

Policy Options for a Belgian Sustainable Finance Strategy

Policy options report
From the perspective of the federal government as investor

Final Report

Technical Support Instrument

Supporting reforms in 27 Member States



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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
CFDD/FRDO	Federal Council for Sustainable Development
CNC/NKC	National Climate Commission
CSRD	Corporate Sustainability Reporting Directive
CTB	Climate Transition Benchmarks
DLV3	Diagnostics Report
DLV4b	Policy Gaps Report - from the from the perspective of federal government as investor
DNSH	Do no significant harm
EBA	European Banking Authority
EC	European Commission
EIB	European Investment Bank
EPBD	Energy Performance of Buildings Directive
EPC	Energy Performance Certificate
ESG	Environmental Social Governance
EU	European Union
FPB	Federal Planning Bureau
FSMA	Financial Services and Markets Authority
G20	The Group of Twenty
GCEL	Global Coal Exist List
GOGEL	Global Oil & Gas Exit List
HCF	High Council of Finance
IEC	Inter-ministerial Economic Commission
IFDD/FIDO	Federal Institute for Sustainable Development
JTF	Just Transition Fund
KPI	Key Performance Indicator
LEnvi	Low Environmental Impact
MS	Member State
NBB	National Bank of Belgium
NECP	National Energy and Climate Plan
NGO	Non-Governmental Organization
NPBI	National Promotional Bank and Institution
OECD	Organisation for Economic Co-operation and Development
PAB	Paris-Aligned Benchmark
PAI	Principle Adverse Impact
PMV	Participatie Maatschappij Vlaanderen
PPP	Public-Private Partnership
PRI	Principles for Responsible Investment
RRF	Recovery and Resilience Fund
RVO	Dutch Enterprise Agency

SBI	State Bank of India
SC	Screening criteria
SF	Sustainable Finance
SFDR	Sustainable Finance Disclosure Regulation
SFPIM	Federal Holding and Investment Company
SH	Significant Harm
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

Introduction and federal policy context

In line with the increasing efforts at the EU level to reorient 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 to ESG-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 (the focus of the DLV5a report) and (2) to make investments of the Federal Government more sustainable (the focus of [this](#) DLV5b report). As part of the Deliverable 5 (DLV5) of the project, this report provides a list of policy options to be considered by the Belgian Federal Government to address the issues and policy gaps identified in Deliverable 4 for the federal public sector (DLV4b). The scope of this report covers the sustainability of investments and not the liabilities and operations side of the federal authorities. The ‘federal investing entities’ in this report are controlled by the federal government and have both direct and indirect public assets under their control. The research conducted for this report therefore focused on the allocation of federal institutions’ assets through sustainable finance provision (e.g., with or without profit goals) and sustainable investment. For the purpose of this study, the Steering Committee and project team considers the term ‘investor’ in a broad sense, encompassing all forms of finance: participations, lending, insurance, guarantees, grants.

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 the 28th June 2022. It further integrates the feedback from stakeholders (i.e. federal institutions covered by this study) gathered during the consultation phase in November 2021. In particular, the afternoon session of the workshop focused on federal institutions helped to mitigate the limited participation garnered by the questionnaire. Overall, nine out of the thirteen institutions included in this report participated in the questionnaire and/or in the workshop (BDA, Credendo, SFPIM, Finexpo, NBB, Enabel, Synatom, Belfius Insurance, BIO). The remaining institutions were analysed through (3) interviews conducted in preparation for DLV4b and (4) via email exchanges held under the policy gaps analysis and on an additional email verification with NIRAS-ONDRAF. Finally, this data was complemented by (5) desk research, notably to analyse best practices, legal sources and frameworks of reference. Importantly, analyses and policy options are underpinned by Belgian sustainability objectives agreed upon with the Steering Committee and which can be found in Annex A of DLV1 (inception report).

Prerequisite for a successful implementation

Critically, the successful implementation of these policy options is conditioned by the **definition of a sustainability vision for the financial sector**, 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 should entail (i) clear sectoral pathways that include targets for the financial sector, such that it guides critical sectors towards sustainable investments and the alignment with European regulations, 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 pathways¹. 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 public sector, the definition of this vision is critical notably for the development of (investment) strategies, the screening of investments, and the development of monitoring and disclosure frameworks. The vision will allow financial institutions to prioritise sustainability objectives, sectors and/or solutions for sustainability issues; this is necessary to focus institutions' efforts in capacity building and resources, and thus to successfully implement their strategies, to efficiently screen investments, and to monitor and disclose their impacts.

Reading guide and overview of the policy options proposed

This report is structured around the following sections:

Chapter 1 - Policy options for an ambitious and coordinated sustainable finance policy framework:

The policy options presented in this chapter lay the foundations for an enabling environment that will allow institutions to champion sustainable finance and to mainstream sustainability in all their portfolios.

- 1.1. Establishing a governance structure to mainstream sustainability across all federal investment vehicles.** We propose a structure and possible operations for a governance structure that could support institutions to set and implement objectives related to sustainable finance, to coordinate institutions' actions, and to build their capacity.
- 1.2. General and vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks.** This section presents key principles to mainstream sustainability in strategies and which are applicable to all institutions. Thereafter, we propose recommendations for each institution to screen investments, along with recommendations to mainstream sustainability in the specific context of each institution.
- 1.3. Developing a list of harmful activities to guide public investments common to all federal investment vehicles.** This policy option presents principles to design and implement a list of harmful activities as a basis for a federal exclusion list or divestment strategy. It also offers an overview and subsequent recommendations of possible lists of harmful activities, which is also presented in the DLV5a report, as it can be of inspiration for financial market participants.

Chapter 2 - Policy option to improve the monitoring and disclosure of sustainability in public financial flows: This policy option proposes the creation of a common reporting and disclosure framework applicable to all institutions, and which is aligned with European requirements relative to sustainable finance, in order to monitor (i) the volumes of sustainable and transitional finance and (ii) the integration of sustainability-linked risks.

¹ The best practice "[France 2030](#)" identified in DV4b provides an example of format.

Chapter 3 - Policy option to build capacity for advancing sustainable finance objectives: this policy option proposes actions to ensure that institutions hold or have access to the relevant expertise to implement the previous policy options. It addresses gaps in technical knowledge raised by stakeholders through the creation of a helpdesk, the creation of a forum to create a community of practices, and through the provision of incentives to follow trainings offered to private Belgian stakeholders.

Chapter 4 - Conclusions and recommendations: this chapter summarises the policy options proposed. A summary table with the recommended timeline for implementation, the governance, the impact and feasibility will be 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

Federal policy context

Several political agreements and decisions support the strengthening of synergies between public financial vehicles, and the establishment of a common investment strategy.

Firstly, the Federal Government Coalition Agreement (30 September 2020) states that SFPIIM will obtain the responsibility to develop a coordinated, sustainable and ambitious investment strategy²: *“The Federal Holdings and Investment Company (SFPIIM) will be responsible for developing a coordinated, sustainable and ambitious investment strategy, of which one of the objectives will be to gradually reduce investments in fossil fuels and energies, following the example of the choices made by the European Investment Bank (EIB). By 2030, the Federal State and the institutions under its jurisdiction will have completely withdrawn from companies that emit greenhouse gas (GHG) emissions intensively and are not actively engaged in the energy transition.”* Considering the many differences between the public institutions (e.g. regarding their purpose, structure, governance, portfolio, progress in mainstreaming ESG, etc.), in this report we explore several ways to build such coordinated investment strategy, also looking at the different steps the government could take to reach this final objective.

Secondly, according to the same Coalition Agreement, SFPIIM will be in charge of setting up a transformation fund: *“As part of a delegated mission, the SFPIIM will take the initiative to set up a transformation fund. Institutional investors such as insurers and pension funds as well as private investors will be invited to participate. The fund will also be accessible to regional public investment companies”*³. In January 2021, the government mandated SFPIIM to set up this fund, which comprises two pillars: the Pillar ‘Recovery’ (EUR 500 million focused on short-term capital support and digitisation,

² The [coalition agreement](#), page 60, “La Société fédérale de participations et d’investissement sera chargée d’élaborer une stratégie d’investissement et de placement coordonnée, durable et ambitieuse, dont l’un des objectifs sera de réduire progressivement les investissements dans les énergies et combustibles fossiles, à l’instar des choix posés par la Banque européenne d’investissement. D’ici 2030, l’État fédéral et les institutions sous sa tutelle devront s’être entièrement retirés des entreprises à forte émission de gaz à effet de serre qui ne sont pas engagées dans la transition énergétique”

³ “Dans le cadre d’une mission déléguée, la Société fédérale de participation et d’investissements prendra l’initiative de mettre en place un fonds de transition. Les investisseurs institutionnels tels que les assureurs et les fonds de pension ainsi que les investisseurs privés seront invités à y participer. Le fonds sera également accessible aux sociétés régionales d’investissements publics.”

inclusion, mobility and productivity) and the Pillar ‘Transition’ (EUR 250 million focused on ecology)⁴. It is not addressed directly in the scope of this report.

Thirdly, the same Coalition Agreement stipulated that: *“In order to respect a good governance practice and a clear separation between the role of the State as shareholder and its role as regulator, the rule should be to centralise all federal State’s shareholdings within a same vehicle, i.e., on the balance sheet of the Federal Holding and Investment Company (SFPIM).”*⁵ The principle of separating shareholding and government policies is based on the OECD Guidelines⁶ for the management of public companies. The agreement also says that *“This would then open up the possibility of creating a powerful instrument that can play a significant role in the area of investments to which the government wants to give priority during this legislature, in particular the digital transition, the energy transition, mobility and health.”*⁷ Such statement emphasises the urgency to centralise all government participation within a single entity, the SFPIM. This is an opportunity to develop a common investment strategy, as it will certainly form the basis to stimulate synergies between all federal vehicles, even though the Federal Government is not their only owner, or shareholder.

In May 2021, the Council of Ministers decided to:

- Charge the SFPIM to carry out the process of centralisation of the shareholding as described in the technical note to the Council of Ministers⁸: Belfius, BNP Paribas, Ethias and the National Lottery should have been centralised during 2021. However so far, only BNP Paribas and Ethias have been centralised⁹ (Belfius and National Lottery are the next to be centralized); Credendo should be centralized during 2022; and bpost and Proximus should be centralised by June 1, 2024.
- Mandate the Minister responsible for SFPIM and the Ministers supervising the concerned shareholdings to negotiate protocols and ownership policies in the context of the centralisation implementation process, before submitting them for approval to the Council of Ministers. SFPIM has submitted a draft general ownership policy to the government in June 2022.
- Request SFPIM, in consultation with its responsible Minister, to gradually strengthen its organisation and adapt it to its role of centralising the shareholding function of the State.

Fourth, the Coalition Agreement intends to promote the greening of the second pillar pension funds, including the second pillar pension fund of contractual federal employees: *“In compliance with the guaranteed minimum return objectives and the prudential rules to be applied by pension funds and insurers, the federal government will examine the possibility of promoting second pillar investment policy commitments. These commitments will aim, on the one hand, to encourage the phase out of*

⁴ News.Belgium (2021) [Fonds de transformation : missions déléguées à la Société fédérale de participations et d’investissement](#)

⁵ “Dans une optique de respect de la bonne gouvernance et de séparation claire entre le rôle de l’État en tant qu’actionnaire et son rôle de régulateur, la règle devrait être de centraliser toutes les participations de l’État fédéral au sein d’un même véhicule, c’est-à-dire au bilan de la Société fédérale de Participations et d’Investissement.”

⁶ OECD (2015) [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#) “There should be a clear separation between the state’s ownership function and other state functions that may influence the conditions for state owned enterprises, particularly with regard to market regulation”

⁷ “Ceci ouvre alors la possibilité de créer un instrument puissant qui pourra jouer un rôle significatif dans le volet des investissements auxquels le gouvernement veut donner priorité lors de cette législature, notamment la transition numérique, la transition énergétique, la mobilité et la santé.”

⁸ Vincent van Peteghem. Vice-eersteminister en minister van Financiën (2021). *Nota aan de Ministerraad: Opdracht tot centralisatie van de overheids participaties in de FPIM*. (non-public document shared by client).

⁹ News.Belgium (2021) [Protocoles de mise en œuvre de la centralisation des participations de BNPP et Ethias au sein de la SFPI](#)

investments in sectors harmful to the environment and health, in particular fossil fuels, and, on the other hand, to encourage investments in the energy transition of our economy.”¹⁰ This commitment requires the federal government to define the harmful activities, in line with its sustainable ambition and goals. In March 2022, the government went a step further by mandating the Ministers of Finance and of Pensions to consult the financial sector in order to phase out fossil fuel investments in the second and third pillar pensions.¹¹

Fifth, the Coalition Agreement also touches upon the role of nuclear energy, considering it a polluting energy source, and mobilizing nuclear provisions towards the energy transition: “... *It will act in such a way that renewable energy and energy savings contribute more widely to the replacement of polluting energy sources, including nuclear.*”¹² “*Investments will also be made through various means, in particular via public funding (European, federal and federated entities), via alternative financial instruments intended to stimulate private funding such as energy performance contracts (EPC) and public-private partnerships (PPP), via the orientation of private capital to finance the energy transition, via the rational use of funds for infrastructure investments and, if possible, via the mobilization of nuclear provisions, in consultation with producers and in compliance with the strict availability of resources for the dismantling. ...*”¹³ Hence, there is also a need to assess the feasibility of using the nuclear provisions in the energy transition.

¹⁰ Dans le respect des objectifs de rendement minimum garanti et des règles prudentielles à appliquer par les fonds de pension et par les assureurs, le gouvernement examinera la possibilité de favoriser des engagements en matière de politique de placement du deuxième pilier. Ces engagements auront pour objectif, d’une part, de favoriser la sortie des investissements dans des secteurs néfastes à l’environnement et à la santé, notamment les carburants fossiles, et, d’autre part, de favoriser les investissements dans la transition énergétique de notre économie.

¹¹ “Er zal door de ministers van Financiën en Pensioenen een overleg met de financiële sector opgestart worden om beleggingen in fossiele brandstoffen in de 2e en de 3e pensioenpijler uit te faseren”

¹⁴ Vincent van Peteghem. Vice-eersteminister en minister van Financiën (2021). Nota aan de Ministerraad: Opdracht tot centralisatie van de overheidsparticipaties in de FPIM. (non-public document shared by client)

1 Policy options for an ambitious and coordinated sustainable finance policy framework

The objective of this chapter is to establish a baseline framework to build a common federal investment strategy so the ambition of the federal government can be gradually improved. It should be kept in mind that coordination is only partially possible, given the diversity of the federal financial vehicles. Vehicles differ when it comes to their products, markets and clients/beneficiaries, as well as their progress when it comes to embedding ESG in their investments. Therefore, in this chapter, we propose elements for a common investment strategy, as well as vehicle-specific recommendations with respect to the different nature of the financial vehicles.

1.1 Establishing a governance structure to mainstream sustainability across all federal investment vehicles

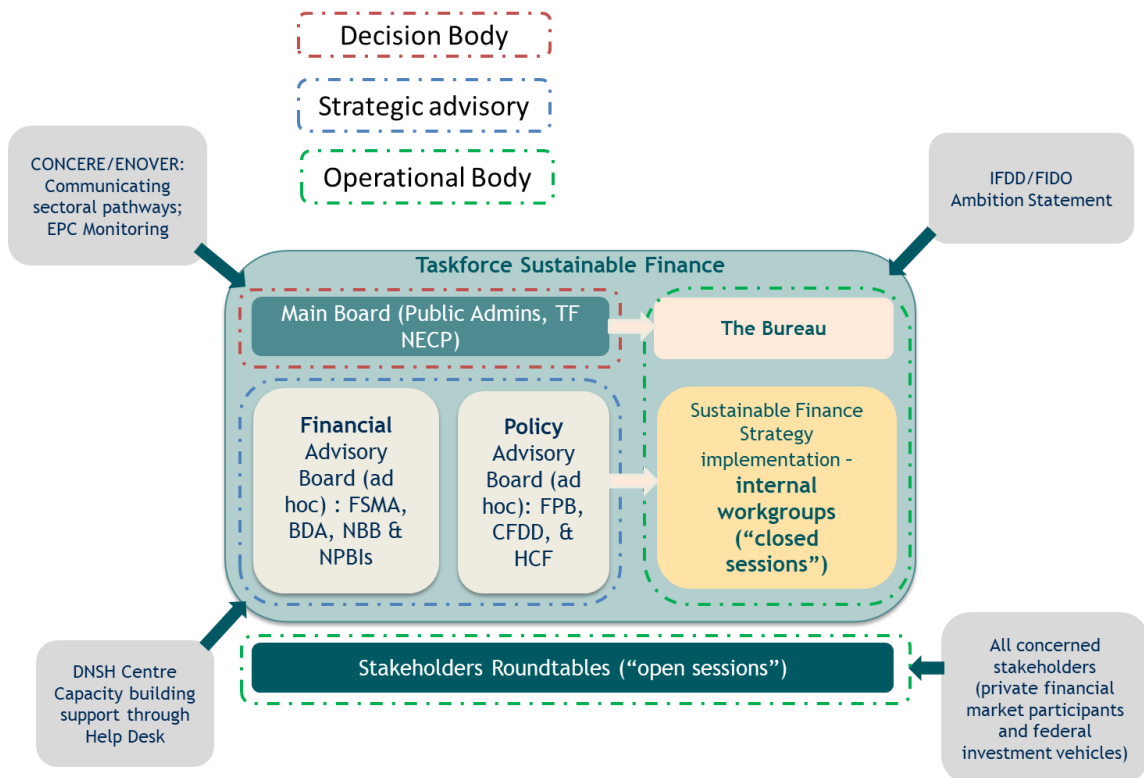
Objectives, governance and timeframe

The objective of this policy option is to complement the proposed governance structure within the DLV5a report with a clear mandate and agenda at the federal level, which is imperative for the effective implementation of the sustainable finance strategy. This also includes recommendations for an *engagement strategy* in order to ensure that the federal public vehicles have the appropriate framework to engage with their investees.

In the DLV5a report, we presented a governance structure for the implementation of the Belgian Sustainable Finance Strategy from the perspective of the financial market participants and enabling the role of the federal government. This proposal below is based on the structure proposed in DLV5a (policy option 1.1), which is more elaborated, and should be seen as complementary (and hence should not be read as a standalone piece). It relies on the open-ended responses of the questionnaire, the project team's analysis and consultations with the Steering Committee. To show the **role of the coordinated federal investment strategy** in the overall proposed governance structure for the development and implementation of the Belgian Sustainable Finance Strategy, we present the complete governance structure with a short description below in Figure 1. It is important that this proposed governance structure be discussed more in-depth with stakeholders.

Figure 1 depicts the governance structure, its main bodies and relationship. Roles and responsibilities are described in the text, to complement the detailed description of DLV5a.

Figure 1 Proposal for the governance framework of Belgian sustainable finance



Taskforce Sustainable Finance (TSF)

The aim of this TSF will be to ensure communication and coordination among all parties concerned with sustainable finance in Belgium, to work on the EU agenda and steer the discussion to input the regulatory framework, and to take the required actions at national level regarding the implementation of the Sustainable Finance Strategy. For the latter, this will start with the implementation of the recommendations provided in the frame of 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, with the Ministers responsible for Economic Affairs-Budget (federal and regions), and Foreign Affairs. Later on, it could be expanded to include the Minister of Health and the Minister of Employment to progressively encompass the broader scope of what is covered via ESG criteria.

Governance structure of the TSF

The Taskforce Sustainable Finance 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), and with the stakeholders in the frame of stakeholders roundtables, and with other institutions. The Taskforce for the NECP should ensure the coordination with the ongoing works.
- The **Financial Advisory Board**, composed by 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 most involved member of this Policy Board will be the SFPIM; it will contribute and guide the works to develop and implement the Coordinated Federal Investment Strategy.

- 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 establishing a common framework for the Coordinated Federal Investment Strategy, developing the appropriate capacity building schemes for all federal investment vehicles, or developing a common Sustainable Investments monitoring and reporting system, by participating on an ad hoc basis in TSF internal Workgroups.

The Taskforce Sustainable Finance should be organised through the following **working structures**: (all details are provided in DLV5a, page 7):

- **The Bureau**, to carry out all activities, dedicated staff would be needed for the day-to-day management.
- **Internal Workgroups**, consisting of representatives of all members of the TSF (Main Board, and Advisory Boards), via closed sessions. These Workgroups would be established for well-defined topics.
- **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.

The TSF and its two pillars (pillar 1 on Belgian Sustainable Finance and pillar 2 on EU and international coordination of sustainable finance, as described under report 5a page 9), but especially pillar 1 on the Belgian Sustainable Finance, need to **target the two categories of market participants**:

- Private participants, comprising the investees (corporates, SMEs, etc.) and the financial market participants (e.g., insurance undertakings, investment fund managers, social entrepreneurship funds, investment firms, or collective investment in transferable securities)
- Public investment vehicles, comprising:
 - Vehicles investing out of the EU (external), such as BIO, Enabel, Credendo, Finexpo, SBI, state-to-state loans;
 - Vehicles investing within EU (internal), such as SFPIM, BDA (for Green OLOs), the National Lottery, Synatom, NIRAS-ONDRAF, Second Pension Pillar, NBB.

For the Coordinated Federal Investment Strategy, we propose to establish a “Federal Investment Workgroup”, consisting of the concerned federal administrations (from the Main Board), and the SFPIM (from the Financial Advisory Board). Also, the NBB and BDA (from the Financial Advisory Board) could be associated with the Workgroup, even though it would not be in their function of financial advisors, but rather as federal investment vehicles (e.g., issuing the Green OLO in the case of the BDA and the investment portfolio of the NBB). This Workgroup will work towards a common objective setting for ESG finance, including priority investment areas in line with the exclusion lists, which the government will

agree upon, and developing common KPIs. A dedicated Roundtable should then be created with a clear agenda defined by the Workgroup, and engaging all concerned federal investment vehicles. In Box 1, we more concretely propose a composition of the Workgroup and the Roundtables:

Box 1 Interactions between the Workgroups and the Roundtables on the coordinated federal investment strategy

The Workgroup could operate under the guidance of the Federal members of the Main Board to ensure that decisions reach the political level. SFPIIM would have a crucial role, with a mandate to advise the State on structured investments in line with the State's strategic assets (Coalition Agreement). SFPIIM's role also becomes more important in the light of the federal ownership policy, which states that SFPIIM will centralise all federal shareholdings under its umbrella.¹⁴

The Workgroup would be responsible to precisely define the activities to be run by all federal investment vehicles in order to set up a common framework for a coordinated federal investment strategy.

The Roundtables should host all financial vehicles as explored within the scope of this study.

They will form a "main group" with representatives from each federal investment vehicle. This group could have regular (e.g., quarterly) meetings to discuss the progress of each financing actor and actions needed.

Thematic Roundtables: a thematic approach could improve the governments' understanding and capabilities to provide finance needed in specific ESG areas, based on the national focus areas. This could help ensure that government investments serve the broader sustainability vision and federal targets. Example Workgroups could consist of: energy, construction, SMEs.

Issue specific Roundtables could be established on an ad hoc basis, for example if geographically a specific region is in scope for the federal entities with a focus on developing and emerging markets (BIO, Enabel, Finexpo).

Each federal investment vehicle should have at least one main representative participating in the main group and potentially other participants to join the Workgroups. Ideally, these representatives will be also responsible for coordinating and developing sustainable finance efforts within their own organisations to ensure embeddedness within the organisations.

Recommendations for an engagement strategy

For the implementation of the coordinated investment strategy, ownership engagement plays an important role to ensure an effective capital allocation and the informed monitoring of corporate performance, while not "simply" maximising the return to the institution's ultimate beneficiary.

According to the Principles for Responsible Investment (UN PRI), engagement refers to interactions between the investor on the one hand and current or potential investees (which may be companies, governments, municipalities, etc.) on the other hand on ESG-related matters.^{15,16} Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure. It is directly linked to active ownership, which is the use of the rights and position of ownership to influence the activity or behaviour of investees.

¹⁴ Vincent van Peteghem. Vice-eersteminister en minister van Financiën (2021). Nota aan de Ministerraad: Opdracht tot centralisatie van de overheidsparticipaties in de FPIM. (non-public document shared by client).

¹⁵ PRI (2016) [PRI Reporting Framework](#)

¹⁶ PRI (n.d.) [What are the Principles for Responsible Investment?](#)

For the engagement strategy, we recommend the following:

- Establish a **Federal Investment Workgroup** (see Box 1) within the TSF with the concerned Federal Public Service (environment, economy, and finance) and representatives of public vehicles (especially with SFPIM). This Workgroup would be responsible for elaborating a draft engagement strategy
- Elaborate on a draft engagement strategy, to explore further ways to improve the following six topics based on the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOEs).
 1. ESG policy and management systems
 2. Identifying actual and potential adverse impacts
 3. Seeking to prevent and mitigate actual and potential adverse impacts
 4. Accounting for how adverse impacts are addressed
 5. Remediation where an enterprise is causing or contributing to an adverse impact
 6. Engagement with relevant stakeholders

Below, we provide more contextual information on the relevance and scope of the engagement strategy, following the OECD Guidelines on Corporate Governance of SOEs. These guidelines served as a basis for developing recommendations on how to improve the engagement strategy of SFPIM based on its current CSR Charter (2021).

In the context of state-owned enterprises (SOEs), the engagement should be considered at two levels:

- Good governance of the state-owned enterprises (SOEs), with the government establishing the appropriate overarching engagement strategy¹⁷;
- At the same time this engagement should directly consider the expected role of the concerned public vehicles (starting with SFPIM) to concretely engage with the companies they invest in.

Within the context of this report, we will not address the ownership governance and the way the federal government should intervene in the management of the public vehicles (these are issues concerning institutional aspects, which are well beyond the Sustainable Finance Strategy). We will rather explore what should be done in order to ensure that the federal public vehicles have the appropriate framework to engage with their investees. This will constitute an important aspect of the overarching engagement strategy (i.e., guiding the way the government should establish its strategy).

As stated in the OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015 Edition¹⁸), State-owned enterprises should observe high standards of transparency and be subject to the same high-quality accounting, disclosure, compliance and auditing standards as listed companies. SOEs should report material, financial and non-financial information on the enterprise in line with high quality internationally recognised standards of corporate disclosure and including areas of significant concern for the state as an owner and the general public. This includes in particular SOE activities that are carried out in the public interest. This comprises among others:

- Setting up reporting systems that allow the ownership entity to regularly monitor, audit and assess SOE performance, and oversee and monitor their compliance with applicable corporate governance standards;

¹⁷ OECD (2015) [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#)

¹⁸ OECD (2015) [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#)

- Developing a disclosure policy for SOEs that identifies what information should be publicly disclosed, the appropriate channels for disclosure, and mechanisms for ensuring quality of information.

In this regard, guidelines for implementing a screening-scoreboarding-monitoring-mitigating process (similar to the OECD Due Diligence guidelines¹⁹) are required for public investors. This process, along the investment value chain, entails identifying, preventing, mitigating and accounting for “adverse impacts” on all ESG related matters. Such processes should be continuous and aimed at avoiding and responding to risks related to all ESG topics, and be conducted prior to making certain investments or appointment of an asset manager to identify and assess legal and financial risks. These guidelines apply throughout the entire life-cycle of operations following a five-step process:

1. **ESG policy and management systems:** embedding ESG into relevant enterprise or investment policies and management systems helps to ensure that due diligence processes are effective and credible. Therefore, getting this right is an important pre-cursor to carrying out due diligence.
2. **Identifying actual and potential adverse impacts, within portfolios and potential investments**
3. **Seeking to prevent and mitigate actual and potential adverse impacts as appropriate,** using leverage to influence investee companies causing an adverse impact to prevent or mitigate that impact.
4. **Accounting for how adverse impacts are addressed** by (a) tracking due diligence and progress; and (b) communicating efforts and results through public reporting and engagement with impacted stakeholders as appropriate.
5. **Remediation where an enterprise is causing or contributing to an adverse impact:** Having processes in place to enable remediation in instances where an enterprises has caused or contributed to an adverse impact is also a supporting element necessary to enable and complement due diligence.

The last aspect, which was not yet addressed across this five-step process as proposed in the OECD Due Diligence guidelines, is stakeholder engagement. Investors are encouraged to engage with stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact, e.g., on local communities. Stakeholder engagement involves interactive processes through meetings, hearings or consultation proceedings. Effective stakeholder engagement is characterised by two-way communication and depends on the good faith of the participants on both sides.

These guidelines propose an appropriate approach to assess to which extent the current SFPIIM Charter can be used as basis for the engagement strategy, and what should possibly be further developed. The following table summarises the way the SFPIIM charter addresses each of the topics, and the proposed options to improve the scheme, to build an engagement strategy that could form the basis for all public vehicles.

¹⁹ OECD (2017) [Responsible business conduct](#)

Table 1 Gaps and recommendations for improvement of the engagement strategy within the SFPIM CSR Charter

Item	SFPIM charter	Options for improvement
ESG policy and management systems	This is the main aim of the CSR charter, with clear identification of the priorities.	It could be strengthened by fully integrating ESG in the current investment and due diligence processes; Accountability rules could be applied; Setting ESG targets, internal reporting or controls on ESG should be established. <i>General and vehicle-specific recommendations for mainstreaming ESG are provided in section 1.2.</i>
Identifying actual and potential adverse impacts	The SFPIM charter foresees such screening process	Develop procedures to proactively screen investment portfolios to identify potential ESG risk areas; Prioritise ESG efforts using a “risk-based approach”.
Seeking to prevent and mitigate actual and potential adverse impacts	No concrete procedure to prevent and mitigate adverse impacts	Develop internal procedures to concretely turn into action preventing and mitigating potential adverse impacts across portfolios; Establish clear rules for divestment. <i>Recommendations are provided in section 1.3 on the development of a harmful list to guide (d)investments.</i>
Accounting for how adverse impacts are addressed	Reporting exists	A clear framework for reporting is needed, in order to account for how adverse impacts are addressed <i>Recommendations are provided in chapter 2 for improving the monitoring and disclosure of sustainability in public financial flows.</i>
Remediation where an enterprise is causing or contributing to an adverse impact	Not comprised in the SFPIM charter	In the screening and due diligence processes, this should be integrated.
Engagement with relevant stakeholders	Currently no specific rule in place to systematically conduct such engagement	Integrate stakeholder engagement within the investment screening and due diligence processes. The relevance increases for vehicles acting outside of Belgium (e.g., where communities should be consulted)

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 ecosystem is the most straight and rapid approach. Dividing the Taskforce into three Boards helps to clarify the role of

each Board (leading or advising). We highly recommend limiting the Main Board to the administrations, to establish a clear link with the concerned Ministers and the Government, and the SFPIIM from the Policy Advisory Board. Having two Advisory Boards (for financial advice and policy advice respectively) which are involved on ad hoc basis means that these members can be asked to provide advice but are not involved when not needed (this avoids too many members being constantly involved, and overburdening the network). At this stage we do not see a need to develop a permanent body or structure consisting of all federal investment vehicles, as these would probably get involved at different pace. A clear agenda prepared by the Workgroup should precisely define which vehicle would contribute to which activity. The Roundtables would consequently allow to progressively establish the link with the concerned federal investment vehicles.

- **Potential risk:** the coordination with the regions in the case of PMV and SRIW need to be sought to ensure the coherency of sustainable investments at the national level. This is challenging from a political perspective, as the regions are not within the mandate of this Federal Sustainable Finance Strategy. Without a strengthened mandate, the structure may face difficulties to coordinate actions and possibly the preparation of positions and the establishment of a Coordinated Federal Investment Strategy. A weak mandate towards the other structures like FIDO/IFDD, or the DNSH expertise centre may jeopardise the collaboration with these structures. Without the clear political signal towards the federal investment vehicles, there is also a risk that the Taskforce does not catalyse or steer the sustainable finance action within the ownership and engagement policy of the Federal Government.
- **Impact on stakeholders:** the TSF will require the concerned administrations and SFPIIM to dedicate some staff to be operational and conduct all activities, in order to operate the Workgroup on the Coordinated Federal Investment Strategy. Depending on the role the DNSH expertise centre would play, its reinforcement would also be required. We estimate that the Taskforce should hire between two and four FTEs to deliver properly on its agenda. 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 General and vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks

Objectives, governance and timeframe

The objective of this policy option is to propose two sets of recommendations for mainstreaming sustainability approaches and frameworks: a general set of recommendations, which applies to all federal investment vehicles and federal financial vehicles within the scope of this study, as well as vehicle-specific recommendations tailored to each federal vehicle studied.

General recommendations for mainstreaming sustainability approaches and frameworks

The DLV4 report showed that existing sustainability approaches and frameworks of the institutions studied are not aligned with Belgian sustainability commitments, because their scope is too restrictive (e.g., they are rarely encompassing both risks and impacts) and because their content does not correspond to the topics and level of ambition of Belgian sustainability commitments (e.g., certain sustainability aspects are left out, and the level of ambition is not clarified). Based on the consultation activities, we propose the five following principles to be applied to all institutions:

1. Develop all-encompassing strategies and frameworks for all the institutions studied. Mainstreaming sustainability in federal investments requires that sustainability-linked criteria (including positive and negative investment screening) and goals are applied to all portfolios. To this end, adverse impacts/harmful investments and sustainable investments should be clearly and publicly defined by each vehicle on the basis of European and/or Belgian data sources²⁰ (e.g., classification offered by the EU Taxonomy, identification of harmful investments identified in the Government Agreement, etc.). Acknowledging the variety of their investments (e.g., complex products or bonds vs. tailor-made projects) and of their legal constraints, we advise that each institution develops its own definition aligned with its own activities and portfolio, based on the most relevant source (e.g., definitions of DNSH for economic activities under the EU Taxonomy for adverse impacts and harmful investments). A list of proposed references specific to vehicles is provided in Table 2. This definition should align with the Government's sustainability vision suggested in Introduction and federal policy context, including with its objectives, priorities, and with the list of harmful investments that it would put forward. The definition would thus translate the Government's vision into practical (e.g., with a specific timeline) and context-specific terms, so as to (i) ensure it is actionable despite the variety of activities, products and portfolios across institutions while (ii) ensuring alignment across institutions and thus the efficiency and impact of the Government's vision.

2. Strategies should all focus on priority sectors and sustainability objectives defined by the Federal and Regional Governments, accounting for regional differing needs. Where the priorities require large amounts of funding to reach impact and a transition (typically in the case of objectives related to the energy transition), strategies would have more impact if they align with the regional priorities. For instance, in case the regions and the Federal Government agree on prioritising a source of renewable energy, the timeline and methods to reach the objectives could be aligned to facilitate implementation and blended finance. These priorities should be clearly linked to Belgian sustainability goals, whether federal or regional. This implies that regional entities coordinate together and with the Federal Government to account for both federal and regional investment needs - noting that the latter may vary, and that identical priorities across regions are thus not advised. Notwithstanding their usefulness, current criteria and thresholds are not developed in relation to targets and overarching goals. Setting goals (e.g., align all the vehicle's investments with a 1.5-degree trajectory by 2030) and supporting targets (e.g., invest x euros in projects or portfolios that have a positive impact on biodiversity, adaptation to or mitigation of climate change every year) ensures that sustainable investments drive change and support the Federal Government engagements. Their definition will allow for the determination of indicators to implement the changes required by the goals, and to monitor the speed of the implementation. This prioritisation will help Belgium reach the scale of investments needed for the transition, by clearly showing priorities of investments to the private sector and by increasing support to sustainability objectives which need to be reached for large investments. This prioritisation should not preclude additional investments in other sectors, technologies or sustainability goals by each vehicle, or a differentiated prioritisation at the regional level; it should rather be used to focus investments and capacity-building efforts for sustainable investment, where institutions lack resources or experience in this field and thus need to prioritise to build capacity. **The aforementioned definitions (and thus criteria) to identify sustainable and harmful investments** should be clearly linked to sustainability goals. The definitions and criteria should directly support the goals prioritised so that the latter are operationalised by each institution. For topical goals (e.g., climate change mitigation), cross-sectoral

²⁰ Which thus opens up the possibility for the Government to enhance coordination among vehicles.

metrics could be used (e.g., scale of reduced GHG emissions in scopes 1 and 2), while sectoral goals (e.g., advancing the energy transition) would rather benefit from technology-linked criteria (e.g., proportion of renewables in the implementation of a project or investment).

3. Strategies should include solutions to support (i) the phase out of investments that entail adverse impacts, (ii) project developers that implement harmful activities to invest in non-harmful production processes and (iii) developers that implement activities that are not harmful nor sustainable to turn to production processes or economic activities that deliver positive impacts towards sustainability goals (e.g., turning activities eligible under the EU Taxonomy into transitioning activities and/or substantially contributing activities). Similar to the definitions of priorities mentioned above, the definitions of activities that (i) have adverse or harmful impacts²¹, (ii) are not harmful but also not sustainable, and (iii) are considered sustainable activities, should be provided on the basis of the Government's vision and translated at the level of each institution. Examples of definitions specific to each institution are provided in Table 2. Regarding the definition of a "sustainable investment", in many cases, the EU Taxonomy can be used as a starting point. This classification would need adaptation to the Belgian context and to the specificities of public finance, yet it offers quantifiable metrics thanks to its technical screening criteria, which can be applicable to public Belgian finance. In the case of smaller vehicles, however, the use of the technical screening criteria of the EU Taxonomy could be challenging as it would require significantly more detailed data than in the current state of affairs. We thus propose alternatives tailored to each institution.

The solutions that we suggest to institutions for 'greening' economic activities that are not harmful but neither provide a substantial contribution²² are instrumental to mainstream sustainability. This is particularly applicable to institutions which do not pre-select investees, in the sense that they are bound to invest in companies that have applied for financing (Credendo, Finexpo, and to a certain extent BIO, Belfius Insurance and SFPIM²³), and which can have more impact by "greening finance" than by "financing green". Typically, this could entail financial conditions that are linked to sustainability performance (e.g., that Credendo, Finexpo or BIO propose lower interest rates and/or free technical assistance and/or fast tracking of the investment process if the investee shifts from gas to renewable electricity in its production process). The need for these strategies and solutions in support of the energy transition (i.e., in the phase-out of harmful activities, in the transition of non-harmful and non-sustainable activities, and in sustainable activities) is necessary for all federal institutions and should be part of the Government's sustainability vision.

4. Develop and implement a procedure to (i) screen investments and projects that are sensitive to sustainability risks (i.e., investments that entail physical or transition risks, and that could lose their value in case of the realisation of sustainability risks such as biodiversity loss or extreme weather events),

²¹ Both words are used in a synonym manner here.

²² These activities are classified as 'low environmental impact economic activities' in the proposal for an Extended Environmental Taxonomy. Examples could consist of professional services, such as accounting or architecture. Source: Platform on Sustainable Finance (March 2022). [The Extended Taxonomy: Final report on Taxonomy extension options supporting a sustainable transition](#)

²³ This does not preclude the financial selection and due diligence. Here, the absence of pre-selection indicates that the institutions must invest in investees that apply for financing and that they are thus bound to invest into investees that potentially are not sustainable. In other words, they do not pro-actively search for sustainable activities to finance, or for activities that would need financing to become sustainable. In addition, and based on the interviews and documents reviewed, the selection does not or rarely entails criteria about the sustainability performance of the investees.

and (ii) to mitigate these risks. In a context where biodiversity²⁴ loss and climate change increasingly affect the value of assets, institutions should ensure that due diligence processes for investments and projects include an assessment of sustainability risks. Vehicles may build this procedure gradually and begin with a core list of risks that could decrease the value of the projects and of investments realised by the institutions, based on most critical list of physical and transition risks identified by the Government and/or on physical and transition risks that institutions deem the most prevalent. This list should be established by each vehicle to better reflect the risks faced by each institution - and potentially to reflect their risk appetite. It is therefore important that the Government clarifies its expectations in terms of risk appetite towards physical and transition risks to be followed by each federal institution. We suggest focusing initially on climate-related financial risks, and potentially financial risks related to biodiversity loss and ecosystem degradation, as these currently benefit from more established guidance, documentation and assessment frameworks (e.g., TNFD v0.3 framework is currently being tested for biodiversity-related financial risks²⁵) than social and governance risks.

- First, institutions should define risks based on their area of action (Belgium in the case of SFPIIM entails different natures and scales of risks than African countries in the case of Enabel);
- Second, their definitions should be based on the type of activity that they primarily finance. For example, institutions investing in agricultural projects are more sensitive to biodiversity and climate (including hydrological) risks than institutions investing in transportation, which are more sensitive to transition risks. Institutions should also assess to what extent the activities they invest in depend on broader value chains; in case they largely depend on suppliers or partners outside of Belgium, sustainability risks should be defined in such a way that they take into account the environmental and climate-related risks faced by the suppliers and partners.

In this exercise, institutions can use references that provide lists of activity-specific sustainability risks²⁶, estimations of Belgium-specific physical risks²⁷, and, for institutions that provide loans, the guidance for assessing environmental and climate risks developed by the European Central Bank (ECB)²⁸.

5. In order to ensure the implementation of these approaches and frameworks, and to strengthen accountability, institutions should monitor and disclose their progress on implementation of their strategies. This should take place in a broader monitoring and disclosure framework, presented in the figure below.

²⁴ The government could propose a glossary of terms relevant to its vision to further align institutions' definitions of sustainable and harmful investments. Regarding biodiversity, a recognized glossary can be found in the [Dasgupta Review](#) (2021)

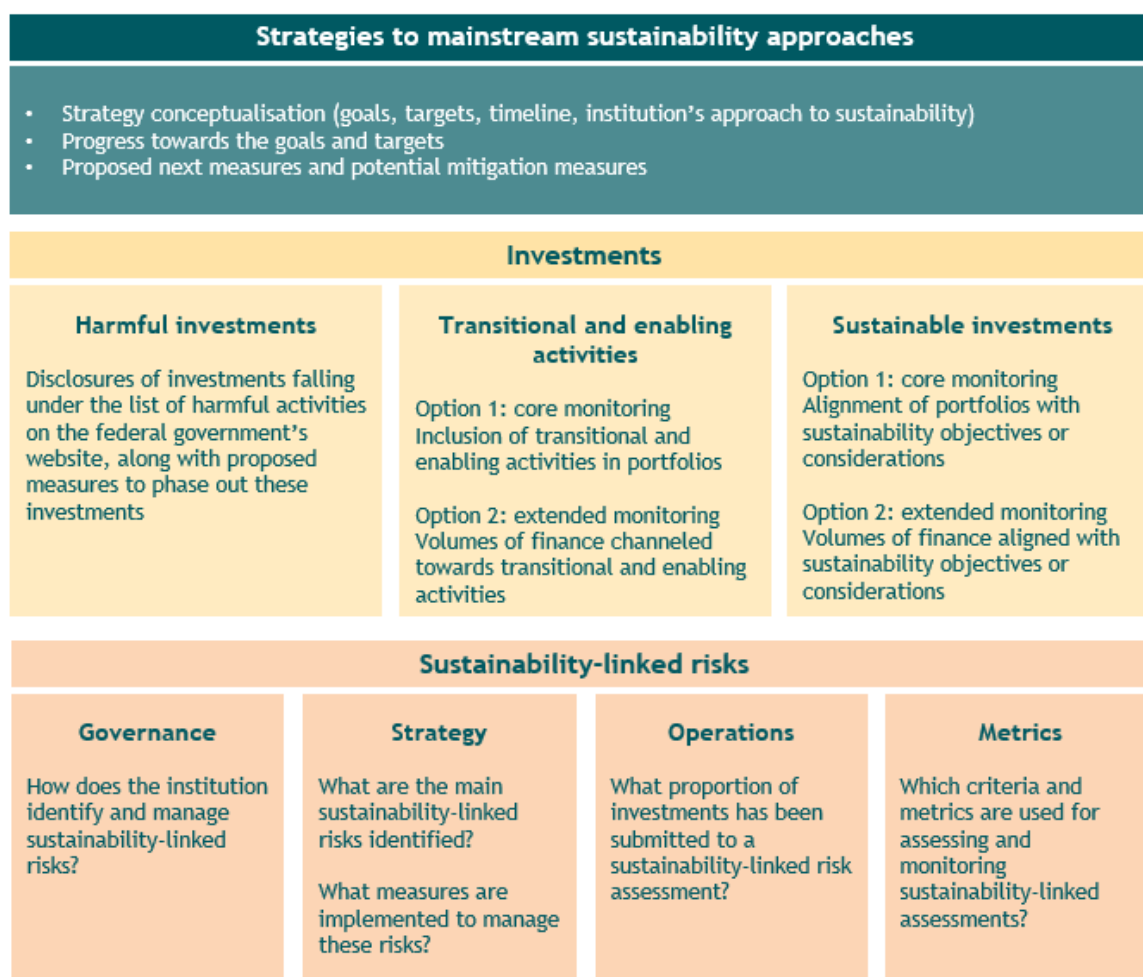
²⁵ The framework can be explored at <https://framework.tnfd.global/>

²⁶ See for instance the [materiality map](#) develop by the Sustainability Accounting Standards Board

²⁷ The Royal Meteorological Institute is developing such research, including on [hydrological and climate-related impacts](#), and could be mobilized for defining sustainability risks and their interlinkages with investments

²⁸ European Central Bank (2020) [Guide on climate-related and environmental risks](#)

Figure 2 Proposed monitoring and disclosure framework



We propose that this monitoring and disclosure framework revolves around a set of common points so the Federal Government can follow up on the advancement of its strategy, despite the institutions' diversity, in line with the principles for reporting and disclosing presented in Chapter 1. To be more specific, we recommend that institutions are asked to define:

- **The conceptualisation of their strategy:** institutions should specify their goals, targets, approach to sustainability (e.g., exceptions) and the timeline chosen to reach the goals and targets. These points should be addressed in relation to the Federal Government's priorities described above -and thus with the climate pledges of the Government, in particular to reach climate neutrality at the national level by 2050, with the NECP and with SDGs-linked engagements- so as to depict how each institution will support and contribute to the federal strategy.
- **The operationalisation of their strategy:** definitions of harmful and sustainable investments, with a scope detailed enough to ensure implementation of the investments²⁹, methodology to classify investments along these definitions and to monitor them (e.g., metrics used, frequency

²⁹ For example, defining "fossil fuels activities" is particularly key for a divestment to be operational. The definition should clarify which activities are considered as harmful or excluded; this should clarify the type of activity (extraction, transport, refining, all) and the magnitude that is considered as harmful (e.g., should an investment should 100% consist in fossil fuels extraction to be considered harmful? Would 5% would be sufficient to qualify the investment harmful?).

of the monitoring, criteria or rationale to assess the results of the monitoring, measures to course-correct low results), description of the due diligence process (with a description of the specific process for ensuring the divestment from activities that entail the extraction, transport and refining of fossil fuels);

- **Their progress towards the goals and targets:** each year, institutions should describe the advancements and setbacks towards the goals and targets set above. The description should be detailed enough to allow for a dialogue with the federal government, to understand the larger context that supports or hinders the federal institution, and to assess the relevance of mitigation measures (see last point);
- **Their proposed planned measures to overcome difficulties in response to their progress and setbacks:** institutions should indicate each year how they revise their strategy based on the progress and setbacks identified. This can include measures to mitigate the setbacks (e.g., to mitigate a difficult macro-economic context) and measures to focus more strongly on actions that have proven more effective than expected (e.g., increased focus on a sector or type of financial instruments that have proven particularly efficient or effective to advance the institution's goals and targets). The Government, supported by experts from the Ministry of Environment and topical experts where needed, would review these reports and ensure that the progress of institutions is aligned with the targets set, with the Government's vision and with the institution's specific definitions and targets. The Government could also ask external impact reports to assess the conceptualisation, operationalisation, progress and measures taken by the institutions to reach the Government's vision. This would however be a costly option and could potentially incur longer timelines compared to an internal review by the Government. A mechanism for course-correction - for instance, involving more regular monitoring from the Government or support to screen investments and projects - should be set in case the institutions do not align with these.

Vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks

In addition to these generic pre-requisite principles, Table 2 presents vehicle-specific recommendations to mainstream sustainability approaches and frameworks. These findings are based on consultations with federal institutions through e-mail exchange, desk research and in some cases interviews.

The table includes references to help in **defining and selecting sustainable investments, and additional recommendations on all aspects of the investment cycle**. These recommendations are tailored to each institution, and more specifically to:

- The type of investments that they realise (differentiating between project funding, project financing and portfolio investment)
- The networks and geographic area that they are entangled in (differentiating between European networks and competition, international networks with development finance institutions, and Belgian networks)
- The difficulties and needs that their representatives expressed during interviews and email exchanges. This table is thus an addition to the common recommendations presented in the above sections. For this reason, it does not include measures to address or exclude harmful activities such as investments in the production and transport of fossil fuels - this topic is addressed in sections above that apply to all institutions, and in the section on developing an exclusion list and a harmful list applicable to all federal investment vehicles (section 1.3). This does however not preclude the need to align with the Coalition Agreement and the Belgian

pledges under the Paris Agreement, i.e., to “*gradually reduce investments in fossil fuels and energies*” at the level of federal investments and to “*completely withdraw [federal assets] from companies that emit greenhouse gas emissions intensively and are not actively engaged in the energy transition*” by 2030.

The “**Recommendations references for selecting sustainable investments**” in table 2 are suggestions of sources that provide relevant criteria, lists and/or definitions of sustainable investments and that may provide support when developing the definition of sustainable investments as recommended above - in that regard, they add up to the Government’s references such as the Government’s vision and the list of harmful activities. The recommendations provide concrete and sector- or activity-specific criteria and definitions that can help institutions to refine the priorities and definitions of the Government in operational terms, and in line with the regulations that they must abide by and/or with the practices of their peers. References therefore contain criteria for economic activities as well for investments, and institutions should decide internally which references are most practical to use: criteria on economic activities help to clearly identify sustainable projects and investments (projects and investments that involve sustainable economic activities can be considered as sustainable) in a stringent manner, while more generic criteria related to investments provide more flexibility to the institutions, which can make the screening more complex as they provide less guidance. The “rationale for selecting these references” further provides a short justification for this selection.

Chapter 2 goes into detail on how federal institutions can report on the selected frameworks with a focus on the format of the reporting.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness:** We expect this policy option to be highly effective by ensuring the concrete mainstreaming of all aspects of sustainability into institutions’ operations (double-materiality, investment strategies, Belgian and vehicle levels) and by enabling the transition of the real economy. Indeed, building capacity regarding sustainability risks and expertise for the transition of non-sustainable activities would enhance the institution’s ability to provide technical assistance to their private investees, such that good practices for sustainability are replicated in the private sector.
- **Potential risks:** The implementation of the policy option is conditional on the definition of sustainability priorities for each of the institutions in the Federal Government. The definition will however be politically difficult due to the explicit prioritization of technologies, sectors or activities. Moreover, not implementing the Green OLO tag (see Table 2) may jeopardize the recommendations related to investments in Green OLOs. These recommendations are indeed expected to broaden the sectors and the number of programs and operations that are identified as aligned with the Green OLO Framework; in that regard, if the government cannot agree on eligible sectors and activities, the increase of investments through the Green OLOs will be prevented or delayed. This would thus hinder the impact and investment potential of the Green OLOs.

Impact on stakeholders: Recommendations may require additional capacity or expertise in institutions that have less experience with sustainable development, yet they are not expected to pose issues, since most stakeholders have already initiated efforts to mainstream sustainability.

Table 2 Vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks

Vehicle	Recommendation type	Recommendations
Belfius Insurance	References for selecting sustainable investments	Green OLO, EU Green Bond standard (to come), EU Ecolabel on Financial Products (to come), SFDR (article 9), sustainable investments operated by SFPIM, PMV or SRIW ³⁰ . <i>Rationale for selecting these references:</i> Given its structure and scale, we propose that Belfius aligns with European frameworks. To retain the ambition of the Government Agreement, it should align with the most ambitious voluntary European frameworks, not only the mandatory frameworks. In this context, using the categorisation of Article 9 of the SFDR, of the EU Ecolabel on Financial Products and of the EU Green Bond standard ensures a high level of ambition. These frameworks are also largely recognised and used by Belfius Insurance peers and competitors such that Belfius ambition can lead to an objective comparative advantage.
	Additional recommendation 1	On the asset management side, integrate Belfius Insurance in the capacity building efforts proposed in DLV5a to facilitate the implementation of the EU Framework for sustainable finance (i.e., EU Taxonomy, SFDR, CSRD, EU Green Bond standard ³¹).
	Additional recommendation 2	Mainstream sustainability-linked risk assessments on assets and liabilities. This should build on the existing KPI dashboard and on the work undertaken to align with the TCFD ³² and TNFD ³³ recommendations, for instance by selecting 1-2 key risks to be analysed systematically on larger assets insured, and by gradually increasing the scope of assessments once experience is gained. This selection may be done based on the most acute risks in Belgium or on the most prevalent types of insured assets. In line with the TCFD and TNFD recommendations, we strongly suggest institutionalising the assessment of risks (i.e., developing clear procedures to do so, attributing responsibilities or a governance system to be accountable for the process, reviewing the assessments in a planned and regular manner).
	Additional recommendation 3	For the assessments proposed in the additional recommendation 2, consider cooperating with the NBB to improve climate-linked risk assessments. Difficulties to assess climate-linked risks raised by Belfius interviewees relating to the nature of data (i.e., presented as intervals of probabilities, and not as absolute figures) could be discussed and potentially managed with the help of the NGFS' work (notably on risk models) that the NBB is part of. We suggest focusing first on climate-linked risks assessments to gradually build capacity, institutionalise the assessments, to benefit from an already existing literature, and because climate-related risks are more precisely estimated than other sustainability-linked risks. This focus could however be extended later on, typically to risks related to biodiversity-loss, as this body of work is expanding internationally and as methodologies for assessing these risks develop.

³⁰ SFPIM, PMV and SRIW are in the process of aligning their investments with the EU Framework. In the aftermath of this process, they will be able to classify their investments in the terms of the EU Taxonomy, which could offer a secure investment opportunity for Belfius. This could lead to co-benefits for both Belgian investment banks and Belfius: Belfius may crowd-in investment in portfolios built by the banks, and the banks may provide to Belfius projects that are already classified and screened along its reporting framework.

³¹ This may also include the Corporate Sustainability Due Diligence Directive, which is currently at the [proposal](#) stage, depending on the final scope of the directive when it is published.

³² Taskforce on climate-related financial disclosures (2017) [Recommendations of the Taskforce on climate-related financial disclosures](#)

³³ Taskforce on Nature-related financial disclosures (2022) [Nature-related risk & opportunity management and disclosure framework](#)

Vehicle	Recommendation type	Recommendations
	Additional recommendation 4	On the asset management side, for investments in companies (i.e., not in products), Belfius should engage actively with investees through a follow-up of sustainability plans or technical assistance to increase their sustainability impact or to transition from harmful activities. Such work should involve both financial and sustainability team to ensure the mainstreaming of sustainability considerations and the financial/business relevance of the assistance. Belfius could notably consider conditioning a portion of investment to the realisation of the investee's transition (this transition should be monitored with clear KPIs on the basis of the transition goals specific to the investee).
BDA	References for selecting sustainable investments	EU Taxonomy criteria ³⁴ (it may be used in priority for core sectors and activities identified by the Federal Government as described above), EU Green Bond Standard (to come). <i>Rationale for selecting these references:</i> the EU Taxonomy may facilitate the identification of sustainable projects and operations in the budget by helping to ascertain the sustainability of the projects and operations, including in sectors that are not sustainable at first sight (i.e., beyond the generation of clean energy or the support to electric transportation). This could thus expand the amount of projects and operations to be funded by the Green OLOs by increasing the number of sectors covered. The use of the EU Taxonomy would however require a form of green budgeting whereby each budgetary line is screened to (i) identify the underlying economic activity or activities, (ii) to assess the eligibility of these activities to the EU Taxonomy, and (iii) for eligible activities, to assess the alignment with the EU Taxonomy criteria. This option is highly complex and time consuming; an alternative solution is proposed in "Additional recommendation 1". Regarding the EU Green Bond Standard, it may offer a point of reference to facilitate the comparison and exchange of best practices between the BDA and its peers.
	Additional recommendation 1	Develop a "green OLO tag" to apply on the budgetary lines that are eligible to the Green OLO Framework. This tag would be applied directly by the administrations in charge of developing the programs and operations, so that a second step of screening budgetary lines is avoided. At first, this process could be done only by administrations that have experience with the Green OLO Framework (FPS Environment). To avoid an administrative burden, we suggest to begin tagging activities that are the most likely to be eligible, and to gradually develop a systematic screening. Initially, a "Green OLO" tag could be applied where projects and operations clearly align with (i) assets which have been ringfenced in the process of allocating the proceeds of a Green OLO, (ii) programs and operations that have previously been funded by the Green OLO Framework, or (iii) which clearly align with the sustainability goals of the Green OLO (this would require that information is shared largely with administrative teams in Ministries of relevance to the Green OLO framework). The BDA would then be able to identify operations and programs that align with the Green OLO Framework more easily and faster. This would also help the BDA to increase the volume of Green OLOs by identifying more easily activities that are aligned with the framework's sustainability objectives but which do not by nature correspond to an obvious sustainable investment (i.e., for investments beyond

³⁴ Noting that the new Green OLO Framework more clearly aligns with the substantial contributions defined by the EU Taxonomy. This recommendation confirms the relevance of this change and the need to mainstream it.

Vehicle	Recommendation type	Recommendations
		green transportation or renewable energy). In case of hesitation, the EU Taxonomy could then be used to ascertain that the Green OLO tag is rightfully attributed in the absence of an impact analysis. This would accelerate the process of operations selection.
	Additional recommendation 2	At the level of administrations that develop projects and operations financed by the Green OLOs, consider developing short notes on the observed sustainability impacts of the projects and operations. These notes should be concise and targeted to avoid substantial work from the administrations. They should highlight effects on sustainability so that the BDA can report on the impact of the Green OLO's use of proceeds, and so it can revise its selection of operations and projects to select the most impactful.
BIO	References for selecting sustainable investments	Taxonomies developed by other development finance institutions for sectors that support BIO's development goals (e.g., AFD's Nature+ Finance Framework). <i>Rationale for selecting these references:</i> These references would provide BIO with ready-to-use guidelines on variety of topics and sustainability objectives, including where BIO has a limited experience (e.g., in adaptation, in sustainable sectors beyond renewable energy such as transportation and industry). These guidelines are particularly applicable to BIO's tools and context -by opposition to e.g., the EU Taxonomy, which does not account for developing economies nor for the specificity of concessional finance-, as they are developed by peers. This would put BIO in the position of a role model, as called for by stakeholders in the survey and by Belgian NGOs.
	Additional recommendation 1	Where investees are the result of a direct investment (not through funds or funds of funds), engage actively with investees through a follow-up of sustainability plans or technical assistance to increase their sustainability impact (i.e., beyond the mitigation of their adverse impact). Given the specific developing context where BIO operates, it may be easier to launch this service in the more developed markets and with international clients, which are most likely to be experienced with this logic. This support should occur from the project inception so that sustainability considerations (goals, activities, planned, monitoring) are integrated as much as possible in all aspects of the project. Consider conditioning a portion of investments to the realisation of the investee's transition. Examples of technical assistance schemes may also be discussed in cooperation with peers to facilitate the launch of this service (e.g., the AFD proposes such technical assistance in certain projects).
	Additional recommendation 2	Institutionalize and systematize (i) sustainability risks assessments, as recommended in the Evaluation of Climate Risks and Climate Finance Portfolio ³⁵ and (ii) assessments to evaluate the potential for adaptation measures in projects. The former point should be gradually integrated under due diligence processes to ensure that it is solid and systematic; the latter point could be integrated in the support mentioned in recommended 1.
Credendo ³⁶	References for selecting sustainable investments	EU Taxonomy, SFDR (article 9). <i>Rationale for selecting these references:</i> Credendo's proposed new policy ³⁷ sets exclusions and a definition of green projects. In order to ensure their successful implementation, these exclusions and definition should be made as specific as possible (e.g., criteria such as "reduction in CO2 emissions due to CCUS [must be] significant enough" should be clarified by a threshold and methodology for measurement).

³⁵ BIO (2020) [Climate Risks and Climate Finance Portfolio Evaluation](#)

³⁶ The centralization of Credendo and Finexpo under the SFPIIM are not expected to prevent the implementation of the recommendations proposed in this report, based on the Note to the Council of Ministers regarding the centralization of the Government's participations under SFPIIM.

³⁷ Credendo (2022) [Credendo's policy regarding public support for the energy transition from fossil fuels to clean energy](#)

Vehicle	Recommendation type	Recommendations
		In addition, it defines substantially contributing activities that should be used to support the financial investment policy, as defined in Credendo's new policy. The EU Taxonomy offers such criteria. Article 9 of the SFDR should also be used in the financial investment policy, as it covers investments in shares and bonds.
	Additional recommendation	Engage actively with companies supported through a follow-up of sustainability plans or technical assistance to increase their sustainability impact (i.e., beyond the mitigation of their adverse impact and beyond companies supported through the Green Package). This can be done in cooperation with Credendo's peers and other Belgian institutions that provide such technical assistance, as proposed in chapter 3. This support should occur from the project inception to fully mainstream sustainability considerations.
Enabel	References for selecting sustainable investments	The generic, core priorities of the Federal Government (see above) are expected to (i) incentivise institutions to improve the alignment between with Enabel's and other institutions' activities (insofar as Enabel's activities and priorities clearly mainstream sustainability, as sustainability is integrated in objectives, and as sustainability is monitored and evaluated), and thus to facilitate scale ups and exchanges of best practices and (ii) to help Enabel focus its strategy on priority activities and sectors, such that it can more easily build expertise and capacity specific to sustainability.
Finexpo ³⁸	References for selecting sustainable investments	Simplified DNSH criteria to be developed at the national level for implementing the Belgian Recovery and Resilience Plan. <i>Rationale for selecting this reference:</i> the EU Taxonomy provides technical screening criteria, as well as quantitative thresholds for some activities, that can be used as guidelines to allow the appraisal of projects and their impact. This is needed to strengthen Finexpo's analysis of projects, which is currently fully qualitative and excessively high-level. It also provides a definition of activities doing significant harm to sustainability objectives, which, added to the list of harmful activities to be developed by the Federal Government, can facilitate the screening and exclusion of projects, in line with Finexpo's current policy. In the case of Finexpo, we suggest to use the simplified criteria instead of the EU Taxonomy -at least in a first phase- as these are substantially less numerous, more generic, and thus easier to use given (i) the capacity for sustainability screening at Finexpo and (ii) the level of detail of data that can be gathered from investees. Importantly, the criteria might need to be refined by Finexpo, as they have been developed at the programme or measure level, and may thus not be fully applicable.
	Additional recommendation 1	Link the instruments conditions (e.g., % grant vs. % loan, loan value, etc) to the realisation of positive impacts on sustainability (e.g., adaptation component, use of less emitting technologies, etc.), for both instruments that support private actors and States.
	Additional recommendation 2	Include the assessment and management of sustainability risks in relevant instruments, notably in technical assistance (i.e., ensure that local implementers know the key climate and/or biodiversity risks that can decrease or destroy the value of the project financed, and know actors or

³⁸ The centralization of Credendo and Finexpo under the SFPIM are not expected to prevent the implementation of the recommendations proposed in this report, based on the Note to the Council of Ministers regarding the centralization of the Government's participations under SFPIM.

Vehicle	Recommendation type	Recommendations
		solutions to manage these risks) and in grants and loans (i.e., ensure that there are plans and assessments in place to identify and manage climate and/or biodiversity risks, such that projects do not lose their value).
	Additional recommendation 3	Use quantitative and specific (context-, activity- or sector-specific) criteria and questions in application forms to assess positive and negative impacts on sustainability. Criteria and questions can be based on the aforementioned references or (notably on the EU Taxonomy).
SFPIIM	References for selecting sustainable investments	EU Taxonomy, Green OLO tag (see above). <i>Rationale for selecting these references:</i> the EU Taxonomy provides a clear definition of projects' activities that substantially contribute to sustainability objectives. Together with the core priorities of the Federal Government, they answer to the SFPIIM call for guidelines to facilitate the appraisal of projects. In addition, alignment with and/or tagging based on the EU Taxonomy criteria would be required or beneficial in case SFPIIM applies for EU funding. In case a Green OLO tag is launched, SFPIIM could also easily identify projects that align with the Federal Government priorities, by comparing the tagged activities with the activities developed by potential investees.
	Additional recommendation 1	Engage actively with investees ³⁹ through a follow-up of sustainability plans or technical assistance to increase their sustainability impact (i.e., beyond the mitigation of their adverse impact and beyond the Impact Fund). This support should occur from the project inception so that sustainability considerations (goals, activities, planned, monitoring) are integrated as much as possible in all aspects of the project. This support could be developed in coordination with PMV and SRIW. Once set up, this support should be gradually extended to the assessment and management of sustainability risks, such that investees are resilient to biodiversity and climate risks and such that SFPIIM strengthens the resilience of its assets' value. This should be initially focused on risks that are the most acute in the sectors supported by SFPIIM and should follow to the extent possible the ECB guidelines on the integration of climate-risk to banks ⁴⁰ .
	Additional recommendation 2	Consider conditioning a portion of investments to the realisation of the investee's transition discussed above.
National Lottery ⁴¹	References for selecting sustainable investments	SFDR (article 9), Green OLO tag (see above), EU Ecolabel on Financial products (to come). <i>Rationale for selecting these references:</i> the National Lottery is already in the process of mainstreaming sustainability concerns in all aspects of its investment policy. To strengthen this process, we advise to resort as much as possible to recognized and ambitious standards (EU Green Bond standard for bonds, SFDR article 9 for other products). The list of harmful activities to be developed by the Federal Government may also help to prioritize exclusions.

³⁹ More detail on recommendations related to engagement can be found in section 1.1.

⁴⁰ European Central Bank (2020). [Guide on climate-related and environmental risks](#). This guidance, which makes reference to the European Commission's Guidelines on reporting climate-related information (EC 2017) [Guidelines on reporting climate-related information](#), is aligned with the TCFD but is specific to banks, and thus deemed better suited to the support the SFPIIM.

⁴¹ In addition to the recommendations proposed here, the recommendations to SFPIIM should become applicable after the merge between the two entities.

Vehicle	Recommendation type	Recommendations
	Additional recommendation 1	Consider investing or increasing investments in Green OLOs. We expect the creation of the Green OLO tag (see above) to increase the volume of Green OLOs and to diversify the activities that it funds; altogether, this should allow the National Lottery to diversify its investments (as requested during email exchanges) while supporting local, Belgian investment.
	Additional recommendation 2	Adopt a double-materiality approach, for instance by following the recommendations of the TCFD and TNFD.
NBB ⁴²	References for selecting sustainable investments	SFDR (article 9), Green OLO, EU Green Bond standard (to come), EU Ecolabel on Financial products (to come). <i>Rationale for selecting these references:</i> the NBB already selects products which reach a sufficient ESG rating in all the portfolio. Noting the difficulty to compare ESG methodologies and the emergence of ambitious standards, we advise to strengthen this selection by using the EU Green Bond standard, the EU Ecolabel on Financial products and the Article 9 of the SFDR.
	Additional recommendation 1	Consider investing or increasing investments in Green OLOs. We expect the creation of the Green OLO tag (see above) the volume of Green OLOs and to diversify the activities that it funds, allowing the NBB to diversify its investments and support the Belgium economy.
	Additional recommendation 2	Adopt a double-materiality approach, for instance by following TCFD and TNFD recommendations to proof the value of assets.
NIRAS-ONDRAF	References for selecting sustainable investments	SFDR (article 9), Green OLO, EU Green Bond standard (to come), EU Ecolabel on Financial products (to come). <i>Rationale for selecting these references:</i> these instruments align with NIRAS-ONDRAF's aim to use the European framework to identify relevant investments, and, for the article 9 of the SFDR, to identify and manage sustainability-linked risks. At the same time, the proposed references propose a higher level of ambition by adding to the SFDR -which has already been identified by NIRAS-ONDRAF as a relevant tool to select sustainable investments- and by supporting a higher level of ambition -notably by focusing on article 9 rather than on article 8 of the SFDR.
	Additional recommendation 1	Ensure the rapid implementation of the sustainability-linked developments mentioned in email exchanges in all aspects of the investment policy, for instance by starting off with the core priorities of the Federal Government (and by gradually expanding towards other sustainability goals) and with standards that can easily be applied by assets managers due to their prevalence of the market (i.e., instead of national labels or upcoming EU standards, start off with products that align with article 9 of the SFDR).
	Additional recommendation 2	Adopt a double-materiality approach, for instance by following TCFD and TNFD recommendations to proof the value of assets. We advise to implement this second recommendation after the first has been implemented (i.e., when a sustainable investment policy is applied on the entire portfolio).
	Additional recommendation 3	Ensure the alignment between NIRAS-ONDRAF's sustainable investment policy (both for impact and for the management of sustainability-linked risks) and the work of external investment managers. The goal of this recommendation is to ensure that the externalisation of the asset management does

⁴² The NBB is integrated in this project from the perspective of its investments. The recommendations thus do not apply to the NBB broader supervision policy, which is fully independent.

Vehicle	Recommendation type	Recommendations
		not lead to a watering down of NIRAS-ONDRAF's clear integration of sustainability concerns into its investment policy. This should first entail a clear inscription of NIRAS-ONDRAF's precise ambitions and priorities for sustainability (from a double-materiality perspective and in line with the institution-level strategy proposed above) in the contracts concluded with investment managers. This should also include regular and random in-depth assessments of the investment managers' choices, to ensure that the contractual conditions are indeed met.
Second Pension Pillar	References for selecting sustainable investments	SFDR (article 9), Green OLO, EU Green Bond standard (to come), EU Ecolabel on Financial products (to come). <i>Rationale for selecting these references:</i> there is an urgent need to develop criteria for sustainable investments and to mainstream them to all portfolios. Aligning with the aforementioned Belgian and European references ensures a rapid implementation and guarantees a recognized, proven level of ambition.
	Additional recommendation 1	Ensure the rapid implementation of the sustainability-linked developments in all aspects of the investment policy, for instance by starting off with the core priorities of the Federal Government (and by gradually expanding towards other sustainability goals) and with standards that can easily be applied by assets managers due to their prevalence of the market (i.e., instead of national labels or upcoming EU standards, start off with products that align with article 9 of the SFDR).
	Additional recommendation 2	Adopt a double-materiality approach, for instance by following TCFD and TNFD recommendations to proof the value of assets. We advise to implement this second recommendation after the first has been implemented (i.e., when a sustainable investment policy is applied on the entire portfolio).
Synatom	References for selecting sustainable investments	SFDR (article 9), Green OLO, EU Green Bond standard (to come), EU Ecolabel on Financial products (to come). <i>Rationale for selecting these references:</i> we suggest building on Synatom's existing investment policy and to gradually raise the level of its ambitions. The proposed references may support this endeavour, and ensure Synatom's alignment with EU requirements.
	Additional recommendation 1	Consider investing or increasing investments in Green OLOs. We expect the creation of the Green OLO tag (see above) to increase the volume of Green OLOs and to diversify the activities that it funds, allowing Synatom to diversify its investments with a secure product, in line with Synatom's intentions described in interviews.
	Additional recommendation 2	Adopt a double-materiality approach, for instance by following TCFD and TNFD recommendations to proof the value of assets.
RSZ-ONSS Funds	N/A	N/A The legal mandate of the RSZ-ONSS Funds binds restricts the investment universe policy to the Green OLOs. Please see the aforementioned recommendations for the Green OLOs tag.

1.3 Developing a common list of harmful activities to guide public investments of all federal investment vehicles

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. The federal government 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 the ESG vision and policy of each federal institution and the federal government as a whole. Besides the exclusion of activities, disclosure of 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.⁴³ 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 definitions⁴⁴ of an “exclusion list” and a “list with harmful activities” respectively for this policy option:

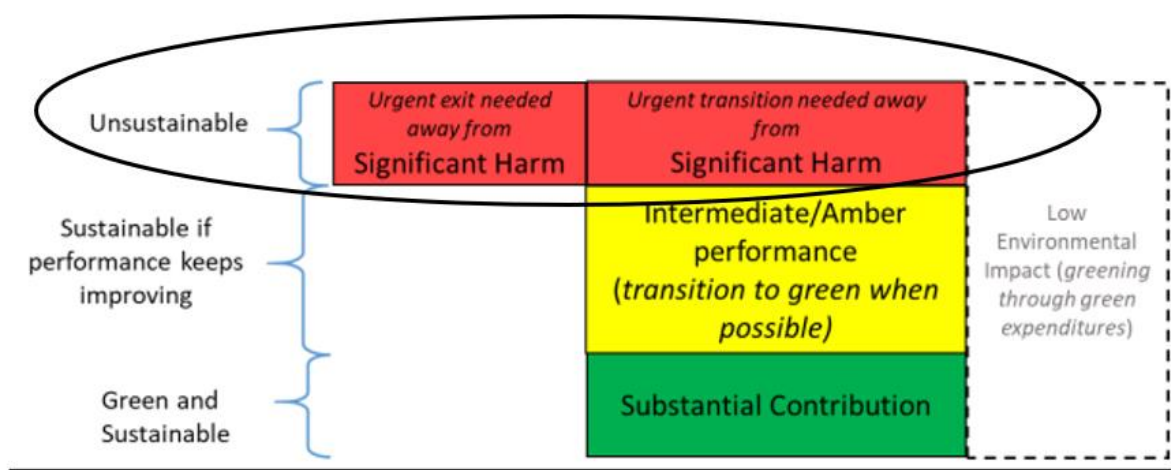
Exclusion list: The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria. The list presents what the federal government does *not* invest in. Investments are pre-screened to avoid that any activities that are on the list will be financed.

List with harmful activities: the proposal for the extended EU Taxonomy distinguishes between (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 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. The figure below illustrates the SH activities.

⁴³ Platform on Sustainable Finance (March 2022). [The Extended Taxonomy: Final report on Taxonomy extension options supporting a sustainable transition](#)

⁴⁴ Based on the [UN Principles for Responsible Investment](#)

Figure 3 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.

Table 3 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 most developed with quantitative thresholds and criteria compared to social and governance aspects.

Table 3 Frameworks and policies to be considered for the harmful list

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. Our assessment is that the TSC are more complex compared to the exclusion lists mentioned below, and they are only applicable for activities that pursue the environmental EU Taxonomy objectives.
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. ⁴⁵ 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 to investors that are at the forefront of climate mitigation through a shift of their investment allocation from	Product level: The CTBs focus on <i>transitioning</i> assets rather than excluding assets. Therefore, the climate benchmarks are not considered appropriate for the disclosure of the exclusion list. ⁴⁶ The TEG report ⁴⁷ , 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

⁴⁵ Storebrand Asset Management (n.d.) [Principal Adverse Impact Statement](#)

⁴⁶ EU Technical Expert Group on Sustainable Finance (n.d.) [Climate benchmarks and Benchmarks' ESG Disclosure](#)

⁴⁷ EU Technical Expert Group on Sustainable Finance (2019) [TEG FINAL REPORT ON CLIMATE BENCHMARKS AND BENCHMARKS' ESG DISCLOSURES](#)

Policy/framework/list	Content	Application
	GHG intensive activities - notably fossil fuels - to renewable energy and energy efficiency.	processing activities, or they derive from electricity generation with a GHG intensity of lifecycle GHG emissions above 100 gCO ₂ e/kWh.
EU Ecolabel for retail financial products (upcoming initiative) ⁴⁸	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 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.	Product level: Reporting on exclusion takes place when companies want to apply for the ecolabel. Using the exclusions for all investments of the federal government would make it geared towards environmental frontrunners and many investments would not be eligible.
Towards Sustainability Label (TSL) ⁴⁹	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 ⁵⁰	The EIB Energy Lending Policy focuses on eligible activities related to energy efficiency, -supply, -infrastructure and carbon pricing, but it	Activity level: Investors can use the eligible activities to guide its energy-related investments and divestments from fossil fuels,

⁴⁸ JRC (2020) [Development of EU Ecolabel Criteria for Retail Financial Products](#)

⁴⁹ Central Labelling Agency (2021) [Revised Towards Sustainability Quality Standard Final Criteria](#)

⁵⁰ EIB (2019) [Supporting the Energy Transition](#)

Policy/framework/list	Content	Application
	also excludes the support to energy projects reliant on unabated fossil fuels.	<p>although the EIB Lending Policy does not provide a ready-to-use exclusion list for activities outside the sphere of fossil fuels.</p> <p>The FPS Foreign Affairs has 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.⁵¹</p>
Exclusion lists based on EU the Just Transition Fund Regulation ⁵²	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.
EU Green Budgeting Reference Framework/ Draft list with harmful activities for green budgeting exercise (BOSA) ⁵³	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.

⁵¹ FPS Foreign Affairs (2022) Belgian position related to fossil fuel projects of MDBs, internal document. Draft.

⁵² European Union (2021) [Regulation \(EU\) 2021/1056 on the establishment of the Just Transition Fund](#)

⁵³ Draft document for internal use, shared by client on 10/17/22.

Policy/framework/list	Content	Application
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. ⁵⁴
	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.
	<p>MSCI Global Fossil Fuels Exclusion Index: focused on exclusion of companies with high fossil fuel reserves.</p> <p>MSCI Global Low Carbon Target Index: focused on reducing the exposure to companies most vulnerable to stranded assets and how these companies could transition.</p> <p>MSCI Global Low Carbon Leaders Index: focused on increasing exposure with low current emissions and fossil fuel reserves.⁵⁵</p>	<p>Entity level: The MSCI Global Fossil Fuel index can guide public and private investors decisions related to the exclusion of certain companies.</p> <p>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.</p> <p>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.</p>

⁵⁴ Universiteit Gent (n.d.) [Kader Duurzaam beleggen Universiteit Gent](#)

⁵⁵ MSCI (n.d.) [Beyond Divestment: Using Low Carbon Indexes](#)

The responses from stakeholders to the questionnaire show mixed results when it comes to the **urgency** of the policy option to develop a list with 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 Policy Options Workshop, it became clear that the stakeholders who mentioned in their response to the Policy Options Survey that they do not see the need to develop a list of harmful activities, base this response 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 extended EU Taxonomy would come into place in the near future. Linked to that, 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 at the same time they acknowledge that this could still take a long time.

Given the fact the Federal Government acting as investor should implement its Coalition Agreement, and hence should take some steps to endorse an exclusion list, our recommendation regarding the *character* of the lists is that in the very *short-term*, a non-binding exclusion list and list with harmful activities have added value to give direction to public investments and their disclosure. It is a priority to develop such a list, based on the sustainability priorities. By explaining that the lists are evolving documents the risk of misalignment with the EU framework can be mitigated. After the development of the list, the federal government should give the list a binding character for all federal investment vehicles, at least in order to implement the Coalition Agreement.

The following principles underpin our recommendations:

- The Government and the different federal investment vehicles should find agreement on the list and communicate the list to all stakeholders.
- One political basis for the harmful list can be found in the Coalition Agreement (2020), which contains the objective “to reduce investments in fossil fuels, following the example of the European Investment Bank. As a result, by 2030, the federal State and institutions under its mandate should have completely withdrawn from companies who intensively emit greenhouse gases and are not actively engaged in the energy transition.” Since the climate-related objective is mostly operationalised, we recommend to initially prioritise the climate-related exclusion criteria and harmful activities.

Below, we present a two-step approach for the development and publication of an exclusion list by the federal government (Step 1) and for enhancing disclosure on harmful activities (Step 2) of the federal government.

Step 1: Publication of the list with excluded harmful activities (exclusion list)

Objective: excluding harmful activities in the pre-screening investment process

Applicability: federal investors and federal financial institutions*

To increase transparency on harmful investments in the pre-screening process, we recommend to the federal government to establish an exclusion list based on the proposals in the table above which will be (1) leading for the government’s own investment decisions (focus of this report) and to give guidance for market participants (focus of the DLV5a report).

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 companies (investees) 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 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 best meets this objective 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 DLV5a 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.

The exclusion list can be published on the federal governments’ website which describes the due diligence policy in respect of the adverse impact of investment decisions.

To show commitment and to set a good example, we recommend to the government to communicate the exclusion list in a brief and coherent way. It should be made clear that the list is non-exhaustive and may be expanded in the future. Good practices on the communication on the list can be found for the German Development Bank Kreditanstalt für Wiederaufbau (KfW) and the University of Gent (UGent).

KfW exclusion list⁵⁶:

- ✓ Concise (1 page)
- ✓ Contains specific thresholds, e.g., “destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km”.
- ✓ Contains clause that mandated federal ministries can deviate in exceptional cases

UGent exclusion list⁵⁷:

- ✓ Concise (1 page)
- ✓ Contains exclusions of companies, including thresholds for some controversial activities (i.e. <1% of turnover can be part of harmful activity within asset portfolio)
- ✓ Contains references to index, e.g., Fossil free index
- ✓ Contains reference to best-in class methodology, whereby UGent has established an acceptable percentage per asset class for investees to comply with

** For the federal public vehicles which do not ‘invest’ (E.g., Enabel, the BDA for its OLOs, Credendo), but finance or implement activities, we recommend that they follow the same approach as the federal investment vehicles by disclosing on their website that they are excluding harmful activities. This means they can use the similar PAI indicators (exposure to companies in the fossil fuel sector (4), the violation of the UN global compact (10) and controversial weapons) as a starting point and disclose on the activities that consider these PAIs on their website.*

Step 2: Disclosure of harmful activities (harmful activities list)

Objective: to report on harmful activities financed by the federal government, so policies can be developed to stop harmful investments by the federal government.

Applicability: federal investors and federal financial institutions*

To ensure the level of ambition expected by the Government, the Federal Investment Workgroup and the federal investment vehicles need to collectively develop a list of harmful activities based on the policies and frameworks provided in this section. Federal investment vehicles could then be requested by the Federal Government to disclose information on their harmful investments and how they intend to come to a phase out of those investments. The information can be disclosed to the public by publishing it on the federal government’s website. Since the list is a non-exhaustive and living document, it is important to have regular discussions among federal investment vehicles to discuss the status of the list and how to improve disclosure.

Indicators to look at

The PAI indicators under the SFDR could be used to report on harmful activities. Annex 1 Table 1 of the SFDR⁵⁸ presents indicators for disclosure of investments within companies (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 on the website of the federal government, along with a due diligence policy. The reporting could gradually evolve with other indicators⁵⁹, for example in Table 2 and 3 of Annex 1.

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness:** A list of harmful activities prepared by the TSF and endorsed by the Government emphasises the sustainable priorities and provide a long-term stable framework for divestment. Imposing disclosure on federal investment vehicles will increase the effectiveness of the

⁵⁶ KfW Capital (2021) [Exclusion list of KfW Capital](#)

⁵⁷ Universiteit Gent (n.d.) [Kader Duurzaam beleggen Universiteit Gent](#)

⁵⁸ SFDR (Ibid) [Annex 1](#)

⁵⁹ ESMA (2021) [Final Report on draft Regulatory Technical Standards](#)

measure. For the effective development and implementation of the list, the **just transition aspect** as part of a coherent policy framework should be kept in mind: frameworks should provide companies and other entities with a range of options for accessing finance for their transition plans in the context of an extended Taxonomy.

- **Potential risks:** the coalition agreement provides the political basis to divest from fossil fuels, although the reality is that several public vehicles are still engaging in these activities, which can cause political challenges for the decision on the timeline for the phase-out of those activities. Although there is a political risk that it will be difficult for the federal government to agree upon a disclosure framework for the reporting on harmful activities, the Coalition Agreement has made the divestment from fossil fuels very clear, which creates a political mandate.
- **Impact on stakeholders:** as presented in section 1.2., different federal actors are working at different paces on reporting on ESG. Therefore, the Strategy should emphasise a gradual involvement of the reporting 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 visibility on non-aligned disclosure for federal investors.

2 Policy option to improve the monitoring and disclosure of sustainability in public financial flows

This chapter turns to the monitoring and disclosure frameworks needed to follow-up on institutions' actions and investments. While monitoring ensures the actual implementation of policy options internally and by the federal government, disclosure supports accountability and helps to show existing public actions and investments to the general public. In that regard, the monitoring framework was developed as a tool to strengthen the other policy options developed under this project, and as an answer to the stakeholders' demand throughout questionnaires that the public sector acts as a role model.

This policy option builds a comprehensive framework around three themes to be monitored (strategies, investments, sustainability-linked risks) to ensure that the federal government can follow-up and, if needed, reorient the actions of institutions to implement the sustainable investment strategy. As such, recommendations are not interchangeable and should all be implemented. Importantly, each recommendation is designed in a way that ensures comparability and uniformity across institutions, while ensuring that a certain level of tailoring is possible to each institution's context.

In this chapter, the monitoring and disclosure framework has been built on following three principles:

1. the monitoring framework **should be a guiding tool that can ensure the implementation of the federal investment strategy**; as such, it should provide an overall picture of the situation. The framework should clearly indicate (i) the proportion of federal assets that are invested in harmful, enabling and transitional, and sustainable activities and (ii) **comparable information** across institutions about their contribution to the federal goals, about their efforts to implement their sustainable strategies and to monitor and address sustainability-linked risks. This means that terminology, digital disclosure format and methodologies should be the same across institutions (noting the different scopes and types of portfolios);

2. Institutions have diverse mandates, approaches to investment, and levels of disclosure. **The monitoring framework should recognize these differences between institutions**, typically by adapting monitoring methodologies to their approaches and to the regulations or frameworks that institutions are currently subject to;
3. **Monitoring and disclosure** can be highly complex but **should remain a tool rather than an end goal**. This principle was used to **limit the reporting and disclosure burden as much as possible**. The proposed framework only covers topics that are absolutely necessary to monitor the implementation of a federal investment strategy. Elements and topics that would complement this picture, for instance those addressing the impact on the ground and sectoral aspects were left aside; in other words, this framework focuses on “must haves” and leaves aside the “nice to haves” in order to ensure successful implementation.

Objectives, governance and timeframe

The content and format of data on sustainable investments is critical to support the sustainable allocation of federal assets. At a monitoring level, they should (i) allow for follow-up on institutions’ commitments and (ii) allow for aggregation of data across institutions that propose similar types of finance (e.g., concessional finance) to follow-up on the trajectory of the volume of assets in relation to the Federal Government’s objectives. At the disclosure level, they should allow for transparency and accountability, such that external stakeholders, peers and citizens note the Federal Government’s involvement as a role model for private investors. For this reason, we propose that information is disclosed on the Federal Government’s website (and on the institutions’ websites where these exist). Three concrete actions are proposed (note that they are not alternatives: each action covers a different aspect of monitoring, such that all actions should be implemented): develop a common framework to report on the strategy and progress of each institution, develop a common framework for monitoring and disclosing data on the sustainability of investments of each institution, and develop a common framework for reporting the integration of sustainability-linked risks in each institution. This framework can build on the Workgroup assessing climate risks, and may directly rely on the Climate CUTA (Coordination Unit for Threat Analysis^{60,61}).

1. Develop a common framework to report on the strategy and progress of each institution

As discussed in section 1.2, we strongly recommend that each institution develops a strategy for advancing sustainable investments and for phasing out harmful investments, in line with the Government’s vision, and tailored in such a manner that allows for swift operationalisation. Policy option 1.2 further advocates for disclosing these strategies to enhance transparency and to allow Ministries and experts to assess and correct them. The rationale and articulation for institutions’ strategies is presented in detail in 1.2. Here, we focus on the format and actions to be taken to disclose them.

In line with the three principles stated above (comparability, leeway to accommodate institutional diversity, pragmatism) we suggest that the disclosures and review take place in an iterative manner. First, the institution in charge of reviewing the disclosures should develop a **template** for reporting the critical information about the strategy. This should include at a minimum the points detailed in policy option 1.2, and which are summarized below:

⁶⁰ <https://cuta.belgium.be/>

⁶¹ <https://khattabi.belgium.be/fr/cr%C3%A9ation-d%E2%80%99un-ocam-du-climat>

- Conceptualisation of the institution's strategy: goals, targets, any specific approach to sustainability (e.g., exceptions), timeline to reach the goals and targets;
- Operationalisation of the institution's strategy: definitions of harmful and sustainable investments (based notably on the Government's vision and on the proposed references in Table 2), methodology to classify investments along these definitions and to monitor them (e.g., metrics used, frequency of the monitoring, criteria or rationale to assess the results of the monitoring, measures to course-correct low results), description of the due diligence process;
- Institution's progress towards its goals and targets: description of the advancements and setbacks towards the goals and targets set above. The description should be sufficiently specific to allow for a dialogue with the federal government, to understand the larger context that supports or hinders the institution, and to assess the relevance of mitigation measures (see last point);
- Measures planned in response to the institution's progress and setbacks: description of the revisions to the action plan, including for instance measures to mitigate the setbacks (e.g., to mitigate a difficult macro-economic context) and measures to focus more strongly on actions that have proven more effective than expected (e.g., increased focus on a sector or type of financial instruments that have proven particularly efficient or effective to advance the institution's goals and targets).

The goal of the templates is to ensure that critical elements that serve the implementation of the Government's vision are included in the disclosures. There should thus be a focus on the content rather than on the format of the disclosures; for instance, institutions should have the opportunity to focus on (or alternatively, to fill in lightly) the elements that are particularly relevant to their context. Typically, institutions that are in the process of divesting from fossil fuels or other harmful investments should detail their due diligence processes, while institutions that invest mostly in activities that are not considered sustainable nor harmful should describe more in depth how they monitor the actual transition of their investments.

When reviewing these disclosures, the Ministry in charge of the review should have the possibility to ask questions in case of gaps or unclear justifications, so that the disclosure provides an accurate and complete overview of the situation. The review should then ensure that institutions are on track to reach their objectives, or that, alternatively, course-correction measures are set up. Box 2 proposes a list of high-level considerations that should be included during the review.

Box 2 High-level considerations for reviewing the disclosures about institutions' strategies

- *Are the definitions, methodologies and approaches sufficiently clear to be conducive to a solid implementation? E.g.:*
 - are they applicable to all sectors -or alternatively, are exceptions planned-?
 - are the scopes clearly defined?
 - are all the aspects of the definitions translated in criteria and/or thresholds and/or metrics?
 - are the targets quantitative and supported by clear timelines and responsibilities?
 - are the responsibilities for due diligence clearly set up?
 - do the goals support at least one of the Government's vision priorities?
- *Is the progress aligned with the timelines and objectives set, considering exogenous difficulties that the institution has faced? E.g.:*
 - is their progress on all aspects of the strategy? Alternatively, are there measures proposed to support the sectors or areas in difficulty further?

- in case the progress is not aligned with the timelines planned, could the institution benefit from more resources?
- could preventive or mitigative measures have been set to align the progress with the timelines?

For the first year of the review, the Ministry could consider hiring external, expert support for assessing the disclosures, to confirm and refine this list for each institution, and to set up relevant course-correction measures if necessary.

2. Develop a common framework for monitoring and disclosing data on the sustainability of investments

We propose two options to this end, namely a core and extended monitoring, the latter being more granular and providing a picture of which sustainability objectives are financed. This is presented in Box 3. Some of the tools used in this methodology (in particular, the definitions and criteria of the SFDR and of the EU Taxonomy) do not apply mandatorily to the institutions of the report. The choice of putting forward these tools is justified by several reasons:

1. They benefit from existing definitions and methodologies, although they do not legally apply to the institutions. They thus avoid “reinventing the wheel” at the Belgian level and they de facto allow for a faster implementation. For example, even though an institution is not legally obliged to disclose on PAIs, the PAIs already provide a useful set of KPIs to report on emissions reductions and other sustainability indicators;
2. They are technically applicable to many institutions, including where they are not mandatory. This is due to the fact that they propose concepts, categories and definitions that can be applied in varied contexts, including in public institutions that are not subject to the SFDR and to the EU Taxonomy;
3. Due to point 2, they allow for strong comparability across institutions despite the fact that institutions have widely differing types of portfolios and investment constraints. They can indeed be applied in the same manner across institutions, or, in more complex cases, they share the same categorisations and concepts with other recognised tools such as the Rio Markers (see explanation below in the table).

Box 3 Proposed monitoring framework

The proposed monitoring framework allows for tracking the progress of each of the institutions in a common way, and to monitor which types of sustainable investments are realised. For all institutions, projects and investments can be classified in 4 different buckets⁶²:

- Those that intend to have a positive impact on sustainability;
- Those that integrate sustainability concerns without primarily aiming at having a positive impact on sustainability;
- Those that advance transitional and enabling activities;
- Other projects.

Importantly, buckets are exclusive: a project or investment (or one of their components) cannot belong to more than one bucket. This ensures that there is no double-counting when aggregating figures. Projects and investments are deemed to be aligned with sustainability objectives if they correspond to buckets 1, 2 or 3.

⁶² The buckets proposed here stem from the categories of investments described by the SFDR, and from the categories of economic activities described by the EU Taxonomy.

Core monitoring: alignment of portfolios with sustainability objectives

This simplified monitoring framework indicates what proportion of investments and projects is partly or fully entailed to (1) an intention to have a positive impact on sustainability, (2) the integration of sustainability concerns without primarily aiming at having a positive impact on sustainability, or (3) transitional and enabling activities. Projects are tagged when they correspond to one of these buckets, based on existing tools and EU regulations (as depicted in Table 4). As a result, the number of tags can be aggregated and institutions can monitor their progress in financing projects or investments that pertain to these buckets, out of their entire portfolios. At the Belgian level, i.e., across institutions, we do **not** recommend **aggregating** absolute monetary volumes for each bucket, because the nature of finance provided differs across institutions. Certain institutions **fund** projects (e.g., Enabel), others **finance** through concessional finance (e.g., BIO), and others **invest** under private market conditions (e.g., Synatom). As a result, one cannot really compare the total proportion of projects that align with sustainability or with a specific bucket at the Belgian level. Aggregation could however be done across institutions that offer the same nature of finance, E.g., to obtain a total volume of concessional finance aligned with Belgian sustainability objectives.

Table 4 References for implementing the proposed monitoring framework

Institution category	Existing frameworks to be used
Institutions subject to the SFDR or whose investments are subject to the SFDR and institutions reporting under other or no frameworks <i>Belfius Insurance, National Lottery, NBB, Synatom, BIO, Credendo, Finexpo, SFPIM, Second Pension Pillar, NIRAS-ONDRAF</i>	The categorization offered by the SFDR can be used to differentiate between investments that intend to have a positive impact on sustainability (Article 9), those that integrate sustainability concerns (Article 8), those that advance transitional and enabling activities (question “minimum share of investments in transitional and enabling activities” in the reporting template ⁶³ , making reference to article 6 of the EU Taxonomy Regulation) and other investments (Article 6).
Institutions investing in Green OLOs ⁶⁴ <i>RSZ-ONSS</i>	Operations and programs eligible to the Green OLO financing should be marked with a Green OLO tag (see Table 2) by the FPS and Agencies that implement them. The Green OLO tag should indicate whether the operation or program intends to have a positive impact on sustainability, integrates sustainability concerns or advances transitional or enabling activities bucket ⁶⁵ . Operations or programs that align with article 9 of the SFDR may qualify as operations or programs that intend to have a positive impact on sustainability; those that align with Article 8 of the SFDR may qualify as operations or programs that integrate sustainability concerns; those that meet the criteria for transitional and enabling activities listed in the EU Taxonomy

⁶³ European Commission (2022) [Delegated Act to Regulation 2019/2088, Annex 2](#)

⁶⁴ This excludes the BDA, which issues debt. Investment in the Green OLOs is realized by other institutions, typically by the RSZ-ONSS; taking into account both the BDA and the RSZ-ONSS vehicles in monitoring would thus lead to double counting.

⁶⁵ By definition, no investment corresponding to bucket 4 could be financed by the Green OLO. Similarly, depending on the content of the new Green OLO Framework, it is possible that no investment corresponding to bucket 3 will be eligible to Green OLO finance.

	Compass ⁶⁶ may qualify as operations or programs that advance transitional and enabling activities. All investments realized by the RSZ-ONSS to non-green OLOs correspond to “Other projects”.
Institutions reporting on the Rio Markers <i>Enabel</i>	<p>The categorisation offered by the SFDR should be used to classify projects. To differentiate between projects that fall under Article 8 and Article 9, we suggest that Enabel uses the logic of the OECD DAC Rio markers that it already masters for climate and biodiversity-related objectives. The logic of the objectives in the Rio markers and of the SFDR are indeed deemed sufficiently similar to be used under the same reporting system, and to ensure that Enabel can build on existing classifications to report in the proposed framework.</p> <p>The Rio markers distinguish between projects that have climate action as a primary or significant objective. These categories can be used to attribute projects to Article 9 (primary objective) and to Article 8 (significant objective). Importantly, the proposed monitoring framework applies to all sustainable investments. Sustainability is to be defined in the Government’s vision, and goes beyond the scope of climate action used for the Rio markers. We propose that Enabel applies the Rio markers methodology for all sustainable objectives and not only for climate objectives. This way, Enabel will align its scope of reporting with the other institutions. For example, if the Government’s vision integrates the increase of social resilience in its definition of sustainable investments, Enabel can:</p> <ul style="list-style-type: none"> • Attribute projects to Article 8 in case the enhancement of social resilience is a significant objective, i.e. if the objective to enhance social resilience is explicitly stated as fundamental in the design of, or the motivation for, the project; promoting the objective will thus be stated in the project documentation as one of the principal reasons for undertaking it. In other words, the project would not have been funded (or designed that way) but for that objective⁶⁷. • Attribute projects to Article 9 in case they primarily intend to enhance social resilience, i.e. if the objective to enhance social resilience is explicitly stated but is not the fundamental driver or motivation for undertaking the project; instead, the project has other prime objectives but it has been formulated or adjusted to help meeting the relevant social resilience concerns. <p>Projects that meet the criteria for transitional and enabling activities listed in the EU Taxonomy Compass⁶⁸ can qualify as projects that advance transitional or enabling activities. All other projects can qualify as “Other projects”.</p>
<p>Extended monitoring: volumes of finance aligned with sustainability objectives</p> <p>This framework proposes a more granular methodology. It indicates the monetary value of investments for each bucket.</p>	

⁶⁶ European Commission, (n.d.) [EU Taxonomy Compass](#) The Compass marks enabling and transitional activities with a E or T. This practical tool, which allows to filter through activities and sectors, offers an overview of the criteria for eligible activities to be recognised as enabling or transitional.

⁶⁷ Based on OECD DAC (2016) [Rio Markers for Climate Handbook](#)

⁶⁸ European Commission, (n.d.) [EU Taxonomy Compass](#)

In order to ensure the consistency of figures across institutions and to build on existing frameworks, this methodology revolves around the notion of Green Asset Ratio⁶⁹ (GAR), as described in Table 5. The methodology described below is a translation of the steps and logic of the GAR to the context of the institutions reviewed.

Table 5 Methodologies for calculating the GAR of institutions' investments

Institution category	Proposition for calculating the GAR
Institutions realising investments in financial products	<p><i>The data quoted below and needed to calculate the GAR is available in the SFDR disclosures. In order to tailor this calculation to the portfolio of the institutions reviewed, the numerator and denominator should include all investments including those in SMEs.</i></p> <ol style="list-style-type: none"> Investments that intend to have a positive impact on sustainability: for each of the instrument in this bucket, the GAR is calculated as the average "Taxonomy-alignment of investments including sovereign bonds and disclosed as having a sustainability objective [minus] share of investments made in transitional and enabling activities". Investments that integrate sustainability concerns without primarily aiming at having a positive impact on sustainability: for each instrument in this bucket, the GAR is calculated as the "Taxonomy-alignment of investments including sovereign bonds and disclosed as promoting environmental/social characteristics [minus] share of investments made in transitional and enabling activities". Investments that advance transitional and enabling activities: for each instrument in this bucket, the GAR is calculated as the "share of investments made in transitional and enabling activities". Other investments: by definition, other investments do not entail sustainable investments. Each instrument of this bucket should be attributed a GAR of 0%. <p>The institution-wide GAR is obtained by calculating the average of all GARs, weighted by the monetary value of their respective instruments. The GAR specific to each bucket can be calculated in a similar manner, by calculating the average of all GARs of the instruments in the bucket, weighted by the monetary value of these instruments.</p>
Institutions realising investments in projects or companies	<ol style="list-style-type: none"> Investments that intend to have a positive impact on sustainability: for each investment in this bucket, institutions should identify components that directly and clearly aim at having a positive impact on sustainability. Institutions should then calculate the sum of the costs incurred by these components. The GAR is calculated as the ratio "Sum of components [divided by] the total costs of the investment". Investments that integrate sustainability concerns without primarily aiming at having a positive impact on sustainability: for each investment in this bucket, institutions should identify components that support sustainability objectives but which are not fundamental to the realisation of the investment, i.e. components that advance sustainability but which are not the primary reason to develop the investment/project. Institutions should then calculate the sum of the costs

⁶⁹ European Commission (2021) [Delegated Regulation 2021/2178 supplementing Regulation \(EU\) 2020/852](#)

	<p>incurred by these components. The GAR is calculated as the ratio “Sum of components [divided by] the total costs of the investment”.</p> <ol style="list-style-type: none"> Investments that advance transitional and enabling activities: for each investment in this bucket, institutions should identify components that support the transition of non-sustainable activities or that enable the realisation of sustainable activities. Institutions should then calculate the sum of the costs incurred by these components. The GAR is calculated as the ratio “Sum of components [divided by] the total costs of the investment”. Other investments: by definition, other investments do not entail sustainable investments. Each investment of this bucket should be attributed a GAR of 0%. <p>The institution-wide GAR is obtained by calculating the average of all GARs, weighted by the monetary value of their respective investments. The GAR specific to each bucket can be calculated in a similar manner, by calculating the average of all GARs of the investments in the bucket, weighted by the monetary value of these investments.</p>
Green OLOs ⁷⁰ -based institutions	<ol style="list-style-type: none"> Investments that intend to have a positive impact on sustainability: the administration in charge of the operations/programs that correspond to bucket 1 should identify the components of the operation/program which directly and clearly aim at having a positive impact on sustainability. Institutions should then calculate the sum of the costs incurred by these components. The GAR is calculated as the ratio “Sum of components [divided by] the total costs of the operation/program”. Investments that integrate sustainability concerns without primarily aiming at having a positive impact on sustainability: the administration in charge of the operations/programs that correspond to bucket 2 should identify the components of the operation/program which support sustainability objectives but which are not fundamental to the realisation of the operation/program, i.e. components that advance sustainability but which are not the primary reason to develop the operation/program. Institutions should then calculate the sum of the costs incurred by these components. The GAR is calculated as the ratio “Sum of components [divided by] the total costs of the operation/program”. Investments that advance transitional and enabling activities: the administration in charge of the operations/programs that correspond to bucket 3 should identify the components of the operation/program which support the transition of non-sustainable activities or that enable the realisation of sustainable activities. Institutions should then calculate the sum of the costs incurred by these components. The GAR is calculated as the ratio “Sum of components [divided by] the total costs of the operation/program”. Other investments: each operation/program pertaining to this bucket should be attributed a GAR of 0%.

⁷⁰ This excludes the BDA, which issues debt. Investment in the Green OLOs is realized by other institutions, typically by the RSZ-ONSS; taking into account both the BDA and the RSZ-ONSS vehicles in monitoring would thus lead to double counting.

	<p>The institution-wide GAR is obtained by calculating the average of all GARs, weighted by the monetary value of their respective operations/programs. The GAR specific to each bucket can be calculated in a similar manner, by calculating the average of all GARs of the investments in the bucket, weighted by the monetary value of these operations/programs.</p>
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3. Develop a common framework for reporting the integration of sustainability-linked risks

The survey showed that institutions do not use double materiality approaches. There is thus a clear need to monitor their progress towards the inclusion of sustainability-linked risks on their operations. We suggest focusing this reporting on a limited and simplified set of items that can already be found in existing frameworks (TCFD, TNFD) and that are based on the first set of the European Sustainability Reporting Standards (ESRS) as developed by EFRAG⁷¹ to allow for a rapid take-up and to ensure the applicability of questions to all institutions⁷². More specifically, we propose that institutions disclose information around the 4 following items:

- **Governance:** how does the institution identify and manage sustainability-linked risks? For institutions whose assets are managed externally, this question should be answered by the asset managers, who should specify their approach to sustainability-linked risks management. Others should explain the processes (e.g., scenario analysis) or governance systems to identify sustainability-linked risks at the institution- and portfolio-level.
- **Strategy:** what are the main sustainability-linked risks identified (i.e. which ones might affect most of the institutions' operations and the success of its projects/its return on investments)? What measures are implemented to manage these risks (divestment, technical assistance/active ownership, monitoring, etc.)?
- **Operations:** what proportion of investments (i.e., instruments or projects, depending on the institution) have been subject to a sustainability-linked risk assessment? This item is particularly relevant in the early years of the monitoring framework, as it will depict the concrete scale-up of sustainability-linked risks assessments. A 100% coverage of investments by risks assessments should be aimed for in the medium term.
- **Metrics:** which criteria and metrics are used for assessing and monitoring sustainability-linked assessments? This item will ensure the technical reliability of assessments discussed in "Operations" and that assessments are tailored to the institution's context.

Where to disclose reporting of the three common frameworks?

Two options are possible for disclosing the information. As mentioned in the introduction of this policy option, we suggest that disclosures are made on the Federal Government's website (or on the websites of the institutions, when these exist). We deem this option more conducive to transparency insofar as websites make information more accessible to all audiences than reports. In addition, providing separate websites about the topic of sustainable finance confirms the political salience and the legitimacy of the topic for public institutions as a stand-alone topic, rather than as a weaker topic that is integrated in technical reports. Alternatively, in case institutions prefer to present their disclosures to technical audiences and to peers, publication in reports could be considered. Disclosure should then be integrated in annual reports or annual financial reports where applicable. More technical specifications may be kept

⁷¹ EFRAG (2022). [First set of draft ESRS](#).

⁷² The set of questions proposed here is not applicable to the BDA, insofar as it emits bonds and does not have authority on the management of sustainability-linked risks.

internal in case they require strategic discretion (notably for Synatom and Belfius Insurance⁷³) - although this should not preclude the FSMA's control.

Governance: Each institution should be in charge of implementing the data framework to ensure internal take up and a smooth integration in the existing processes specific to each institution. In the case of institutions investing in Green OLOs, monitoring will largely rely on administrations and agencies that implement the operations and programs to be financed by the Green OLOs.

We suggest the two first pillars of disclosure are reviewed by the Ministry of Finance to align with the recommendation on harmful activities in section 1.3. The third framework of the reporting focused on sustainability-linked information should be verified by the FSMA, which has expertise on the topic due to its supervisory role in the private sector. This analysis will ensure that institutions sufficiently address (i.e., at the strategy, operational and metrics levels) and in a relevant manner sustainability-linked risks, and that this management is gradually improved.

Timeframe needed for implementation: It is advised to implement this policy option in the short term, insofar as data is required to implement the institutions' and Federal Government's sustainability objectives. This rapid implementation is not expected to pose issues, since a portion of institutions is already legally required to abide by the proposed data framework since March 2021 (date of entry into force of the SFDR level-1 reporting).

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness:** The proposed framework will allow for a strong comparability between institutions. It will therefore support the objective of showing the involvement of the Federal Government as a role model -by indicating the volumes and percentages of assets dedicated to sustainability or to the transition, it will offer a level playing field -by proposing fully comparable data for all institutions and it will be applicable at different degrees of granularity at the institution level, portfolio level, project or investment level. Regarding sustainability-linked risks, the effectiveness of the policy option will largely depend on the levels of awareness and technical knowledge of institutions; we strongly advise institutions to follow capacity building actions described in chapter 3 of this report.
- **Potential risks and impact on stakeholders:** Participants to the Workshop of the 28th of June raised that this policy option could be jeopardized by the lack of political incentive at the level of the Federal Government. It is thus key that the latter vouches for the common framework and indicates that its realization will support and award the already-existing efforts of institutions towards sustainability. Technical difficulties inherent to the implementation of data frameworks are to be expected at the outset of the policy option, for instance to classify investments and projects. It is strongly advised to start off with a narrower scope and at a manageable scale (i.e., with limited granularity and with the core monitoring proposed above instead of the extended monitoring) and to gradually strengthen the frameworks, so that institutions quickly reap low hanging fruits and attain Belgian objectives more rapidly.

⁷³ Synatom and Belfius Insurance must answer to 2 contradictory requirements; on one side, their private functioning requires discretion for competitiveness reasons, on the other side, as State owned institutions, they should disclose as much information as possible, notably on investments in harmful activities. We suggest that, as a rule of thumb, all the information listed in the proposed disclosure framework is disclosed, unless there is a well-grounded concern that the disclosure would negatively affect Synatom's and Belfius Insurance' competitiveness. This decision should be discussed with the Ministry in charge of reviewing the disclosures or with the FSMA.

In order to ensure the application of the monitoring framework by all institutions -which is a critical requirement for the comparability of data- we suggest to enshrine the monitoring framework in management contracts between the Federal Government and institutions.

3 Policy option to build capacity for advancing sustainable finance objectives

The objective of this chapter is to provide policy options to increase technical support for institutions, so that they build capacity to implement all the recommendations presented in this report. More specifically, the actions proposed in this chapter aim to (i) offer a contact point and external expertise for institutions, when these need advice on specific and well-defined difficulties, (ii) allow institutions to share more systematically their practices, lessons learnt and calls for advice and (iii) to increase knowledge in the key aspects of sustainability strategies in a more structured manner than through trial-and-error processes., i.e. with external support.

As mentioned previously, the institutions analysed in this project face different constraints (e.g., economic, legal constraints), different contexts (e.g., international versus Belgian finance), different investment logics (e.g., project based versus investment-based and aiming at revenues). However, all institutions highlight that they face difficulties, typically for selecting and monitoring investments. In particular, defining and verifying criteria for screening investments, scoping the monitoring and selecting relevant metrics have been identified as areas where external support and capacity building are needed. In addition, the conduction of a session for public institutions during the workshop on Policy Options held in Brussels on the 28th June 2022 showed that common discussions and debates help institutions to discuss and contrast internal difficulties, and can create a community of practices that is conducive to common progress. This policy option proposes different forms of support to the institutions, and build on these observations. The different actions are also such that different types of difficulties can be addressed, and such that support can be tailored to the different types of institutions. In that regard, the policy option differs from existing networks such as the InvestEU Advisory Hub or from the support provided by the expertise centre of the OECD, as it proposes to share lessons learnt only across Belgian institutions. Contrary to a network such as the Advisory Hub InvestEU, the proposed policy option also suggests creating solutions for providing technical assistance in all the aspects of sustainable finance covered by Belgian institutions (i.e., not specifically for a sole fund or policy). The added value of this policy option is thus to bridge gaps in capacity building and technical assistance where current networks or initiative do not operate.

Objectives, governance and timeframe

This policy option aims to answer concerns related to the lack of capacity and technical knowledge raised by certain stakeholders. It also aims at providing institutions with sufficient knowledge and resources to effectively implement other policy options. Due to the diversity of institutions and to the variety of needs (e.g., temporary vs. permanent needs, specific and technical vs. general needs), we suggest to combine several formats of technical assistance:

Build an ESG help desk for providing technical knowledge to institutions on an ad hoc basis. The help desk should provide advice to institutions which need specific support on issues that are well defined, for instance to integrate sustainable components in investments/projects that have a potential for

transitioning, to select the relevant metrics to monitor investments/projects, to identify and ascertain sustainability-linked risks at an investment/project- or institution-level, to strengthen the support given to an investment/project in a sector that the institution is not fully familiar with, or when institutions are faced with exceptional investments that lead to uncertainties regarding the assessment to be conducted. We advise the helpdesk to gather both expert practitioners and academics, insofar as the combination of their expertise is needed to cover the needs of institutions. Typically, we expect practitioners with a background in project development (e.g., public banks, development agencies, private project developers in energy, agriculture, transport, etc.) to be better suited to provide advice on the integration of sustainable components in investments/projects that have a potential for transitioning and on the selection of metrics to monitor investments/projects, due to their experience with varied contexts and with concrete issues (e.g., logistics, pricing). This group should be supplemented by academics or experts in environmental matters, such as biodiversity, climate mitigation and adaptation, loss and damage, pollution prevention and control, waste and water management.

Offer a forum where institutions can build a community of practices. This action is based on the observation that institutions endorsed the workshop of the 28th of June in Brussels and appreciated discovering each other's practices. This forum would therefore offer the opportunity for institutions to exchange on difficulties, lessons learnt and the implementation of other policy options. It would also provide a venue where key issues emerge and can be brought up to the attention of the operational Workgroup on capacity building as proposed in the governance structure. The forum can take in the form of a simple website with several thematical streams (e.g., monitoring, target setting, investments screening) where institutions can send questions and receive suggestions from peers, and share relevant documents. The community of practice should be used flexibly on a needs basis, and should be permanently established. We recommend that the helpdesk regularly posts information or examples of assistance useful to all institutions on the forum. This regular input will help incentivising institutions to centralise their technical discussions in this unique medium -and thus to enhance their impact - in a context where online communities usually prove difficult to sustain.

Incentivize institutions to join the capacity building activities proposed in the DLV5a report on the financial sector. Previous deliverables and interviews conducted with institutions suggest that certain institutions need a baseline knowledge about sustainable investments and the greening of investments. Capacity building activities that aim to equip stakeholders with basic knowledge on regulations, on the need for sustainability mainstreaming and on sustainability-linked risks discussed in DLV5a (section 3.1) could thus benefit federal institutions. It is advised that larger institutions (e.g., SFPIM) also follow trainings related to European regulations, as the access to European funds (e.g., under InvestEU) will require aligning with the DNSH principle and may be facilitated using the EU Taxonomy. We also strongly suggest that the staff members who will attend capacity building activities will disseminate the knowledge within the organisation thereafter through internal training sessions. We suggest for instance the organisation of brainstorming sessions to discuss how to best implement the information received, the construction of pilots (e.g., classification of a couple of projects along the EU Taxonomy, structuring of the strategy to address sustainability-linked risks) and to involve teams that are not primarily focused on sustainability. Table 6 below provides examples of topics to be addressed in the three formats of technical assistance, tailored per institution. These are based on the difficulties the institutions have raised in the stakeholder consultations to implement the recommendations proposed in policy option 1.2. (general and vehicle-specific recommendations). These examples are indicative and institutions are highly incentivised to address more topics than those proposed below.

Table 6 Examples of topics to be addressed by the different formats of technical assistance, tailored to each institution

Institution	Examples of topics to be addressed by the helpdesk	Tailored example of topics to be discussed in the community of practices <i>Note: a limited list of topics are quoted below. Each corresponds to a potential community of practice.</i>	Tailored suggestion of capacity building activity to follow under DLV4a
Belfius Insurance	Selecting and using metrics to monitor investments impact in a double materiality perspective	Implementation of the SFDR	Selecting investees, financial products and funds based on ratings and on SFDR disclosures Sustainability-linked risks (e.g., to assess the risks in the projects financed)
BDA	Identifying sectoral or transversal metrics to evidence programs' impact efficiently	Using the classification of the EU Taxonomy	Sustainability-linked risks (e.g., to select resilient projects)
BIO	Integrating adaptation measures in projects that aim for financial returns (this topic would primarily be of use for direct investments, i.e. not for those conducted through funds or funds of funds)	Developing sustainability-linked risks reporting (and subsequent actions) Formats and methods to provide technical assistance to clients while expecting financial returns	Sustainability-linked risks (e.g., to select resilient projects)
Credendo	Identifying additional measures for decarbonisation or reaching other sustainability objectives in the projects financed Enhancing staff's capacity to implement a solid and thorough screening of projects against the 4 criteria set up by Credendo in its COP26 Policy ⁷⁴ Ascertaining the scientificity of the rationale for excluding certain investments from	Using the classification of the EU Taxonomy	Sustainability-linked risks (e.g., to select resilient projects or enhance the resilience of investees)

⁷⁴ Credendo (2022) Credendo's policy regarding public support for the energy transition from fossil fuels to clean energy.

Institution	Examples of topics to be addressed by the helpdesk	Tailored example of topics to be discussed in the community of practices <i>Note: a limited list of topics are quoted below. Each corresponds to a potential community of practice.</i>	Tailored suggestion of capacity building activity to follow under DLV4a
	Credendo's COP26 Policy or of any other sustainability policy		
Enabel	Selecting monitoring and screening tools that are specific enough and correspond to Enabel's level of ambition	Implementing the proposed disclosure framework	Sustainability-linked risks (notwithstanding Enabel's frontrunner position regarding adaptation in the Belgium landscape, the activities proposed under DLV5a may provide additional perspectives on sustainability-linked risks that could be applicable to Enabel's workstream on the private sector)
Finexpo	Identifying metrics and criteria that are conducive to the investees' transition	Using the classification of the EU Taxonomy Implementing the proposed disclosure framework	Sustainability-linked risks (e.g., to assess the risks in the projects financed) Relevance and context of sustainable finance
SFPIM	Identifying additional measures for decarbonisation or reaching other sustainability objectives in the projects financed	Using the classification of the EU Taxonomy Formats and methods to provide technical assistance to clients while expecting financial returns	Sustainability-linked risks (e.g., to assess the risks in the projects financed)
National Lottery	Structuring and institutionalizing the institution's strategy, in line with the Federal Government's priorities	Implementing the proposed disclosure framework	Selecting investees, financial products and funds based on ratings and on SFDR disclosures Sustainability-linked risks (e.g., to assess the risks in the projects financed)
NBB	Structuring and institutionalizing the institution's strategy, in line with the Federal Government's priorities	Developing indicators to identify sustainability-linked risks	Sustainability-linked risks (e.g., to reduce the exposure of portfolios)

Institution	Examples of topics to be addressed by the helpdesk	Tailored example of topics to be discussed in the community of practices <i>Note: a limited list of topics are quoted below. Each corresponds to a potential community of practice.</i>	Tailored suggestion of capacity building activity to follow under DLV4a
NIRAS-ONDRAF	Identifying and clarifying criteria to select investment managers in charge of NIRAS-ONDRAF funds, such that the sustainable aspects of NIRAS-ONDRAF's investment policy are maximised in terms of return and impact (e.g., clarify which climate risks are expected to affect most the long-term revenues of NIRAS-ONDRAF, and identify which investment managers are most suitable to manage these risks).	Implementing the proposed disclosure framework	Selecting investees, financial products and funds based on ratings and on SFDR disclosures Sustainability-linked risks (e.g., to reduce the exposure of portfolios) Relevance and context of sustainable finance
Second pillar pension	Structuring and institutionalizing the institution's strategy, in line with the Federal Government's priorities	Using the classification of the EU Taxonomy Implementing the proposed disclosure framework	Selecting investees, financial products and funds based on ratings and on SFDR disclosures Sustainability-linked risks (e.g., to reduce the exposure of portfolios) Relevance and context of sustainable finance
Synatom ⁷⁵	Striking a balance between the need for financial returns and impactful portfolios	Implementing the proposed disclosure framework	Sustainability-linked risks (e.g., to reduce the exposure of portfolios)
RSZ-ONSS	N/A (insofar as RSZ-ONSS automatically selects BDA's OLOs, it is not expected that the institution needs technical dedicated support)	Implementing the proposed disclosure framework	Relevance and context of sustainable finance

⁷⁵ The tailored examples for Synatom acknowledge that Synatom relies on an external portfolio manager. The proposed examples are expected to support Synatom in reviewing the relevance of approaches proposed by these external managers.

Governance and time frame: The governance and timeframe foreseen differ per action, as depicted in Table 7.

Table 7 Governance and timeframe foreseen per action

Action	Governance	Timeframe
Build an ESG help desk	<p>We suggest the DNSH Center, the FSMA or FRDO to host the experts of the helpdesk.</p> <p>The DNSH Center presents the advantage of holding both capacity in terms of team size and of expertise to act as a helpdesk. Another option is to nest the helpdesk in longer-standing institutions (the FSMA or the FRDO). These would act as secretariats and would need to hire additional staff or to train their staff which currently act as regulators (FSMA) or advisors and implementation-oriented capacity builders (FRDO), so that they can offer their existing expertise (respectively, risks management and sustainability impacts) while acting as consultants.</p> <p>In case the implementation of the helpdesk is successful, i.e. if institutions regularly find solutions and enhance their sustainability impacts with the help of the help desk, the opening of the desk to the private sector (against a fee) could be considered.</p>	<i>Short/medium term</i> , noting that the implementation of this policy option will be mostly needed after the implementation of the first policy option.
Offer a forum to build a community of practices	<p>The FRDO appears to be best suited to select online tools to build a forum, given its mandate of education for large groups of stakeholders. The FRDO has experience in organising capacity building and networking events in the field of sustainable finance with an operational, implementation-oriented goal, and is thus expected to be familiar with the challenges and good practices to make capacity building activities (e.g., the forum) successful.</p>	<i>Short term</i> , to support the rapid implementation of the other policy options
Incentivize institutions to join the capacity building activities proposed in DLV5b	<p>The organisation or institution implementing the capacity building activities under DLV5b should ensure the communication of the activities to institutions.</p>	<i>Short term</i> , in line with the timeframe identified in policy option 3.1 of DLV5a

Effectiveness, potential risks and impact on stakeholders

- **Effectiveness:** The effectiveness of this policy option will not be observed directly, insofar as the effective impact will correspond to the emergence of an enabling environment to implement the other policy options.

The helpdesk will support institutions to enact the strategic recommendations mentioned in the first policy option by allowing them to broaden the scope of their sustainability action (e.g., beyond their traditional sectors of interest). The helpdesk, the community of practices and the broader training will strengthen the monitoring proposed in policy option 2. The community of

practice is also expected to increase the effectiveness of the governance structure proposed in policy option 1.1. by federating institutions and being a preliminary forum to address technical issues that should be raised in the proposed governance structure.

The effectiveness of this policy option is conditioned to two main prerequisites. First, the Federal Government should define priorities (e.g., sectors, sustainability objectives, technologies) to allow institutions to focus their efforts of capacity building and facilitate the learning process. Without priorities, technical assistance will not fully deliver the expected benefits as it would not be sufficiently specific. Second, the community of practices would benefit from the establishment of the operational Workgroup on capacity building in the governance structure, as this group would ensure that the most complex issues are raised at the political level and thus managed.

- **Potential risks:** This policy option is expected to be supported by institutions. In that regard, it is not expected to involve political risks. At a technical level, the construction of the online forum for the community of practices is not expected to entail any difficulties, and capacity building activities will not require additional efforts for the Federal Government, provided that policy option 3.1 of DLV5a is implemented. However, the creation of the helpdesk might pose difficulties in terms of human resources: the variety and specificity of expertise needed from the helpdesk staff should be scoped in a manner that ensures broad coverage and proportionate resources (i.e., as the helpdesk should be used on an ad hoc basis, it should not involve the recruitment of many full-time employees).
- **Impact on stakeholders:** This policy option is applicable to all institutions. The three different actions proposed indeed offer a good coverage of capacity building needs, insofar as they have different formats and contents. The resources needed for the helpdesk do not represent a burden on institutions' resources, but they will require an updated allowance to the FSMA or FRDO.

4 Conclusions and Recommendations

Building on the momentum for sustainable finance, the Federal Government aims to develop and implement a Federal Public Investment Strategy, contributing to Sustainable Finance. This policy options report provides insights and constructive elements into the main policy interventions 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. This report on the perspective of the federal government as investor (DLV5b) also relies on the report on policy options on the perspective of financial market participants (DLV5a).

To address the main difficulties preventing the mainstreaming of sustainability factors in federal public institutions’⁷⁶ investments, which were identified in the previous Policy gaps report (DLV4), the following policy option areas were explored: (1) Policy options for an ambitious and coordinated sustainable finance policy framework; (2) Policy option to improve the monitoring and disclosure of sustainability in public financial flows; and (3) Policy option to build capacity for advancing sustainable finance objectives. These three policy areas address all identified difficulties by targeting specifically a set of five policy options, complementary to the options developed under the report on the perspective of financial market participants, and which vary in terms of the perceived importance for decision-makers and stakeholders, urgency, as well as potential constraints for their implementation. While the three policy areas are applicable to the Federal Government as an investor, where relevant, the policy options provide recommendations tailored to each institution.

This chapter aims at guiding the selection of the most relevant and crucial policy recommendations to develop a Belgian Sustainable Finance Strategy and to set the building blocks for a Strategy and Action Plan for Sustainable Finance. 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 conclusions and recommendations for each policy intervention area

This chapter summarises the conclusions of the study. It presents the approach underlying each policy area (objectives, interaction with other areas) and summarises the recommendations of each policy option, including recommendations on the requirements for implementing the policy options.

Policy area 1: Policy options to develop an ambitious and coordinated sustainable finance policy framework

The objective of this policy area is to establish a framework to build a coordinated, sustainable and ambitious investment strategy, common to all federal investment vehicles. To contribute to **developing an ambitious and coordinated sustainable finance policy framework**, (1) a clear and recognised governance structure is critical to ensure the mainstreaming of sustainability concerns across all federal investment vehicles. The efficiency of the proposed structure stems from its integration within the

⁷⁶ Belfius Insurance, Belgian Debt Agency, BIO, Credendo, Enabel, Finexpo, SFPIM, National Loterij, National Bank of Belgium, NIRAS-ONDRAF, Second Pension Pillar Fund, Synatom, RSZ-ONSS Fund.

governance structure proposed for the financial market participants (cf. DLV5a, option 1.1); this integration indeed ensures synergies and a regular exchange of practices and lessons learnt between stakeholders. The success of the governance structure would also benefit from the establishment of an engagement strategy. A second requirement to the development of an ambitious and coordinated sustainable finance policy framework is (2) the definition of the Federal Government's sustainability vision (including objectives, priorities and a definition of (non) sustainable investments) on which each institution can build its strategy and screening criteria for selecting sustainable investments, such that the Federal Government's vision is effectively implemented despite the specificities of each institution. Finally, and closely related to the second requirement, (3) designing and implementing a list of harmful activities is a crucial step for setting a federal exclusion list or divestment strategy, and considering voluntary or mandatory disclosure on harmful activities still financed by the Federal Government.

This option also intends to support the Council of Minister's decision regarding the SFPI to carry out the process of centralisation of the shareholding, to follow up and implement the ownership policies, the request to SFPI to gradually strengthen its organization and adapt it to its role of centralizing the shareholding function of the State.

We recommend that the strategy integrates the following policy options:

1. Establishing a governance structure to mainstream sustainability across all federal investment vehicles
 - This option emerges as the most urgent task to enable the Federal Government to tackle the challenges related to the implementation of the strategy, and to ensure an appropriate coordination among all stakeholders;
2. The federal investment strategy should identify and clarify the priority actions according to the recommendations provided for each policy option, to give a clear mandate to the Workgroup within the Taskforce Sustainable Finance, and to link with the required Workgroups established for the policy options addressed under DLV5a (the establishment of the Workgroup on the coordinated federal investment strategy should come from a clear political mandate);
 - The proposed structure is the simplest to achieve the goals within the existing Belgian framework, especially considering the advantages and level of involvement that it represents for the federal investment vehicles (e.g. working via a dedicated roundtable to complement the work done by Workgroups).
3. Implementing general and vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks;
 - The prerequisite for implementing this option is the establishment of the government's sustainability vision. The vision should set objectives, priorities and definitions of (non) sustainable investments.
4. Developing a list of harmful activities to guide public investments common to all federal investment vehicles
 - 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 should be used directly as an exclusion list by all federal investment vehicles. The list could also serve as a reference for financial market participants;
 - The disclosure of investments included in a list of harmful activities should become mandatory as soon as possible.

Policy area 2: Policy options to improve the monitoring and disclosure of sustainability in public financial flows

This policy area presents recommendations to contribute to **improving the monitoring and disclosure of sustainability in public financial flows**. While monitoring ensures the actual implementation of the policy options proposed in this report, disclosure efforts further support accountability and help showing institutions' action for sustainability to the general public. Considering the role of monitoring and disclosures to ensure the effective implementation of sustainability frameworks and accountability, the proposed framework entails the institutions' strategies, the volumes of finance that they dedicate to (non) sustainable activities, and the integration of sustainability-linked risks. Although this framework ensures comparability across institutions, it also accommodates for the institutions' specificities.

The monitoring framework was developed as a tool to strengthen the other policy options developed under this project, and as an answer to the stakeholders' demand throughout questionnaires that the public sector acts as a role model. For this reason, this option should be considered as a priority.

The first pillar of the framework - reporting and disclosing on the progress in line with the institutions' strategies - is an important piece of the proposed strategy as it will help to follow the progress towards the goals of the government's vision. The second pillar of the framework lays the foundation for a systematic and transparent measuring of the volumes of finance that are channelled towards harmful activities, towards activities that are not harmful nor sustainable, towards activities that are sustainable, and towards activities that are transitional or enabling the sustainability transition. In itself, it provides an indication of the progress towards the strategies and the government vision, by adding a quantitative layer of monitoring to the qualitative layer of the first pillar. Finally, the third pillar presents the basic requirements for gradually building a monitoring and disclosure of sustainability-linked risks. The growing influence of sustainability-linked risks on the success of projects and of investments realised by institutions makes it necessary to establish a monitoring of these risks rapidly. This can build on the Workgroup on Climate Risks which was proposed in the DLV5a report on the financial sector (section 3.3 of the respective report).

Policy area 3: Policy options to build capacity for advancing sustainable finance objectives

Finally, to contribute to **build capacity for advancing sustainable finance objectives**, the report proposes different types of support through which institutions can receive technical assistance for implementing their strategies. This last policy area builds on the feedback received by stakeholders and on the subsequent need to support them to implement the other policy options. The policy area acknowledges the variety of institutions and of their support needs both in terms of content and of format. It therefore proposes the establishment of three forms of capacity building: an ESG helpdesk providing technical assistance, a forum allowing for the exchange of lessons learnt and questions across institutions, and the possibility to participate to capacity building activities developed for the private sector.

With regard to the ESG helpdesk, the success of this policy option will particularly depend on the choice of the experts to be hired and on the scope of the demands that institutions may submit. The chapter provides suggestions of experts' profiles and of topics to help scoping the role of the helpdesk.

This option is crucial to build the required expertise in a gradual manner, as the regulatory framework is still under development. It can be refined based on the actual usage and benefits of the capacity building activities. For instance, even though the launch of the forum is a priority task, it may be worth observing

the evolution of the roundtable during its first month of operation before starting to structure the forum. Similarly, the policy option may evolve based on the progress of the government's vision or sustainable finance regulatory framework (e.g., growing importance of sustainability-linked risks and of biodiversity-related objectives).

In the case of the incentivisation of institutions to join the capacity building activities proposed in DLV5a, the government should also ensure sound communication across private and public entities. This will help institutions to participate in the capacity building activities.

Finally, and because of its instrumental role in the coalition agreement, SFPIM should be involved in the design of all capacity building activities.

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

This section summarizes the main elements of each policy option, including objective, concrete initial activities, governance implications, a timeframe proposal, and a summary of the main feasibility aspects.

Policy options for an ambitious and coordinated sustainable finance policy framework

Policy option	Objective	Measures & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
1.1 Establishing a governance structure to mainstream sustainability across all federal investment vehicles	Efficient collaboration framework Support to the development of a coordinated, sustainable and ambitious investment strategy	<ul style="list-style-type: none"> In the frame of the Taskforce Sustainable Finance (DLV5a), establish a Workgroup with SFPIM; The Workgroup helps structuring the works towards the development of a coordinated, sustainable and ambitious investment strategy; Support the development of a common engagement strategy, in the context of the ownership policy. 	<ul style="list-style-type: none"> The Workgroup consults the other federal public vehicles via a dedicated roundtable; Liaise with the other thematic Workgroups of the Taskforce, to build capacities, set up a monitoring scheme 	<ul style="list-style-type: none"> Fully operational on the short to mid term (incl. clear action plan) 	<ul style="list-style-type: none"> Governance is essential, to support SFPIM streamlining the development of a coordinated, sustainable and ambitious investment strategy; It is key to coordinate the implementation of the measures across the federal public vehicles; The approach is built on the existing framework. It is as light as possible and evolutive, while bringing on board the critical players (i.e federal public vehicles).
1.2 General and vehicle-specific recommendations for mainstreaming sustainability approaches and frameworks	Setting a strategy for sustainable investment for the Federal Government as investor Steering institutions' investments in a manner tailored to their specificities	<ul style="list-style-type: none"> Develop an all-encompassing investment vision with objectives, priorities and a definition of (non) sustainable investments; Develop and implement a procedure to screen investments 	<ul style="list-style-type: none"> Address the definitions via the roundtable⁷⁷; Confirm the priority sectors and sustainability objectives in the Workgroup. 	<ul style="list-style-type: none"> The definitions should be aligned with the harmful activities list on the short to mid term; Procedures to phase out investments and screen investments to be ready on the short to mid term. 	<ul style="list-style-type: none"> It should be highly effective by ensuring the concrete mainstreaming of all aspects of sustainability into institutions' operations (double-materiality, investment strategies, Belgian and vehicle levels); There is a risk that vehicle-specific definitions of adverse impacts/harmful and sustainable investments lead to a non-harmonised approach, making it

⁷⁷ These definitions could be prepared by either each federal public vehicle, either by the workgroup under the umbrella of the concerned administration (Main Board) and the SFPIM. In any case the definitions should be endorsed by each vehicle

Policy option	Objective	Measures & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
		<p>and projects that are sensitive to sustainability risks and to mitigate these risks;</p> <ul style="list-style-type: none"> Initiate “bilateral” dialogue between the Workgroup and each federal public vehicle to develop vehicle-specific approaches to defining and selecting sustainable investments, and additional recommendations on all aspects of the investment cycle. 			<p>necessary to build them on the basis of the government’s vision;</p> <ul style="list-style-type: none"> Definition of sustainability priorities will probably be politically difficult in case of the explicit prioritization of technologies; Vehicle-specific approaches may be time consuming; This may require additional capacity or expertise in institutions (see policy option 3).
1.3 Developing a list of harmful activities to guide public investments common to all federal investment vehicles	Establish list(s) of harmful activities, to divest, to be used during the pre-screening process (possibly as an exclusion list), and to disclose on investments in harmful activities	<ul style="list-style-type: none"> Develop & publish an exclusion list of harmful activities, building on the Coalition Agreement (2020); Enhance and make mandatory the disclosure on investments in harmful activities. 	<ul style="list-style-type: none"> Link with the Workgroup dedicated to harmful activities (DLV5a, option 1.5); Run Roundtable to consult federal public vehicles. 	<ul style="list-style-type: none"> Establish the exclusion list on the short term, based on priorities defined in Annex A of DLV1 (e.g., climate change mitigation); Establish the list of harmful activities on the short to mid term. 	<ul style="list-style-type: none"> The coalition agreement provides the political basis to divest from fossil fuels; It provides a long-term and stable framework for divesting federal assets from harmful activities; The government and the different federal investment vehicles should reach an agreement on the list and communicate it to all stakeholders; The mandatory implementation of the list should be gradual, and the strategy should provide for capacity building to mitigate the costs of this option.

Policy option to improve the monitoring and disclosure of sustainability in public financial flows

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
2. Policy option to improve the monitoring and disclosure of sustainability in public financial flows	Develop a comprehensive framework around three themes to be monitored (strategies, investments, sustainability-linked risks), to ensure that the federal government can follow-up -and, if needed, reorient- the actions of federal investment vehicles to implement the sustainable investment strategy	<ul style="list-style-type: none"> Develop a common framework to report on the strategy and progress of each institution; Develop a common framework for monitoring and disclosing data on the sustainability of investments; Develop a common framework for reporting the integration of sustainability-linked risks. 	Link with the Workgroup dedicated to the improvement of the current content & scope of ESG disclosure (DLV5a, option 2.3).	Assuming a general political agreement is reached, it is advised to implement this policy option on the short to mid term.	<ul style="list-style-type: none"> The proposed framework will allow for a strong comparability between institutions; Regarding sustainability-linked risks, the effectiveness of the policy option will largely depend on the levels of awareness and technical knowledge of institutions; The effective implementation of this option could be jeopardized by the lack of political incentive from the Federal Government; Technical difficulties inherent to the gathering and analysis of data are to be expected.

Policy option to build capacity for advancing sustainable finance objectives

Policy option	Objective	Activities & instruments	Governance	Timeframe	Perceived effectiveness, main risks and impact on stakeholders
3. Policy option to build capacity for advancing sustainable finance objectives	Provide technical support to institutions, to offer a contact point and external expertise, to allow institutions to share their practices more systematically, and to increase their knowledge in the key aspects of sustainability strategies	<ul style="list-style-type: none"> Build a help desk for providing technical knowledge to institutions on an ad hoc basis; Offer a forum where institutions can build a community of practices; Incentivize institutions to join the capacity building activities proposed in DLV5a. 	<ul style="list-style-type: none"> Link with the Workgroup dedicated to Setting up a help desk (DLV5a, option 3.1). 	<ul style="list-style-type: none"> <i>Building the help desk:</i> short-term, once the governance system is in place; <i>Building the forum:</i> short-term, to support the rapid implementation of the other policy options; <i>Capacity building with private entities:</i> short-term, in line with the timeframe of policy option 3.1 (DLV5a) 	<ul style="list-style-type: none"> The helpdesk will support institutions to implement their strategies and to screen their investments; Capacity building will strengthen the capacity to monitor (in particular in relation to the volumes of finance and to sustainability-linked risks); The construction of the online forum for the community of practices is not expected to entail any difficulties, and capacity building activities will not require additional efforts for the Federal Government, provided that policy option 3.1 of DLV5a is implemented.

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 companies⁷⁸). 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

⁷⁸ 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

