives can stimulate investment in capacity and resources for ESG integration into business practice. Overall awareness, built through capacity initiated through incentives, can also lead to awareness about the importance of taking internal and external (ESG) accountability. Financial incentives already exist within organisations, for example in the form of calculation of the board (variable) remuneration based on how they align with the organisation's climate goals. Another example is the measurement of ESG impact efforts of a business in monetary value, giving it a dedicated place in annual revenue reports. In case of low ESG performance, there would be a low "ESG turnover/profit" that year. The Federal Government could develop a good practice award scheme feeding into the financial incentives for the organisations. This could for example be done by partially funding training schemes (see best practice 3 in box 7). Finally, the ESG helpdesk specifically would play a key role in providing a dedicated framework and guidelines with KPIs to ensure consistency in financial incentive initiatives and reporting.

Raise awareness about the risks of using data by ESG rating providers whose methodologies are not always clear. With the growing amount of ESG credit rating agencies in the EU, playing an important role in the financial market by assessing e.g., credit risk of financial and non-financial issuers, stakeholders on EU level have expressed concerns on the (lack of) transparency on how credit rating agencies

[93] An overview of the EUs climate and sustainable finance is given by the European Council website here: https://www.consilium.europa.eu/en/policies/climate-finance/

incorporate sustainability factors in their methodologies.[94] Considering the wide use of credit agencies, this is an increasingly pressing issue both on the EU and national level. An aspect of this awareness raising, in itself an integral responsibility of the helpdesk, would be by promoting the use of disclaimers for ESG scores. Belgium has the presidency of the EU in the first half of 2024 and should take this opportunity to show the best in class.

Box 7 Best practice examples of ESG initiatives in Belgium

Best practice 1: High level training

The Fincafé organised by Febelfin and VBO FEB on the theme "Sustainability and ESG reporting for entrepreneurs"[95] provides a good example of high-level training.

First, the broad theme helps to reach smaller economic stakeholders and stakeholders that are not yet familiar with the topic of sustainability. It thus provides baseline knowledge and allows stakeholders to identify the issues (e.g., applicable regulations, sustainability objectives) that are specific to their business. They can then research further and join more specific training that requires a basic understanding of sustainability challenges.

Second, the co-organisation by Febelfin and VBO FEB facilitates the take up of the training by economic stakeholders, due to the existing networks of Febelfin and VBO FEB, and due to the specific position of these private institutions; their role of challengers for financial and economic stakeholders ensures that training is tailored to actual needs, and provides legitimacy that is likely to attract stakeholders that could be reluctant to join events related to sustainability.

Broad training on the rationale for developing sustainability strategies or on the business/economic relevance of sustainability strategies could also be considered for professionals working in large financial institutions and that are not primarily working on these strategies in their work (e.g., portfolio management teams).

Best practice 2: Technical and certifiable training

The Center of Expertise of Finance Professionals and Febelfin offer a Certified ESG Analyst (CESGA) Programme[96]. The specificity and high technicality of this training are the first aspect of this best practice. Interviews with stakeholders indicate that implementing mandatory and/or voluntary actions for enhancing the integration and reporting of ESG factors is highly complex and technical. Such difficulties clearly call for tailored and longer-term training, at least for professionals that are responsible for implementing the financial institutions' ESG strategies. In addition, the possibility of obtaining a certification from a recognised Centre makes this training attractive to both professionals and their employers. There is thus an incentive to follow this training and to raise the level of knowledge in technical topics. An official certification also sets a clear standard for the knowledge required for implementing ESG strategies, in a context where the number of ESG-related training on the market increases and can lead to greenwashing.

Best practice 3: Training in generic skills

In order to build capacity of the sector at large, there is a need to identify generic skills and topics of knowledge that are relevant to all actors (e.g., the CSRD is relevant to listed and large companies, to SMEs, to investors and to banks; understanding the impact of climate- or biodiversity-related risks on businesses is equally relevant to all the stakeholders of the value chain).

In this regard, the Skillset for sustainable Finance Professionals developed by the Monetary Authority of Singapore[97] and the Institute of Banking and Finance can be identified as a best practice as it identifies 12 technical skills and competencies relevant to all professionals within the sustainable finance sector. This selection includes thematic (e.g., taxonomy application) and functional skills (e.g., measurement and reporting). Such a selection can also be inspired by the National survey on ESG literacy gaps conducted in Canada[98], which helped to (I) scope the type of skills and competencies needed, (ii) the sub-sectors and types of professionals that need most these skills and competencies.

To ensure that generic skills are spread across the sector –including to smaller organisations-, best practices also include the public (partial) funding of training, and its integration within public professional training systems. For example, in Ireland, the public business support agency Skillnet[99] funds and conduct "sustainable finance" and "climate ready academy" training in collaboration with employers.

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[94] European Commission (2021) Strategy for Financing the Transition to a Sustainable Economy

[95] Febelfin (2022) Fincafé focust op Sustainable Finance

[96] Centre of Expertise for Finance Professionals (n.d.) Certified Environmental, Social and Governance Analyst

[97] Institute of Banking & Finance (n.d.) Sustainable Finance Technical Skills and Competencies

[98] Toronto Finance International (n.d.) Taking the lead in sustainable finance, A case for developing critical financial skills and competencies in Canada

[99] Skillnet (n.d.) Sustainable Finance Skillnet

Governance: as an overall approach for this policy option, it is suggested that the government engages with stakeholders and together with them ensures efforts to build the capacity needed to tackle ESG issues, particularly through the governance structure presented under policy option 1.1. The questionnaire showed, in terms of who the stakeholders saw responsible for the implementation of this policy option, 20% pointed at the Federal Government, and 18% at the financial sector. In addition, 17% of the stakeholders pointed at business associations, 14% at the FSMA (i.e., for educating financial experts on ESG topics), and 12% at academia and research institutions (e.g. through education or writing in the press). Finally, the FRDO-CFDD was mentioned to have organised informative seminars on elements of the EU Sustainable Finance package and capacity building, indicating a role for this council could be explored. This relatively equal distribution of actors deemed responsible for implementing the policy option shows how a true contribution of all parties is essential for building ESG capacity on a national level. As was mentioned, a DNSH centre already exists [100]. This means capacity building for adhering to the EU Sustainable Finance Regulatory Framework partly already occurs and will take place through the government's DNSH centre. Therefore, we recommend exploring the relationship between this DNSH centre and the ESG helpdesk further, to bring resources together and further develop their potential.

Timeframe: it became evident from the questionnaire that most stakeholders feel high urgency is needed for building ESG capacity (71%). It is followed by 21% wanting to focus on medium term, 0% focussing on the long term and only 7% of the respondents believe this policy option is unnecessary. The conclusion that may be drawn is that the urgency is high and that capacity building should focus on regulatory and EU policy developments currently being implemented.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: for this policy option to reach its objectives, it is key all actors involved have a clear vision of the relevance of ESG-related issues in the financial market. If awareness of the urgency is made high enough, a basic understanding of the EU sustainable finance regulatory framework and ESG gaps and investment needs, and reporting obligations can be realised. It is also key that the helpdesk adheres to the specific needs of organisations to be fully effective on a national level.
- **Potential risks**: a general feasibility risk is that the helpdesk would add a layer to the existing initiatives, without contributing anything substantially or solely creating more instead of less confusion on possibilities.
- **Impact on stakeholders:** the resource burden for stakeholders is considered substantial, as capacity building asks all involved to contribute fully and actively in developing a system that works and has a relevant impact.

3.2 Developing technical assistance programmes for SMEs that could help bring the necessary knowledge tailored to specific actors.

Objectives, governance and timeframe

The objective of this policy option is to provide recommendations on how to develop technical assistance programmes for SMEs, with the purpose of building the capacity needed for SMEs to deal with reporting requirements in context of the EU sustainable finance regulatory framework, as well as to integrate broader sustainability aspects into SMEs business and practices. Building the capacity

[100] Currently, the DNSH centre has no full-time employees (i.e. one person 0.75 FTE and three providing ad hoc support). With the current recruitment process, it is expected to appoint new staff in January 2023

needed is a process involving business associations and SME representatives, and also requires the input from necessary experts.

With the development and expansion of the EU sustainable finance regulatory framework, demands and expectations of SMEs in terms of reporting are gradually increased. This is most notably visible in the development of the CSRD, asking more of certain SMEs in terms of sustainability reporting. This changing environment lays bare how, for many SMEs, the sustainability reporting requirements or expectations are not necessarily reachable due to a lack of capacity or knowledge, accompanying costs, and additional administrative burdens coming from the reporting requirements. With this policy option to develop technical assistance programmes for SMEs, necessary knowledge tailored to SME actors can assist the SMEs in gaining an understanding of, and engaging in, the national and EU sustainable finance context. Key to success is to build the necessary capacity, which is why the following concrete actions are proposed:

Promote the engagement of umbrella organisations or SMEs representatives to develop the content and presence of technical assistance programmes, with the support of experts. Stakeholders in the consultations under DLV4 and through the DLV5 Policy Options questionnaire emphasised the importance of business associations in developing technical assistance programmes. In particular, they can play a key role in accelerating large-scale awareness about the added value of mainstreaming sustainability aspects in SMEs' core business, as well as the relevance and need to adhere to EU sustainable finance regulatory obligations. Umbrella organisations active in specific sectors are particularly to be engaged, as they can assist in tailoring knowledge and requirements to SMEs with sector-specific needs and obligations. Accordingly, what is true for organisations active in specific sectors, may be stated for those active in different Belgian regions, knowledgeable on the challenges and opportunities of SMEs in specific areas. Associations representing SMEs could also play a role, such as VBO/FEB, UWE, UCM, VOKA, UNIZO and CSIPME – HRZKMO. Apart from business associations, NGOs, academia and civil society organisations would also need to be involved to facilitate capacity-building processes at sectoral and regional levels.
Public entities, such as the NBPIs, could also play a key role in increasing awareness, by organising event targeting SMEs. As example, in France, BPI[101] organised a one-day virtual event[102] to incite SMEs to start or continue the sustainable transformation of their business. The main driver should remain to guide SMEs mainstreaming sustainability practices into their core activity, with the focus on a limited set of areas, such as climate mitigation & energy, circular economy, and two or three areas in social matters.
To steer and accompany the organisation of such programmes, the TSF could Set up a dedicated workgroup to establish the guidance to be provided via the helpdesk, and to guide the organisations leading the technical assistance programmes. Moreover, the TSF could set up a dedicated Roundtable to engage the concerned stakeholders, mainly SME representatives, to identify the main gaps or needs and most critical ESG matters to address through the programmes. Finally, resources could be allocated to the ESG helpdesk to support preparing the technical assistance programmes, to bring the network of experts, and ensure the coherence of the programmes with the EU sustainable finance framework, and its related regulations.

Integrate training on data gathering and usage in the technical assistance programmes. An urgent matter repeatedly touched upon by stakeholders is the lack of capacity and knowledge of SMEs for

[101] Banque Publique d'Investissements
[102] https://www.novethic.fr/actualite/finance-durable/isr-rse/bpifrance-veut-pousser-les-pme-vers-la-transition-ecologique-149693.html

gathering the relevant data necessary for financial institutions to meet their reporting obligations. Increasing capacity for data gathering is an instrumental part of integrating sustainability and ESG issues and awareness into SMEs, which explains the urgency of increasing capacity on relevant data gathering and usage. The fact that SMEs don't have the capacity or knowledge to adhere to reporting obligations is problematic both for SMEs themselves, but also for organisations needing the information by SMEs to deal with their own reporting obligations (this would, e.g., be the case for SMEs operating in a supply chain of a larger corporation). Data gathering training efforts would need to be developed in accordance with the interventions to enhance the quality and availability of ESG data, and to improve the ESG disclosure, reporting and monitoring in Belgium (i.e., policy options under Building block 2). Depending on the data needs (KPIs), a different approach to collecting and using the required data efficiently may be needed. These training programmes should build on the tools available in the market for SMEs such as the SME Climate Hub[103] The JRC-assessment *Data Platform Support to SMEs* should also be considered, as it provides an up-to-date scanning of existing platforms and solutions for SMEs in the market.

Governance: for this policy option, most stakeholders in the questionnaire agreed upon business associations as being responsible for developing the programmes (52%), followed by the Federal Government (35%). Few mention the financial sector (9%) and civil society/NGOs (4%). Stakeholders also mention research institutions can be involved in setting up capacity building programmes and in providing training. Others agree all stakeholders should be involved to make the policy most effective. In general, a role for business associations is put forward in guidance to SMEs to finding and possibly giving the right support. Sectoral support and engagement are therefore crucial. Aligned, academia and research institutions could assist in developing the programmes, while consultancy firms would be able to offer specific help to SMEs. This should happen both on a national, but also on regional and local level, where many SMEs operate. In this context of a plurality of actors being involved in assistance for SMEs, we envision the ESG helpdesk presented under the previous policy option (3.1) to also play a role in the assistance for SMEs regarding requirements stemming from the EU Sustainable Finance Regulatory Framework (i.e. giving advice on reporting requirements, providing assistance in building capacity for data gathering, sustainability integration, etc.).

Timeframe: most stakeholders agree in the questionnaire that developing technical assistance programmes for SMEs has a high priority in the short term (62%). This prioritisation is followed by 35% of the stakeholders giving this policy option priority in the medium term (35%). No respondents assess the policy option to be developed in the long term and only one (4%) mentions it is not needed. The overall sentiment, it can be concluded, is that technical assistance programmes for SMEs should be developed within the next few years.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: key in the successful and effective implementation of this policy option is good cooperation between SMEs and those developing the technical assistance programmes. The specific needs of SMEs in different geographical and sectoral contexts should be addressed, to be most impactful. If this is realised, SMEs should have a good understanding of the reporting obligations and initiatives in the context of sustainable finance.
- **Potential risks**: from a feasibility perspective, the risk is that the technical assistance programmes, despite efforts focused on geographical and sectoral particularities, would not

[103] The SME Climate Hub has a dedicated "tools and resources" section. See https://smeclimatehub.org/tools/

entirely suffice in meeting the demands of every individual SME. This also depends on the willingness of SMEs to engage in the programmes.

- **Impact on stakeholders:** related to the effectiveness and potential risks of this policy option, the resource burden for the development of technical assistance programmes for SMEs is expected to be substantial. Many stakeholders ought to be involved at different sectoral and regional/local levels, pointing toward a resource-intensive process. This input, though, should have a high impact return on stakeholders, contributing to a stronger sustainable finance landscape in Belgium.

3.3 Improving the understanding and assessment of sustainability risks (notably climate risks) within the financial sector

Objectives, governance and timeframe

The objective of this policy option is to improve the understanding and assessment of sustainability risks[104]within the financial sector, starting with a focus on climate risks.

This policy option will build the foundations to correctly anticipate and address the most relevant economic, environmental, and social risks, in order to achieve a high level of financial stability in Belgium that goes beyond financial metrics and short-term monetary gains. As stated in the DLV3 and DLV4 reports under this project, stakeholders consulted within the framework of this study perceive important gaps related to the assessment of sustainability risks (and in particular, of climate risks) in Belgium, and consider that a common understanding of such risks is lacking, as well as comparable methodologies and data. This policy option should build upon the work that is already ongoing at the EU level.

In 2021, the Federal Government announced the creation of a Climate OCAM[105] (a coordination body under the supervision of the Minister of Climate and the Environment for the analysis and assessment of the risk linked to the climate crisis). The Climate OCAM aims to exploit existing sources (e.g., scientific publications) to carry out climate risk analysis and solid assessments. This policy option will complement and accelerate the actions put forward by the Climate OCAM as it will specifically target the financial sector and not only cover climate but also other environmental and social risks.

In practice, the implementation of this policy option comprises a set of actions focused on capacity building and dissemination that will ultimately allow **actors in the financial market in Belgium to determine why and how sustainability risks should be embedded within risk management**. These actions could take different forms, including official communications by the Federal Government, NBB outreach reports, participatory discussions between NBB and the insurance sector (within the European prudential framework for insurers) and training through different channels such as workshops and webinars. Concretely, the capacity-building actions under this policy option should aim to:

- **Underline the link between sustainability risks assessment and monitoring, financial stability, and climate change mitigation and adaptation needs of Belgium**. The relevance of this relies upon the need to disseminate, for instance, the potential climate impacts and associated risks forecast for Belgium, and how these could be prevented or anticipated. A financial institution that understands where the risks lie (i.e., what are the most material topics) in its portfolio can act on that information to mitigate these risks by steering financial flows towards low-risk and low-emission investments.[106] For instance, when introducing climate risks in its 2019 Financial Stability Report[107], the NBB refers to the Belgian National Adaptation Plan (NAP) 2017-2020 (which establishes adaptation planning at regional and federal levels), mentions climate change projections and briefly explains what sectors will experience the largest impacts. NBB also uses a risk dashboard and heatmaps 2018 for visualising the information on financial

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[104] As per the SFDR, (art 2(22)), 'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.
[105] See https://khattabi.belgium.be/fr/cr%C3%A9ation-d%E2%80%99un-ocam-du-climat
[106] Guidehouse (2021)
[107] See 2019 Financial Stability Report Thematic Article on *Climate-related risks and sustainable finance Results and conclusions from a sector survey* (NBB 2019)

stability risks in Belgium.[108] Building on these current practices, this policy option could enhance effective communication of the link between sustainability risks assessment and climate change adaptation and mitigation efforts. The Climate risks webinar series by the Climate Change Committee (UK) offers an example of a capacity-building strategy focused on climate risks that are easily accessible to many actors at any time and could be replicated.

- **Recommending (or prescribing) the use of specific guidance and tools to assess and disclose sustainability risks.** The guidance provided by the TCFD was suggested as a key source by several stakeholders to contribute to the alignment of current practices and methodologies to assess climate risks. The approach of recommending specific standards has proved to contribute to alignment in the use of risk assessment frameworks.[109] The EY-Climate Risk Disclosure Barometer can serve as a starting point to tackle the main gaps associated with the application of TCFD in Belgium.[110] Similarly, the ECB templates[111] could be referred to as the preferred framework for climate risk stress tests. Regarding the obligatory nature of this measure, some stakeholders favour the definition of a standard (e.g., TCFD) by legislative means and its application and control, presuming that the needed resources to control how the legislation is implemented are available. On this point, the Federal Government would need to assess whether such an action (prescribing the use of specific tools by law) and subsequent monitoring is realistic, following the steps taken by other countries[112], including some EU Member States.[113] We note that given that actors are increasingly pushed towards the application of the TCFD[114] , it will likely gradually become the standard, rendering a legislative intervention unnecessary.

- **Clarify how components of the EU sustainable finance framework guide sustainability risks assessment and disclosure at the EU level and in Belgium.** Based on the stakeholder consultation activities conducted under this study, it is not clear to all stakeholders how EU SF current and upcoming regulations are directly improving sustainability risk assessment and disclosure (notably climate risks). Therefore, it should be communicated that the CSRD reporting requirements are expected to increase data availability, which would improve climate risk identification and monitoring. In addition, the SFDR includes disclosure of sustainability risks at the entity level and product-level, and due diligence policies, which would lead to more accurate risk identification and monitoring. In addition, it should also be taken into account that for some sectors (e.g., insurance) the EU regulator has taken measures and provided guidance to companies to take into account sustainability risks at several levels.

[108]The NBB's risk dashboard keeps track of the level and evolution of risks for the Belgian financial system and provide a basis for a more in-depth risk assessment (NBB 2019)
[109] A TCFD consortium was set up in Japan in 2019. It aimed to create a platform for discussions about corporate disclosure of climate-related information and its use by financial institutions. Since its establishment, the number of companies supporting TCFD in Japan has risen quickly (in 1 year from around 200 to 500) (IPSF 2021)
[110] Belgian companies within 10 sectors were scored on their climate related disclosures. The Real estate sector has the highest scores in terms of coverage and quality of the disclosure (EY 2020)
[111] ECB made available templates for banks to submit the climate risk stress tests (ECB 2022)
[112] UK, Switzerland and New Zealand are examples of countries set to introduce the TCFD mandate in 2024 and 2025 respectively. Other non-EU nations with upcoming TCFD proposals are the USA, Canada, and Japan. See, for instance New Zealand Ministry for the Environment, *Mandatory climate-related financial disclosures*, 2021 (IRIS Carbon, 2022) (Guide house 2021)
[113] In Germany, stakeholders call for reporting along the lines of the TCFD recommendations to be required by law, according to the results of a survey conducted by the German Environment Agency. In 2020, the Sustainable Finance Committee of the German Government recommended that "the German government should introduce a statutory regulation requiring all listed companies in Germany to apply the TCFD recommendations" (Loew, T. et al, 2021)
[114] For example, Signatories to the Principles for Responsible Investment (PRI) have been required to report in accordance with TCFD since 2020 and the investment company BlackRock requires the companies in which it is invested to "report on climate-related risks in accordance with the recommendations of the TCFD" (Loew, T. et al 2021)

- **Encourage the use of tools that facilitate sustainability risk assessment, monitoring, and disclosure (including scenario analysis) in Belgium, and improve the understanding of the differences between the existing tools**. Encouraging the use of tools will facilitate stakeholders' access to relevant information and assessment of sustainability risks. These should reference relevant international best practices and standards. For the selection of sustainability risk metrics to consider for quantitative disclosures, the EBA recommends a sequential approach, with an initial focus on climate change. Accordingly, the project team suggest the Federal Government opt for starting a first phase (on the short-term) with a focus on encouraging the use of tools for the assessment of climate risks; and at a later point and using the lessons learned from this first phase, building capacity for assessing other environmental, social, and governance risks. In the case of climate risks, priority should be given to tools that are currently best known and used by Belgian stakeholders, and are open source to ensure higher accessibility. [115] The Diagnostic Analysis (DLV3) conducted as part of this study showed the main tools used in Belgium are Science-based targets (SBT), PACTA, and C4 Carbon Impact Analytics. Next to costs for users, there are differences between these tools (in terms of the types of risks and sectors covered, outcomes, among others), therefore, the capacity-building actions under this policy option should seek to improve the understanding of these differences. Box 8 presents some of the key differences extracted from the outcome of the analysis presented in DLV3. As pointed out by a stakeholder during the consultation, depending on their business model, financial institutions may also use other assessment support tools (different to those mentioned here). The target groups for which building capacity on the use of these risk-assessment tools is important are stakeholders with potentially fewer resources to undertake high-level climate (and broader sustainability) risk analysis such as SMEs. The Federal Government could therefore consider supporting the development of sustainability risk assessment support tools tailored to these groups such as the Dutch Entrepreneurial Development Bank (FMO) ESG Toolkit.[116] The selection of the sectors and actors to be prioritised should be based on the TCFD and CDP recommendations of high-impact sectors[117] and the selection of questions to assess physical and transitional risks should consider the results of the NBB sector survey on climate-related risks and sustainable finance included in the 2019 Financial Stability Report.[118]

Box 8 Examples of ESG risks assessment support tools (with a focus on climate risks)

A range of climate-related methods and metrics are available to financial institutions on the topic of transition and physical risks. A full overview of current climate-related financial risk assessment methodologies is available in a report by UNEP-FI, published in April 2021. In addition, TCFD (2020) provides a comprehensive sample of selected services, tools, and data available commercially or as open source. The Diagnostic Analysis (DLV3) conducted as part of this study showed that, in terms of ESG tools to inform scenario analysis used by Belgian actors, the main tools are Science-based targets, PACTA, and C4 Carbon Impact Analytics.

[115] Some open-source tools and data may have licensing restrictions. Users should review any relevant restrictions before selecting an approach (TCFD 2020)
[116] FMO has developed two tools to support its clients in terms of ESG risk management targeted at private equity investment funds and microfinance institutions and SME banks (FMO n.d.)
[117] The TCFD identified the industries within four sectors (energy, transportation, materials and building and agriculture, food, and forest products) that have significant exposure to transition or physical risks. See Box 2 in the TCFD Final Report. Similarly, CDP follows a sector approach incorporating in the questionnaire sector-specific questions for 16 sectors identified as high-impact sectors considering climate change risks (CDP 2022).
[118] For instance, in Belgium physical risks are associated with the potential for changes in temperature levels, more extreme weather conditions potentially leading to water shortages and increases in sea levels (NBB 2019)

Table 4 Overview of selected scenario tools available for the transition in Belgium based on (UNEP-FI, 2021), TCFD(2020)

Tool / Provider	Outputs	Climate risks covered	Asset classes	Sectors covered
Science-Based Targets initiative (SBTi)	Defined pathways specifying how much and how quickly a company needs to reduce its GHG emissions	Transition	Equity, corporate bonds, corporate loans, electricity generation project finance, mortgages, real estate (SBTi, n.d.)	Apparel, Chemicals and Petrochemicals, Financial Institutions, Oil and Gas, Transport, Power Sector, Forest, Land and Agriculture, and ICT
Paris Agreement Capital Transition Assessment Tool (PACTA) 2° Investing Initiative (2dii)	Breakdown of portfolio exposure to low-carbon technology and graphs that show the alignment of technologies in the portfolio to different emissions scenarios.	Technology risks: Exposure to low-carbon and high-carbon activities across the fossil fuel, power, and automotive sectors	Equity, corporate bonds, corporate loans	Focus on fossil fuel, power, and automotive (carbon-intensive) sectors
Carbone 4 (C4)	Measuring and comparing the contribution of financial assets and portfolios to the low-carbon economy	Physical: Temperature rise, heat waves, drought, heavy rainfall events, sea level rise, extreme storm events	Equity, corporate bonds, government bonds, corporate loans, project loans, mortgages, real estate/real assets	All business sectors captured within 60 different "sectoral vulnerability profiles."

- **Serve as a platform to exchange knowledge products (e.g., publications, sources of information), as well as good practices and lessons learnt** about sustainability risk assessment, monitoring, and disclosure in Belgium. This will allow the Belgian financial sector to have a single vision of sustainability risks that is in line with the SF vision of the Federal Government. For example, this platform should improve the dissemination of relevant and applicable publications such as the EBA report on management and supervision of sustainability risks for credit institutions and investment firms (incl. common definitions of sustainability/ESG risks, their transmission channels, and evaluation methods);[119] and the EBA technical standards (ITS) on Pillar 3 disclosures on ESG) risks.[120] The channel of dissemination and exchange can be a website with a dedicated section containing links to selected sources of information.

Governance: In terms of governance, the participation of the financial sector, the Federal Government, the NBB, and academic /research actors were favoured in the survey. In line with the suggestions provided by stakeholders, we recommend considering the creation of a Sustainability Risks Workgroup within the TSF which would be responsible for the governance of this policy option to be able to address sustainability risks from an interdisciplinary (and multilevel) perspective (i.e., from the financial but also technical expertise point of view. Accordingly, we suggest this policy option involve the Financial Advisory Board, particularly the NBB & FSMA, in addition to the Main Board. Representatives of larger private financial institutions (e.g., ING, BNP Paribas, etc,.) should be involved via a dedicated roundtable, together with experts and academics familiar with both the EU sustainable finance framework and sustainability risk frameworks and standards. E.g., the Climate Risks Working Group [121] led by DNB in the Netherlands could serve as a reference for this policy option. The mandate of the Sustainability Risks workgroup in Belgium, however, would be broader than climate risks and cover sustainability risks more extensively. It could be that eventually, several subgroups could work in further detail on more specific risks (for example, climate or biodiversity risks).

[119] EBA (2021)
[120] These ITS aim to specify disclosure requirements in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profile of institutions. (EBA 2022)
[121]The Central Bank of the Netherlands (DNB) set up in 2017 the Climate Risks Working Group. The working group is currently consists of ABN AMRO, APG, ASN, ING, Kempen, MN, PGGM, Rabobank and Robeco. (DNB n.d.)

Timeframe: Regarding the implementation timeline of this policy option, the project team recommends the Federal Government use a sequential approach starting with a focus on climate risks in the short term. In the survey [Q57], most respondents indicated this policy option should be implemented in the short term and selected different actors as appropriate for the governance of this policy option [Q58]. A few stakeholders, think that this policy option “may be unnecessary given that climate change/ESG risks is already very high on the EU agenda”.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: the Sustainability Risks Workgroup and dedicated roundtables will allow the Belgian financial sector to have a single vision of sustainability risks, and thus correctly anticipate and address the most relevant in a coordinated manner.
- **Potential risks** from a political, technical and/or legal feasibility perspective: for the effective implementation of this policy option both the political level, via the Workgroup and the private sector, via the roundtables, need to allocate financial and human resources. The greatest risk of this policy option is that the stakeholders involved do not allocate the required resources to participate actively. Some stakeholders pointed out timing-related risks, as EU authorities such as EIOPA are working towards similar objectives for specific sectors (i.e., the insurance sector), and it is unclear whether it is feasible to do this (more speedily) at national level.
- **Impact on stakeholders:** the resource burden for stakeholders is considered high, as several stakeholders will be very much involved in the implementation of this policy option.

3.4 Promoting platforms with pre-screened sustainable investment projects which are shovel-ready to be picked up by the financial sector

Objectives, governance and timeframe

The objective of this policy option is to promote platforms that contain sustainable investment[122] projects, so investors can select sustainable investments more easily. The key recommendations are that the Federal Government could promote existing platforms to investors by using its network (e.g., through Febelfin), and could become a shareholder in one of the platforms (e.g., through SFPIM).

The identification of sustainable investment projects could be challenging for public and private investors. Therefore, this policy option aims to support investors to screen and select sustainable investments more easily. The following elements should be considered for the platforms/databases:

- Participation should be **voluntary.**
- The databases should be **non-exhaustive:** If this pre-screened framework means that all not-included projects are rejected once and for all, then the system might appear too rigid.
- The database should **bring companies and financing institutions together.**
- Several existing platforms could serve the purpose of show-casing pre-screened investment projects and linking companies and investors. The focus should be on **increasing the link with**

[122] As defined by the SFDR, (art 2(17)) ‘sustainable investment’ means an investment in an economic activity that contributes to an environmental objective,(…) or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”. See Regulation (EU) 2019/2088

the sustainability of the investments. See Box 9 below for a non-exhaustive overview of platforms in Belgium and how they could be scaled up and/or linked to sustainable investments.

- There could be an **enabling role for the Federal Government** to **finance/subsidise** platforms to increase the link with sustainable investments. The Netherlands' Enterprise Agency (RVO) had its own subsidy and financing tool[123] in which financing institutions can find projects and investees can find investors by filtering the types of objectives (e.g., energy savings, circular entrepreneurship) and select sectors (agriculture, chemicals, service industry).

Next to the points above, the platforms/databases could include the necessary data (i.e., at project level) to determine the attractiveness of the projects to e.g., investors and insurers. For example, information on whether the projects listed have a sufficient scale and dimension for institutional investors or whether a risk profile is readily available to be picked up by insurers. From this information, it will also become clear what investments have lower financial performance and thus may require additional government support.

Box 9 Overview of 'matchmaking' platforms in Belgium and abroad

CDP Matchmaking Forum
The CDP Matchmaker Platform is a global CDP initiative that helps cities connect with institutional investors and international public finance institutions. Cities can showcase their urban climate infrastructure projects to capital markets and build capacity to advance socially equitable climate change mitigation, adaptation and resilience projects (e.g., flood control, waste management, sustainable transportation, renewable energy, water management, and energy efficiency). The platform is free for local governments to participate in. Matchmaker provides information on climate resilient infrastructure projects worldwide, derived from the CDP Cities disclosure platform and their partners. In Italy, the CDP developed a matchmaker tool together with the MFA which uses a 'matchmaking' algorithm to encourage the development of business relations between Italian and foreign companies based on their respective characteristics and requirements. Such a tool could be developed at the Belgian level with a strong focus on sustainable projects.

Belfius Bizzmaker
A tool developed by Belfius to match investors or take-overs of companies. This tool could be linked to sustainable investments explicitly, whereby investors can purchase shares in companies with sustainable products and business processes.

Trividend
An initiative to provide finance to circular and inclusive social enterprises in Flanders. Shareholders consist of the financial sector (banks and insurance companies), civil society and the Flemish government. The investments are relatively small (EUR 8.86 million historical investments; EUR 3.35 million current portfolio), but this could serve the purpose of providing finance to SMEs.[124]

Solifin
Association of institutional financial actors in Belgium (banks, public and private funds, credit institutions, crowdfunding and foundations), which provides matchmaking session between investees and investees. Solifin is focused exclusively on impact investing for micro, small and medium scale projects ranging from EUR 2,500 and EUR 20,000,000.

Although the stakeholder consultations clearly point out there is no need to develop a new platform, the government should rather look at the existing ones, there is a risk that the existing platforms are too small in scale for larger investors with an international scope. Therefore, we also recommend that the Federal Government creates awareness to investors about the **InvestEU Portal** and consults investors on the usability and effectiveness of the platform in finding suitable projects (see below).

[123] RVO (2021) Subsidie- en financieringswijzer
[124] Trividend (2021) Impact Report

Box 10 the invest EU portal

Invest EU portal[125]
This EU platform brings together investors and project promoters on a single EU-wide platform, by providing a database for investment opportunities available within the EU. It contains pre-checked qualified projects. Investors can screen the database themselves, or in some cases the EC may transmit the projects directly to financial institutions such as the National Promotional Banks. SFPIM could thus notify the EC they would like to obtain direct information on project publications. The portal makes a specific distinction between infrastructure and innovation projects, as well as start-up and SME projects. **Investment opportunities lay in areas such as energy efficiency, transport, healthcare, renewable energy**

Governance: Our policy recommendation would be for the Federal Government to take the lead in communicating to investors about the link with sustainable investment projects in existing matchmaking platforms. At the Belgian level, Trividend and Solifin already provide good practice examples. Regarding policy instruments, the government could consider becoming a shareholder in one of these platforms (e.g., through SFPIM, considering its ‘impact investment pillar’ and sustainability as transversal investment theme). Besides the economic instruments, the Federal Government could promote these platforms through their networks (e.g., through Febelfin).

Timeframe: In the survey feedback, we found diverging opinions on the need and urgency of the development of such a database: one third of the respondents mention this should be implemented in the short-term, one third in the medium-term and one third in the long-term. In the open answers, respondents provided insights into the principles and conditions of such a database. Since several platforms already exist, stakeholders agreed it should not be the priority to develop a new platform, but rather to raise awareness about the existing ones.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness**: better operational and better promoted matchmaking platforms will ensure that the demand for sustainable assets is linked to the supply.
- **Potential risks** from a technical perspective consist of the lack of a monitoring mechanism of what can be considered as a sustainable project ex-ante.
- **Impact on stakeholders:** this policy option will target financial market participants from the demand and the supply slide to finance sustainable projects. The resource burden is considered low, because several usable platforms are already up and running.

[125] InvestEU Portal (n.d.) The EU Matchmaking Portal

4 Conclusions and Recommendations

Building on the momentum for sustainable finance, the Federal Government aims to develop and implement a Belgian Strategy for Sustainable Finance. This policy options report (DLV5) provides insights and constructive elements into the main policy interventions for policy makers to consider for a Strategy and possibly an Action Plan, based primarily on the inputs provided by stakeholders in the course of consultation activities, on an extended literature review and an expert assessment of the results.

To address the main difficulties preventing the mainstreaming of sustainable finance by private financial actors in Belgium identified in the previous Policy gaps report (DLV 4), the following policy option areas were explored: (1) Policy options to develop a clear long-term sustainable finance framework; (2) Policy options to increase the use of ESG disclosure frameworks, including enhancing the availability and quality ESG data; and (3) Policy options to build ESG capacity. These three policy areas address all identified difficulties by targeting specifically a set of twelve policy options, which vary in terms of the perceived importance for decision-makers and stakeholders, urgency, as well as potential constraints for their implementation.

This chapter presents our recommendations on key aspects to be considered for each policy area and policy option. These key aspects should guide the preparation of the strategy, by integrating the previous assessments, the material provided across the different options, and the proposal of activities, governance and timeframe. To this end, this chapter is structured as follows: Section 4.1 summarises the proposed policy intervention areas, related policy options and key recommendations, while Section 4.2 presents a summary table with concrete activities and timeframe for each policy option.

4.1 Summary of the policy intervention areas

Policy area 1: Policy options to develop a clear long-term sustainable finance policy framework

To contribute to **developing a clear long-term sustainable finance framework**, the main takeaways can be summarised as follow: (1) a clear and recognised governance structure is critical, and would be delivered most efficiently by being mainstreamed in the existing institutional context while establishing simple and straight connections between the relevant actors; (2) the establishment of the Ambition Statement is necessary to provide a clear direction to market participants and stakeholders, and align sustainable finance priorities; (3) communicating the sectoral pathways is key to orientating financial flows, although their establishment should not prevent actions to be taken to build the sustainable finance framework; (4) financial instruments are being developed by market participants, and no direct intervention is required, although ensuring that there is an enabling framework to overcome possible barriers needs to be considered; and (5) developing a list of harmful activities is a crucial step to ensure the appropriate signal is given to market participants regarding their divestment approaches, considering the options from developing an exclusion list, from voluntary disclosure to mandatory disclosure.

The main objective of the policy options under this area is to provide clarity to all actors on the intentions of the Belgian government on meeting the 2030 and 2050 goals, as identified through the SDGs and environmental objectives, including the Paris Agreement, more precisely with regard to the topic of sustainable finance. This objective follows from the lack of a clear-long term policy framework for Belgium to avoid investments harmful to the environment and to identify and prioritise investments needed to move towards sustainability goals. A gradual pathway for implementation of the government's goals should be communicated clearly to all actors. The policy options should also indicate and enforce the direction to divest from harmful activities, as a complementary pillar to making finance more sustainable and to financing sustainable activities, considering there is no option to invest sustainably if there is no divestment from the worst performing investees. The creation of an enabling environment for the emergence and development of innovative sustainable finance instruments plays an important role for the development of a clear long-term sustainable finance framework.

After validation with stakeholders, we recommend considering integrating the following policy options into a Sustainable Finance Strategy:

- Strengthen the existing governance structure to ensure that long-term sustainable finance is sustained across legislative mandates:
  - It is the most urgent task to clarify the governance structure, tackle all the challenges, and ensure the appropriate coordination among all stakeholders;
  - The Strategy should ideally identify and clarify the priority actions according to the recommendations provided for each policy option, to give a clear mandate to the Taskforce Sustainable Finance, and establish the required workgroups as these workgroups would be established for each policy option separately (the establishment of the workgroups should come from a clear political mandate);
  - The proposed structure is the simplest to achieve the goals within the existing Belgian framework, and should be considered evolutionary, especially regarding the implication of stakeholders (e.g. working via dedicated roundtables in a first instance to complement the work done by workgroups, and then later on establishing a more structured way to interact with the stakeholders, probably with the most concerned parties like frontrunners & businesses);
- Developing a Sustainable Finance Ambition Statement for Belgium, including a timeline with targets and milestones for financial institutions and businesses to mainstream sustainability:
  - The Statement should be the starting point of the Strategy, building on what has been the driving force for this report (i.e. Ministers of Finance and Sustainable Development communication), but also recalling the ambition on the long-term sustainability policy agenda, including intermediate targets and timeline.
  - Alternatively, if no rapid consensus can be found regarding the long-term sustainability policy agenda communication, the Statement should simply make clear what would be the next steps to achieve this long-term agenda, to avoid jeopardising the entire process to set up the Strategy. However, this is not the preferred option, as several stakeholders consider this to be a critical element that is currently missing.
- Communicating clear sectoral pathways to guide the financial sector in Belgium towards sustainable investments in line with EU targets:
  - Communicating the sectoral pathways needs to focus on priorities, such as climate targets. This work is ongoing via the Climate Roundtables launched by the Minister of Climate in

September 2022[126]. To avoid duplication of efforts, we recommend building on the work done in these Climate Roundtables, while ensuring the outcomes are communicated to all financial market participants, and all stakeholders concerned by ESG reporting. Improving the communication of the needed investments is a must;
  - The Workgroup to be established with the TSF should propose an agenda for communicating the next sectoral pathways, as soon as possible. This could lead to political discussions about deciding on the priorities, and assessing the goals, metrics, targets, milestones, and investment needs.
- Enabling the use of financial instruments that support sustainable investments:
  - This is probably a less critical policy option, even though it remains key to continuously address the potential barriers to innovative sustainable finance instruments. Hence, we recommend establishing a type of watchdog scheme, to analyse issues raised by stakeholders, and address them in the frame of the TSF.
- Developing a list of harmful activities to guide public and private investments:
  - This policy option is of paramount importance and should be addressed as a priority, despite the possible difficulties to implement it entirely;
  - We recommend establishing a common list of harmful activities that could be used directly for the federal public vehicles (state-owned), and serve as a reference for the private and any other market players; Market participants should be encouraged to make use of the list;
  - Disclosure of harmful activities should ideally become mandatory as soon as possible, but could be preceded by a voluntary phase where each actor would have the choice to disclose or not (based upon the common list, or on its own list). Mandatory disclosure could then enter into force, but then an alignment with the common list should be foreseen (for those having developed their own list).

Policy area 2: Policy options to increase the use of ESG disclosure frameworks, including enhancing the availability and quality ESG data.

To contribute to **increasing the use of ESG disclosure frameworks, including enhancing the availability and quality of ESG data**, the main takeaways can be summarised as follows: (1) improving the access to and usability of EPCs remains very urgent (regarding climate monitoring and risks), but will require political will to ensure there is a common understanding of the challenges and an appropriate collaboration between the Federal and Regional entities, to avoid working with proxies that will, later on, create incomparability issues; (2) improving the current content and scope of ESG disclosure by defining a limited set of integrated, well-designed, and comparable KPIs should be addressed as soon as possible, in light of the various EU requirements and to build an appropriate capacity building approach, even though this will probably require some political debates regarding priorities; (3) making ESG data publicly available is of paramount importance, although creating a central data hub at Belgian level may not be the most urgent option, given the current development at EU level (i.e. ESAP), and the existing (private) tools. **After validation with stakeholders, we recommend integrating the following policy options into a Sustainable Finance Strategy:**

[126] These climate roundtables have been launched on Sept 21, 2022, by the federal Minister in charge of Climate. See https://www.rtbf.be/article/lancement-des-tables-rondes-pour-le-climat-11071171

- Improving the access to and usability of Energy Performance Certificates (EPCs) building on the information available already at the national and regional level:
  - This is a crucial policy recommendation, and should be addressed as a priority, even though the challenge will be high to solve at least the issues of EPC availability & accessibility for the concerned building stock;
  - The engagement of the concerned stakeholders (finance and real estate) is a crucial success factor, as they are also directly addressing all their concerns with the regional authorities. Hence, ensuring they consider this as a priority would certainly help;
  - We recommend verifying with the three regions whether they would be open to work on the difficulties regarding EPCs ahead of the elaboration of the SF strategy (an agreement on the principle should be enough).
- Improvement of the current content and scope of sustainable finance disclosure, reporting and monitoring in Belgium:
  - Aligning companies with the same metrics is important to ensure coherent and comparable disclosure. It also emphasises the priorities and provides a simplified reporting framework for companies lacking resources to deal with more advanced ESG reporting (mainly SMEs). Therefore, this option should ideally be considered a priority;
  - It can entail some political discussions regarding the priorities. Therefore, we recommend coupling these efforts to the Ambition Statement, to rationalise and avoid duplicating the work.
- Creation of a central data hub which is publicly available to ensure that the data is available for all, and to avoid data competition between financial market participants:
  - At this stage, it is not entirely clear whether this should be concretely addressed at the Belgium level, given the many uncertainties, and work ongoing at EU (incl. ESAP) and internationally;
  - A decision to develop such a central data hub should be made on a limited set of KPIs (which should be fixed beforehand), and should be backstopped by a strong willingness to impose the system, providing all needed efforts and resources. Such a datahub could replace existing private systems, and it should be introduced to companies (incl. SMEs), to ensure its use;
  - The hub should provide information on the requested mandatory indicators of the EU Taxonomy, SFDR and CSRD and collective templates. The control of data should be at the core of the concept of a central datahub, and should ideally be aligned with the international agenda regarding ESG metric standards development, and possibly the role of company auditors.

Policy area 3: Policy options to build ESG capacity

To contribute to **building ESG capacity**, the main takeaways can be summarised as follows: (1) setting up a helpdesk to assist financial market participants to understand how to integrate ESG aspects in investment needs and why reporting obligations are highly needed, requires efforts to establish its organisation, engage experts and develop its content; (2) technical assistance programmes for SMEs are needed to integrating sustainability in their core activity, rather than adding workload with reporting requirements (i.e. making reporting obligations useful). A prerequisite for SMEs reporting on ESG is the identification of priority KPIs; (3) improving the understanding of sustainability risks is essential, by providing support and advice regarding the use of existing tools; (4) promoting platforms that contain pre-screened sustainable investment projects may be useful to facilitate the uptake but is probably not a priority. **After validation with stakeholders, we recommend integrating the following policy option into a Sustainable Finance Strategy:**

- Setting up a helpdesk to provide financial market participants with a basic understanding of ESG gaps, investment needs and reporting obligations, and to answer tailored questions related to unpacking the EU sustainable finance regulatory framework:
  - This option is crucial to build the required expertise in an evolutionary manner, as the regulatory framework is still under development. Given the high risk of misleading communication on the topic, and the effective lack of knowledge and expertise, such a helpdesk appears to be necessary, even though it will require a lot of effort (e.g., defining the precise needs and expectations of undertakings while they all have different understanding and knowledge about the ESG topics will be quite challenging);
  - There is no real alternative to establishing and operating such a helpdesk, but only a progressive way to build its structure and content, to make it efficient. It is also crucial to bring some high-level experts around the table, such as academics, to support setting up such a helpdesk;
  - The helpdesk, beyond the general aspects concerning the different regulatory frameworks, should also focus on the limited set of KPIs addressed above, to build the required expertise.
- Developing technical assistance programmes for SMEs that could help bring the necessary knowledge tailored to specific actors.
  - Assisting SMEs would only make sense with concrete and practical cases, hence with a clear set of KPIs to report on, otherwise, the risk is high that such programmes remain highly conceptual and burdensome for most SMEs;
  - Having some frontrunners to support designing the programmes is needed, but the real challenge will be to consult non-frontrunner SMEs willing to express their concerns, difficulties and needs to prepare their ESG reporting.
- Improving the understanding and assessment of environmental and social risks (notably climate risks) within the financial sector
  - The fact that a common understanding of sustainability risks is lacking, as well as comparable methodologies and data, leads to the conclusion that there is a need to build a common understanding, but also to provide advice regarding the tools and methodologies. Hence, a Workgroup to respond or act against these gaps should be established, fix the priority topics (climate should be the first, see below), but also the precise scope of what needs to be clarified, supported, recommended, communicated, or developed;
  - This workgroup should work on climate risks, and directly rely on the Climate OCAM.
- Promoting platforms with pre-screened sustainable investment projects which are shovel-ready to be picked up by the financial sector:
  - It has still to be demonstrated that this policy option is necessary at this stage. An option could be to leave it to stakeholders convinced of its necessity to develop a concrete proposal, according to the assessment made in this report.

4.2 Summary of the policy options, concrete activities & timeline proposal

This section summarises the main elements of each policy option, including their objective, concrete initial activities, governance implications, a timeframe proposal, and a summary of the perceived effectiveness, main risks and impacts on stakeholders.

Policy options to develop a clear long-term sustainable finance policy framework

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
1.1 Strengthen the existing governance structure to ensure a long-term sustainable finance sustained across legislative mandates.	Efficient communication and coordination	• Confirm/strengthen TSF mandate, with 3 Boards; • Validate membership; • Establish operational framework (functions, workgroups, roundtables); • Establish collaboration frameworks		• Fully operational on the short term (incl. 4-8 FTE); • Develop further partnerships with stakeholders on the mid term[127]	• Governance is essential, to implement the SF strategy and coordinate EU action; • The approach is built on the existing framework, is as light as possible, and evolutionary , while bringing on board the critical players.
1.2 Developing a Sustainable Finance Ambition Statement for Belgium, including a timeline with targets and milestones for financial institutions and businesses to mainstream sustainability.	Long-term direction with clear targets, to orient ESG capital mobilisation priorities, and fix disclosure goals	• Draft the Statement; • Have it validated by the Government	• Directly with FIDO/IFDD; • Consult FSMA, NBB, a few core stakeholders	Before the publication of the Strategy	• It is critical to set a direction towards sustainable priorities; • The greatest risk is that an agreement on such a common ambition and principles is not reached, which would postpone communicating the direction to follow • The resource burden for the TSF depends on the political process. •
1.3 Communicating clear sectoral pathways to guide the financial sector in Belgium towards sustainable investments in line with EU targets	Communicate sectoral pathways, to reorientate financial flows	• Developing sectoral pathways communication; • Communicating sectoral pathways (incl. investment needs);	• Establish a workgroup (concerned administrations + Policy Board) to set targets and decide priorities;	According to priority: climate on the short term, after the governance has been set up, etc.	• Allows Belgian actors to understand and translate sectoral pathways into sustainable investments; • Risks of placing an excessive burden on the

[127] Definitions used in the questionnaires and report for timeframe: short-term (<2 years), medium-term (2-5 years), long term (>5 years).

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
			• Run Roundtable to consult stakeholders		stakeholders involved (solved by setting priorities); • time commitment of the different stakeholder groups via roundtables.
1.4 Enabling the use of financial instruments that support sustainable investments	Remove barriers to ESG financial instruments or take measures to stimulate their development.	• Develop & implement a concrete action plan, deciding on priorities, to continue or start new actions; • Establish permanent track record of other policy areas influencing ESG financial instruments.	• Establish a workgroup (concerned administrations + Financial Board); • Run Roundtable to consult financial stakeholders	Develop a concrete action plan based on a preliminary diagnostic on the mid to long term;	• this option is not the most urgent, nor the most critical; • Effectiveness is driven by the identification of priorities (action plan) and the continuous track record; • Mainly seek to support efforts already initiated by the private sector; • Low resource burden.
1.5 Developing a list of harmful activities to guide public and private investments	Incentivise divestment from harmful activities, via an exclusion list and disclosure on harmful activities	• Establish & publish • the list with excluded and harmful activities; • Establish rules for disclosure of harmful activities, either voluntary or mandatory	• Establish a workgroup (concerned administrations + Financial & Policy Boards) to establish the list of excluded and harmful activities; • Run Roundtable to consult financial stakeholders	Establish the lists on the short term, based on priorities (e.g. climate);	• It is crucial, as the current Taxonomy is geared towards what is sustainable, rather than what is harmful, leaving a gap to divestment in harmful activities; • Stakeholders fear that such a list is not in line with the EU framework; • mandatory disclosure may negatively influence the competitiveness of market participants; • could add a higher level of complexity to the reporting.

Policy options to increase the use of ESG disclosure frameworks, including enhancing the availability and quality ESG data

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
2.1 Improving the access to and usability of Energy Performance Certificates (EPCs) building on the information available already at national and regional level	Improve access & usability of EPCs to help market participants reporting on their client's carbon footprint	Establish a workgroup with a clear action plan to assess the possible adaptations of the regional frameworks regarding EPC availability, accessibility and comparability.	• Establish a workgroup (concerned administrations including regions + Financial Board); • Run Roundtable to consult financial stakeholders	• Urgent, launch workgroup on the very short term • Move to ENOVER/CONCERE on the short to mid term	• Climate risk exposure is high for real estate, hence crucial to get the right footprint; • EPCs and buildings fall under the competence of the regions, imposing strong coordination between 4 entities, with important changes (all topics will not be addressed at the same pace); • Political risk to change the loan/mortgage paradigm by providing EPCs to banks, risks to refrain to change; • Alternatives are not easier to generate.
2.2 Improvement of the current content and scope of sustainable finance disclosure, reporting and monitoring in Belgium	Improve the current content and scope of ESG disclosure by defining a limited set of integrated, well-designed, and comparable KPIs.	• Develop the set of sector-agnostic KPIs; • Complementing sector agnostic KPIs with sector-specific KPIs; • Encourage SMEs to use the KPIs; • Assess the opportunity to impose its use (requires legal framework)	• Establish a workgroup (concerned administrations + Financial & Policy Boards); • Run Roundtable to consult all stakeholders.	• Develop a draft set of KPI on the short to mid term; • Consult stakeholders, to validate the set of KPIs on the short to mid term.	• It would harmonise sustainability reporting, improving quality information; • A set of core KPIs requires the political decision on the priorities for disclosure; • High resource burden for stakeholders (will be requested to disclose additional KPIs); • Assurance and monitoring of disclosed KPIs would increase burden.

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
2.3 Creation of a central data hub which is publicly available to ensure that the data is available for all, and to avoid data competition between financial market participants.	Avoid data competition between data users, through making ESG data made publicly available through a central hub.	• Establish a workgroup with the aim of designing the central datahub (mainly deciding the KPIs and Metrics based on option 2.3 outcome); • On the basis of the design, develop a pilot of the central datahub, together with the financial sector; • After a successful demonstration phase, develop the ToRs, and launch the development of a complete datahub.	Establish a workgroup (concerned administrations + Financial Board); Run Roundtable to consult investors and investees representatives.	Agree on the list of KPIs to decide whether such datahub should be developed (start on the short term);	• More ESG reporting could lead to a better image of the transitional and physical risks, and the data hub could build capacity to monitor and control; • major risk : companies not using the database; • Challenges expected to develop (IT) & operate (data not comparable) the database (risks mitigated by right expertise & focusing on critical KPIs).

Policy options to build ESG capacity

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
3.1 Setting up an ESG helpdesk to provide financial market participants with a basic understanding of ESG gaps, investment needs and reporting obligations, and to answer tailored questions related to unpacking the EU sustainable finance regulatory framework.	To assist financial market participants in understanding how to integrate ESG aspects in investment needs and reporting obligations, particularly targeted at requirements stemming from the EU sustainable finance regulatory framework.	• Design the helpdesk (assessing the possibility to rely on the DNSH centre, purpose, organisation, priorities, targeted stakeholders, partner(s), action plan, hiring staff); • Establish (or confirm) the helpdesk, with a concrete action plan;	• Establish a workgroup (concerned administrations + Financial & Policy Boards) to design the helpdesk; • Run Roundtable to consult stakeholders able to provide support/training, and stakeholders requiring capacity building.	• Design helpdesk with a clear action plan on the short term; • Establish / confirm the helpdesk and start implementing action plan on the mid term	• Basic understanding of EU SF framework and ESG gaps and investment needs, and reporting obligations can be realised; • Give guidance to organisations tailored to specific needs and interest;

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
		• Implement the action plan comprising among others the following actions: (1) Enhance the role of experts, academics and other training providers; (2) build capacity for making sustainable investment need data more operational; (3) recommend the use of specific EU guidelines by type of actor for both mandatory and voluntary disclosure; (4) use of financial incentives for the private sector that could help increase ESG capacity; (5) raise awareness about the risks of using data by ESG rating providers.			• A general feasibility risk is that the helpdesk would add a layer to the initiatives already existing • Resource burden for stakeholders is considered substantial, as capacity building asks important involvement
3.2 Developing technical assistance programmes for SMEs that could help bring the necessary knowledge tailored to specific actors.	Building necessary knowledge tailored to SME actors to assist in gaining an understanding of and engaging in sustainable finance.	• Design the technical assistance programme (aim, activities and content, targeted stakeholders, partner(s)); • Implement the programmes (coordination by the helpdesk or by the Taskforce Sustainable Finance);	• Establish a workgroup (concerned administrations + Financial Board) to design the programme; • Run Roundtable to consult stakeholders able to provide support/training, and umbrella organisations & SMEs representatives to develop the content	Design assistance programme on the short to mid term;	• Essential to ensure SMEs have a good understanding of the reporting obligations and initiatives • Success factor: good cooperation between SMEs and those developing the technical assistance programmes • Consider specific needs of SMEs;

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
					• High risk: programmes, despite efforts focused on geographical and sectoral particularities, would not suffice in meeting the demands of every individual SME, depending on willingness to participate; • Resource burden for the development of technical assistance programmes for SMEs is expected to be substantial.
3.3 Improving the understanding and assessment of environmental and social risks (notably climate risks) within the financial sector	Improve the understanding and assessment of environmental and social risks within the financial sector, starting with a focus on climate risks.	• Establish the ESG risk workgroup (purpose, organisation, priorities, targeted stakeholders, partner(s), action plan); • The workgroup should address Climate risk as the most urgent, and would therefore rely on the Climate OCAM for the technical aspects • Implement the action plan to tackle the following: (1) support financial actors to determine why and how sustainability risks should be embedded within risk management; (2) underline the link between sustainability risks assessment and	• Establish a workgroup (concerned administrations + Financial & Policy Boards) to implement an action plan; • Run Roundtable to consult stakeholders able to provide expertise on the topics (academics).	• Establish a workgroup on Sustainability risks on the very short term; • Coordinate with Climate OCAM on very short term, to agree on actions to take.	• Sustainability Risks workgroup will allow the Belgian financial sector to have a single vision of sustainability risks; • For the effective implementation of the Sustainability Risks workgroup both the political level and private sector need to allocate financial and human resources; • Resource burden for stakeholders is considered high.

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
		monitoring and climate change mitigation and adaptation needs; (3) recommend the use of specific guidance and tools to assess and disclose sustainability risks; (4) clarify how components of the EU sustainable finance framework guide sustainability risks assessment and disclosure at the EU level and in Belgium; (5) serve as a platform to exchange knowledge products; (6) encourage the use of existing tools targeting smaller actors that facilitate ESG risk assessment, monitoring, and disclosure (including scenario analysis) in Belgium.			
3.4 Promoting platforms with pre-screened sustainable investment projects which are shovel-ready to be picked up by the financial sector	Promote existing platforms that contain sustainable projects, so investors can select sustainable investments more easily	• Communicate to investors about the link with sustainable investment projects in existing matchmaking platforms at the Belgian and EU level (i.e., InvestEU Portal); • Consider the Federal Government becoming a Shareholder in one of these Platforms.	• Establish a workgroup (concerned administrations + Financial & Policy Boards) to design a scheme for pre-screened projects identification; • Run Roundtable to consult stakeholders (impact finance institute,	Start on the mid to long term	• Better operational and better promoted matchmaking platforms will ensure that the demand for sustainable assets is linked to the supply; • Potential risks : lack of a monitoring mechanism of what can be considered as

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders.
			investees, and investors, including public vehicles)		a sustainable project ex-ante; • The resource burden is considered low, because several usable platforms are already up and running

4.3. Key takeaways for the implementation of the recommendations by the Federal Belgian Government

Ideally, it would be important for the implementation of the strategy to **bring all key stakeholders together** and get them "on the same page", and jointly define a **longer-term vision** which is broadly supported. Such a long-term vision would help stakeholders identify the role they should play within the green transition and provide a mandate for mobilising SDG-aligned finance. However, in practice, it is challenging, and often not feasible to establish an agreed universal vision. This is because federal authorities, diverse stakeholders and market participants may hold diverging opinions not only on sustainability objectives but also on the operational considerations necessary for implementing a transparent disclosure system. The recommendations for the governance framework in the reports, include the engagement of public and private stakeholders in Workgroups and Roundtables could facilitate the bringing together of key actors.

Given the broadness of sustainable finance, and the **many potential interpretations** of wording, concepts, and terminology, there is need to ensure a common understanding of the conceptualisation for sustainable finance. Otherwise these discrepancies could lead to misunderstandings between parties, which may be exacerbated by an already highly complex European Sustainable Finance framework, which may also contain inconsistencies. This is also a lesson learned for this type of project, that interpretations should be clear when conducting consultation activities and producing the reports.

In order to help the Federal Authorities design and communicate their Ambition Statement and the Sectoral Pathways, an **appropriate governance structure and a political willingness of the government are a key prerequisite**. This should engage the most concerned, representative and contributing stakeholders, in order to create an assertive dynamic. A clear governance structure would also clarify the respective role of each stakeholder, help recognise opportunities for how it could contribute and be an active driver of required transformations. In the long-term, this should also contribute to building an active sustainable finance ecosystem.

For financial market participants to contribute to sustainability objectives, there is need to clearly explain what the federal government's sustainability expectations are: where to invest (finance sustainable activities) and what to improve (make finance more sustainable). There is quite often confusion regarding the role of finance, and whether the financial system should be the main driver of change. There is need to **clarify what is expected from the financial market participants to comply with EU and Belgian specific requirements**, and what is the role of other market participants such as investees. Such clarifications are key to ensure the stakeholders buy-in, as the goal is to encourage the economic actors (i.e., investees) to improve the ESG impacts of their investments, and/or invest in more sustainable activities.

Given the broad variety of ESG practices and the lack of standardisation (e.g., different tools, different indicators and ways to assess them, variable thresholds, etc), the risks of greenwashing remain high. There is still a long way to go to ensure that the financial system becomes fully transparent, as it also relies on the information provided along the entire value chain. On the other side, frontrunners are already providing sustainable financial products. The market and regulatory frameworks should drive to increase the demand side's attractiveness for sustainable finance, while limiting the attractiveness for greenwashing. This is feasible if a **step-by-step and pragmatic transparency is developed along the**

financial chain. This means, amongst other steps, a focus on a limited number of KPIs to follow up on market players' ESG performance, without discouraging the data providers by demanding too much at the same time. The government should ideally focus on supporting the proper implementation of the EU regulatory framework, while ensuring an enabling more global framework for frontrunners to develop their activities.

As highlighted within the Diagnostic phase of the project, many market players are already active in impact finance in Belgium, or establishing their ESG framework ahead of the EU agenda, tackling the impacts and risks their investees may face. These market participants are proposing sustainable financial products requiring an enabling framework to deploy efficiently. This requires the Federal (and possibly regional) **government(s) to maintain the dialogue with these frontrunner players and carefully listen whether some measures should be taken to enable** the emergence and/or deployment of new sustainable finance products. There is no direct need for the government(s) to take proactive measures, but rather to be ready to address barriers when they arise.

The development of a list of harmful activities to guide public and private investments and divestments is the main policy recommendation and invites the federal government to go beyond the EU framework for Sustainable Finance. Frontrunners are keen to encourage the Belgian government to move faster and increase its ambition in financing green and making harmful activities more expensive, while the main market players/incumbents would recommend remaining cautious and ensure compliance with global and European initiatives on harmful activities. The **federal authorities should consult both types of stakeholders (frontrunners and incumbent market players) to establish a list of harmful activities**, and agree on the way to use it, in order to avoid major discrepancies and incoherences with global and European frameworks. The list should first be used for public vehicles, to mainstream their ESG action and clearly act as exemplary bodies to indicate domains of divestment on the medium-term.

Improving the access to and usability of EPCs will be highly complex as it requires close engagement with the three regions on their competence. Given the fact this option was considered as a priority by most market players (the inaccessibility & usability of EPCs are a possible bottleneck for the implementation of the CSRD, but also to provide a strong basis to build climate scenarios), it is recommended to **initiate the dialogue with the regions about EPCs accessibility and usability as soon as possible** to find the most appropriate solution.

ESG tools and practices are emerging globally and within the EU, to deal with the implementation of the various legislations (such as CSRD or SFDR), but also with the market trend, driven by frontrunners. Standards (e.g. the European Sustainability Reporting Standards) are currently discussed, with all the challenges to land on a set of mandatory and voluntary disclosure requirements. Developing a specific framework for the Belgian market(s) would probably conflict with the efforts made at European level, due to the amount of work required to define the priority topics and their related KPIs, unless efforts focus on a very limited number of KPIs in line with national commitment (such as climate related metrics). While acknowledging the shortcomings of the European framework and the need to evaluate if national policies can address these gaps while maintaining consistency with EU requirements and Belgian objectives, it is advisable to **thoroughly examine the necessity of establishing a harmonized monitoring and reporting framework at the Belgian level. Furthermore, it is recommended not to prioritize this matter at the present time.**

A harmonised reporting and monitoring sustainability reporting framework at the Belgian level may support comparability, and may help developing ESG KPIs benchmarks (e.g. carbon intensity to be followed by sector). From our analysis of the Belgian market and stakeholder consultations it was observed that financial market participants have a very diverse portfolio, meaning **a one size fits all approach for reporting at the Belgian level is not the way forward**. It is not straightforward to define the harmonised basis that can be applied to all, as current practices are based on individual materiality matrices, company's diverse portfolios, their relationship with investees/clients, internal governance with roles and responsibilities, and also the culture of the enterprise. The Belgian government is advised to investigate how ESG capacity can be built.

The ESG helpdesk should be seen as a central pillar to provide support, and is needed as soon as possible to accompany market participants and all concerned undertakings to develop their ESG and sustainability practice(s) properly. However, **prior to addressing how market players perceive ESG practices, it is essential to establish a consensus among all relevant stakeholders on a consistent approach to implementing the EU sustainable finance framework within the Belgian context**. This requires a careful set up of the helpdesk, in order to avoid mistakes, and possibly contradictions, that may jeopardise its effectiveness. Its reinforcement is also required, with additional staff having the needed knowledge and willingness to support the sustainability transition, beyond the reporting obligations.

Developing technical assistance programmes for SMEs is highly needed. These should be designed to support companies mainstreaming sustainability practices into their core business, or allowing them to provide the data requested by their clients/providers having to comply with CSRD (e.g. GHG emissions scope 3 will be mandatory under CSRD following the ESRS reporting, while data collection is still an immature practice for companies[128]). The risk is high that programmes focusing on sustainable finance come as an additional burden for these companies, while they should be considered as transition opportunities. **The technical assistance approach for SMEs should be sector-specific and tailored to their capacities, to address concrete issues that these companies are facing**. Technical assistance programmes presenting general and conceptual aspects that apply to all would not be appropriate. Providing all SMEs an assistance framework to facilitate their transition and reporting is highly relevant and should be part of the assistance approach. This requires the government to decide in which sectors the first programmes should be deployed, as they would align and directly contribute to support the communication towards *sector-specific pathways* for which we proposed recommendations in the Policy Options Report.

Given that private actors are developing various financial products with pre-screened sustainable investment projects which are 'shovel-ready', **the promotion of platforms with pre-screened sustainable investments should not be considered as an urgent action.** We recommend implementing this policy option if it can be seen as a quick win, requiring limited efforts, for its development and operation. But this would require agreeing on specific objective criteria to make a thorough assessment of existing platforms, in order to promote them as objectively as possible.

Finally, as highlighted by some stakeholders, the global and EU frameworks for sustainable finance are already highly complex, and sometimes even difficult to comprehend. Therefore, the government must

[128] See for example AFM (2023). Big steps needed to ensure compliant reporting of sustainability information in annual reports from 2024.

avoid making it more complex for Belgian market participants and all other concerned parties. **We therefore recommend an incremental approach concentrating efforts on policy measures that are critical and urgent to ensure the smooth implementation of the EU sustainable finance agenda, to facilitate frontrunners to deploy their products and services, and build a coherent Belgian Ecosystem for Sustainable Finance.** Trying to implement too many actions at the same time could lead to a loss of effectiveness, and to lose, or miss, the buy-in of stakeholders.

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Annex

Presented in separate document attached to the submission of this report.

Annex A – Questionnaire: this Annex presents the Policy Options Questionnaire which was used to collect feedback from stakeholders on the draft policy options and to give them the opportunity to suggest policy options.

Annex B – Overview of results questionnaire: this Annex presents the results of the Policy Options Questionnaire.

Annex C – Workshop Summary Report

Annex D – Illustrations of EPC labels for the three regions

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