How Policy and Regulation Can Unlock Billions for Impact

Four Opportunities to Boost Sustainable and Impact Investing in Belgium

Impact Finance Belgium

Research partner: Freshfields

Foreword - John Berrigan

In recent years, the global economy has faced significant changes, driven by evolving geopolitical and market dynamics, and the pressing need to address the climate and environmental challenges. To tackle these issues, the EU sustainable finance framework aims to help investors, companies, and other economic actors improve sustainability in their business practices and investment decisions, particularly in response to risks related to climate change and environmental degradation. The framework is designed to facilitate the financing of sustainable investments in meeting the objectives of the European Green Deal, which seeks to create a climate-neutral, resilient and competitive economy. While largely focusing on environmentally sustainable business practices, it also encompasses investments in socially responsible economic practices more broadly. To meet these objectives, a significant portion of the required investments - estimated at over 600 billion euro per year for the coming years - will need to come from private sources.

Capital market funding can play a critical role in filling this gap, but European capital markets remain underdeveloped compared to the scale of the challenge. Over the past decade, **the European Commission has proposed a range of measures under the Capital Markets Union (CMU)** to unlock the full potential of capital markets, enhance cross-border investment opportunities, and drive economic growth and innovation throughout the EU.

To truly unlock the capital needed for such investments, there is an urgent need for cohesive policy and regulatory reforms that facilitate sustainable investments, bolster investor confidence, and encourage cross-border collaboration. Further developing the enabling environment for impactful financial instruments, such as green bonds and investment funds, will be critical in attracting a new wave of retail and institutional investors eager to make a positive impact, including in new areas beyond decarbonisation, such as boosting biodiversity and adaptation to climate change. **Both the European and national levels need to act in tandem** to mobilise sustainable investments.

The shift towards a sustainable, impact-driven economy requires more than just financial capital – it demands **political will, cross-sector collaboration, and a shared vision for the future.** The recent report on European competitiveness by Mario Draghi outlines a critical vision for Europe’s future, grounded in sustainable competitiveness, economic security, open strategic autonomy, and fair competition.

At this pivotal moment, **the right combination of EU-wide policy, national regulatory action, and financial innovation** is essential to unlocking the significant capital needed for sustainable impact. The way forward is not to overlook national preferences and concerns, but rather to build a compelling economic case. Fostering the digital and green transitions will ensure that our economy and society remain resilient, inclusive, and ready to thrive in a rapidly evolving world.

John Berrigan
Director General
DG FISMA (Directorate-General for Financial Stability, Financial Services and Capital Markets Union)
European Commission

Foreword - Steven Serneels

Can targeted policies and regulations enable or even accelerate the much-needed financing for a transition towards a sustainable planet and inclusive society? What role can public funding play to catalyse more private capital? And what measures provide the biggest opportunity?

These are no light questions in a Belgian context of major budgetary constraints and a political landscape that still has to show to what extent it takes the sustainability agenda seriously.

When confronted with these questions, we started by seeking input from our members and looking across the borders. We noticed that in our **neighbouring countries** similar discussions are ongoing and **can provide inspiring examples.** Those examples, often going beyond tax incentives, demonstrate a mix of government initiatives, new regulation and the creation of opportunities to direct more private capital towards positive environmental and social impact.

Globally, the Inflation Reduction Act in the United States and China's lead position in wind & solar energy show that sustainability has become a vital and integral part of geo-politics, business and society. On a European level, there is a renewed focus of the European Commission, re-enforced recently by Draghi's EU Competitiveness report and Letta's earlier report, to make the Green Deal work as a powerful engine for a future-proof economy and a catalyst for innovation. **EU member States are invited to play an ever more important role** as they can unlock significant amounts of impact capital from parties such as institutional investors and retail savers, both still very much embedded in a national context. The Capital Markets Union, enhancing inter-national competition, will hereby act as accelerator of the sustainability agenda. **This setting creates a favourable and timely context for national (and regional) governments** not only to act themselves but also to stimulate more (private) actors to participate in the 'green and inclusive' transition.

Such transition in Belgium requires annually tens of billions of euros to address the related challenges and **close the financing gap to meet the Sustainable Development Goals** (SDGs) by 2030. Only for **sustainable infrastructure** in Belgium the needs would total an estimated **4 to 7 billion** euro annually. Transforming Belgium's transportation sector to reduce emissions and improve sustainability will require huge investments in public transportation, electric vehicle infrastructure, and sustainable urban mobility solutions. Investments are needed in renewable energy sources like wind and solar, as well as in smart grid technologies to improve energy efficiency and reliability. Belgium's cities will need to invest heavily in green buildings, waste management, and water infrastructure to ensure they can support growing populations sustainably. Other examples are the sectors of **health (2 to 5 billion** euro annually) and **education & skills (1.5 to 3 billion** euro annually). In areas where Belgium has a lead position, such as the **circular economy**, substantial investments (**2 to 5 billion** euro) will be required in order to keep that position. Both transition finance as well as so called 'light' and 'dark' green investments will be needed to successfully close the SDG gap. **The focus of this report is on unlocking more 'dark' green investments, investments with a strong commitment to sustainability and positive impact.**

Impact Finance Belgium (IFB) estimates that today tens of billions of euros of all assets under management (AUM) in Belgium could be **classified as such investments.** However, this amount is well **below 10% of total AUM**, a threshold which can be considered as critical, **showing the need to grow sustainable and impact investments**[1] in Belgium.

1. Sustainable investments and impact investments are investments that go beyond the avoidance of harm, with a clear potential for impact. See for definitions the European Impact Investing Consortium Positioning Paper: the 5 Ws of Impact Investing (https://impactfinance.be/researches/position-paper/).

Of course, this is not just a government challenge. Enterprises, citizens, and investors must participate and take up their responsibility. Today, the front runners are already generating good results. They expect, however, that the **government creates a stimulating environment and provides a level playing field** to encourage the impact promoters, to support transparency and avoid green washing, and to enable real scale.

This report puts forward **targeted policies and regulations** that have the potential to unlock billions of additional private sustainable and impact capital in Belgium by **democratising impact finance, stimulating large institutional investor**s and **reviewing and re-purposing public money,** without increasing government's spending.

It is the first time such a report has been published in Belgium. It provides the direction of travel and intends to be the start for a deeper and wider discussion with government, policy makers and the relevant stakeholders, such as regulators, representative networks of financial actors and investment practitioners. Their intentions, (political) will and ambitions will be crucial to catalyse the identified potential, being fully aware that not only technical solutions but also a mind shift is needed. **We invite all relevant stakeholders to join this journey** towards a competitive economy, a resilient society and a sustainable planet.

This report would never have been possible without the very generous support of many people and organisations. Their contribution and insight were invaluable. We would like to thank specifically:

- Our research partner, Freshfields, for their technical knowledge;
- The Sounding Board members for their valuable and pertinent remarks and reflections;
- Our members, providing expertise, the required sense of reality and a practitioner's perspective;
- A big thank you also goes out to the many interviewees who contributed their valuable insights to this report.

Steven Serneels
Co-Founder and Chairman
Impact Finance Belgium

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Executive Summary

A sustainable future in Belgium is only possible if public and private sectors contribute and benefit. Ideas and execution, funding and legislation, all need to come together to work on a future that is better for all of us. Whilst we primarily address Belgian actors, we are part of a European Union. That same EU also offers good examples of solutions that our neighbours found to some of the challenges we share. Looking across our borders shows where Belgium is ahead, for example on the circular economy, or where Belgium can be inspired. **These challenges come with many opportunities,** for the economy overall, as well as for enterprises and financiers.

IFB suggests several ways by which policy and regulation can bring in **the private sector as a crucial partner and co-financier,** supporting the Belgian government(s) to achieve a sustainable future. At the same time, with more than 50% of Belgian Gross Domestic Product (GDP) flowing through government coffers, **the current public budgeting can also be reviewed and, as the case may be, repurposed to achieve more impact.**

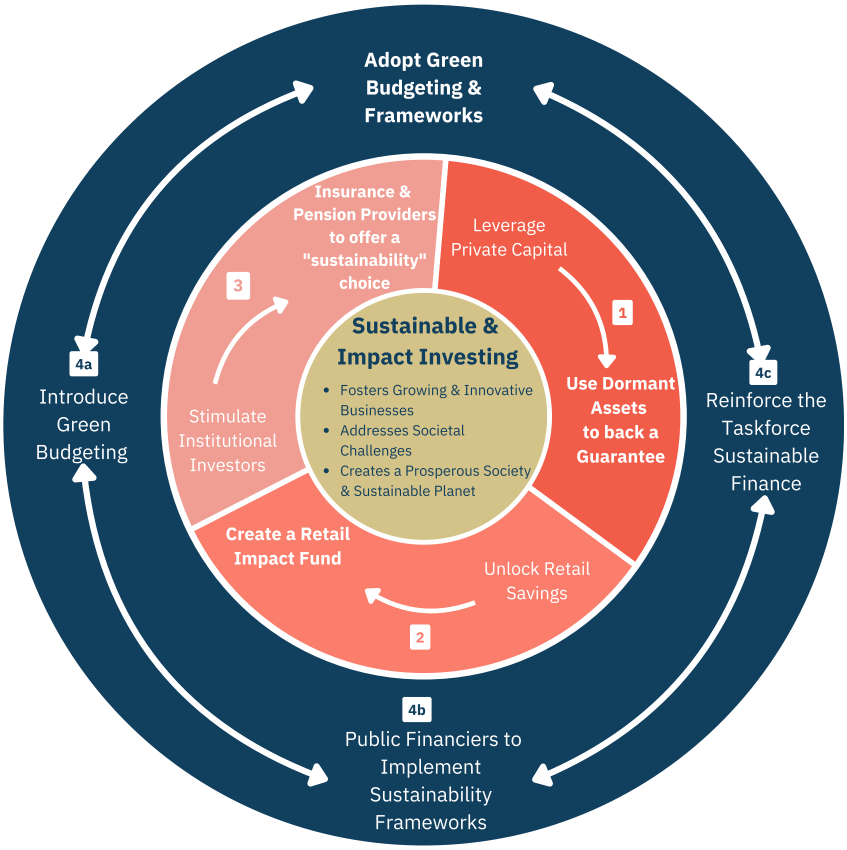
Based on inputs from our members and successful examples from neighbouring countries, IFB presents four complementary proposals:

1. ***Leverage private capital*** *by repurposing State support for projects generating positive environmental and social impact.*
2. ***Unlock retail savings*** *to enable citizens to participate in sustainable growth in Belgium.*
3. ***Stimulate institutional investors*** *to direct part of their investments towards scaling societal benefits.*
4. ***Adopt green budgeting and frameworks*** *at federal and regional levels to facilitate the transition to a sustainable and inclusive future.*

Specific to these four proposals, IFB suggests pilot schemes (1) to use dormant assets as a guarantee to leverage private capital, (2) to introduce a new structure for retail impact funds, making them accessible to a wider audience, (3) to create the choice to allocate part of insurance and pension funding towards sustainability and impact, and (4) to include green budgeting at State level, to embed sustainability frameworks in the operations of state-owned investment vehicles and reinforce the Taskforce Sustainable Finance.

Three out of the four proposals could jointly unlock at least 2.5 to 4 billion euro of private funding for sustainable and impact investments, sometimes called dark green investments. This is an important amount, but more is needed. **Learning from the pilots will allow for expansion and replication,** generating much more private funding in Belgium, to contribute to a sustainable future.

In the chart below, we share how these four proposals reinforce each other. The inner circle shows how our first three proposals function with different targets, (1) leveraging private funding through State support, then enhancing (2) retail funding and (3) institutional funding. Each proposal aims to bring in more private sector funding for impact. The wider circle is at government level; (4a) reviewing all current government expenses against green targets, (4b) stimulating the government owned investment vehicles to set an example and (4c) ensuring good thinking and communication via the Taskforce Sustainable Finance. These four proposals may partially overlap and reinforce each other.



Successes abroad do not translate into automatic success in Belgium. Each of these proposals comes with a wider rationale and a specific pilot for implementation. This would allow Belgium to take good examples that have worked elsewhere, introduce the necessary changes to make them fit in Belgium and assess the results of the pilots. It would be a low-risk way of learning-by-doing, to then expand and support more and better impact in Belgium.

To ensure the effective implementation of these proposals, **targeted pilot programs have to be designed** to allow for gradual expansion based on their success. You will note that these proposals contain invitations to all stakeholders. **Ongoing consultation and close collaboration** with sector organisations, regulators, policy makers and practitioners, will be crucial for the successful implementation and scaling of these initiatives. **IFB is willing to initiate the next steps:** defining the critical issues to be further analysed and inviting relevant stakeholders to join a coalition to unlock the identified potential.

In preparing these proposals, **IFB used inputs from many different parties.** A team from Freshfields lawyers[2] was our technical research partner, crucial for many legal analyses and advice on structures in Belgium. IFB brought together a Sounding Board of independent experts providing a critical view on the substance. Several IFB members and individuals actively contributed to the different topics. The result, however, is an IFB document, with IFB advice, which does not necessarily reflect the position of any of the individual parties who contributed to this.

2. Freshfields Bruckhaus Deringer, Brussels office.

List of Abbreviations

AIF - Alternative Investment Funds

AIFM - Alternative Investment Fund Managers

AIFMD - Alternative Investment Fund Managers Directive

AUM - Assets Under Management

BEAMA - Belgian Asset Managers Association

BEVEK/SICAV - Beleggingsvennootschap / Société d'Investissement à Capital Variable

BMZ - Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (The Federal Ministry for Economic Cooperation and Development)

BVA - Belgian Venture Capital & Private Equity Association

CDC - Caisse des Dépôts et Consignations

CMU - Capital Markets Union

CPTI - Complément de Pension pour Travailleurs Indépendants

DB - Defined Benefit Plan

DCK - Deposito en Consignatiekas

DC - Defined Contribution Plan

DGD - Direction Générale Coopération au Développement et Aide Humanitaire

EC - European Commission

EIP - Engagement Individuel de Pension

EIS - Enterprise Investment Scheme

ELTIF - European Long-Term Investment Funds

ESG - Environmental, Social, and Governance

ESUS - Entreprise Solidaire d'Utilité Sociale

EU - European Union

FCPE - Fonds Commun de Placement d'Entreprises

FCA - Financial Conduct Authority

FIP - Fonds d'Investissement de Proximité

FMO - Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Dutch entrepreneurial development bank)

FPS - Fonds Professionnel Spécialisé

FSMA - Financial Services and Markets Authority

GDP - Gross Domestic Product

GIIN - Global Impact Investing Network

GRBF - Green Budgeting Reference Framework

GSG - Global Steering Group for Impact Investing

IFB - Impact Finance Belgium

IMF - International Monetary Fund

ITC - Income Tax Code

JANPIA - Japan Network for Public Interest Activities

LSE - London Stock Exchange

MiFID - Markets in Financial Instruments Directive

NECP - National Energy and Climate Plan

NP - National Partner (members of the GSG network)

OECD - Organisation for Economic Co-operation and Development

PBII - Place-Based Impact Investing

PEE - Employee Savings Plans (Plan d'Epargne Entreprise)

PLCI - Pension Libre Complémentaire pour Indépendants

PLCS - Complementary Pension for Employees

RD ITC - Royal Decree Implementing the Income Tax Code

RFL - Reclaim Fund Ltd

SDG - Sustainable Development Goals

SFDR - Sustainable Finance Disclosure Regulation

SMEs - Small and Medium-sized Enterprises

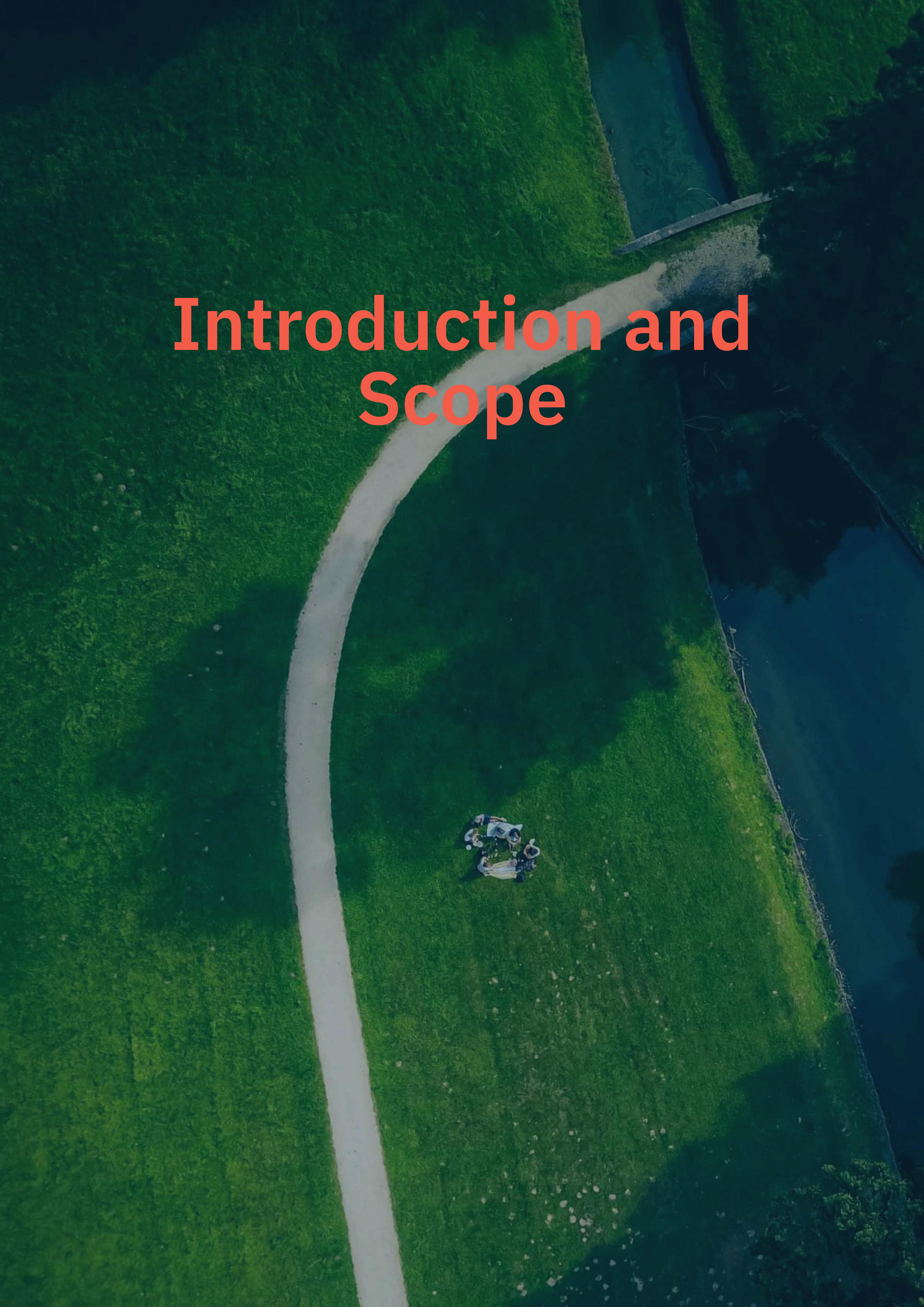
SPF Finance - Service Public Fédéral Finance

UK - United Kingdom

USAID - United States Agency for International Development

VCT - Venture Capital Trust

Introduction and Scope



About IFB

Impact Finance Belgium (https://impactfinance.be) is a membership association with an overall goal to increase investments generating positive impact for people and planet. Our members include parties such as impact investors, institutional investors, public investors, banks, social and impact enterprises, and other network organisations. Our activities include the publishing of research, organising expert events, connecting stakeholders and facilitating practitioners in the ecosystem. IFB is part of GSG Impact (https://www.gsgimpact.org), a global network promoting impact investing and transparency.

IFB's theory of change is anchored in four strategic pillars all of which serve as inputs to propel the attainment of specific outcomes:

> Enable the ecosystem: policy, advocacy and action-oriented research;

> Inspire the community: awareness creation and capacity development;

> Connect members and stakeholders: cooperation, stimulating and sharing best practices;

> Catalyse impact practitioners: pioneering programs.

About Freshfields

Freshfields is a leading, global law firm, advising clients on tackling their most strategic challenges in a fast-evolving world. Freshfields has a dedicated sustainability and ESG team that has helped clients navigate across jurisdictions the environmental, social, and governance issues fundamental to their success. This advice ranges from issues across day-to-day operations to long-term sustainable transformation.

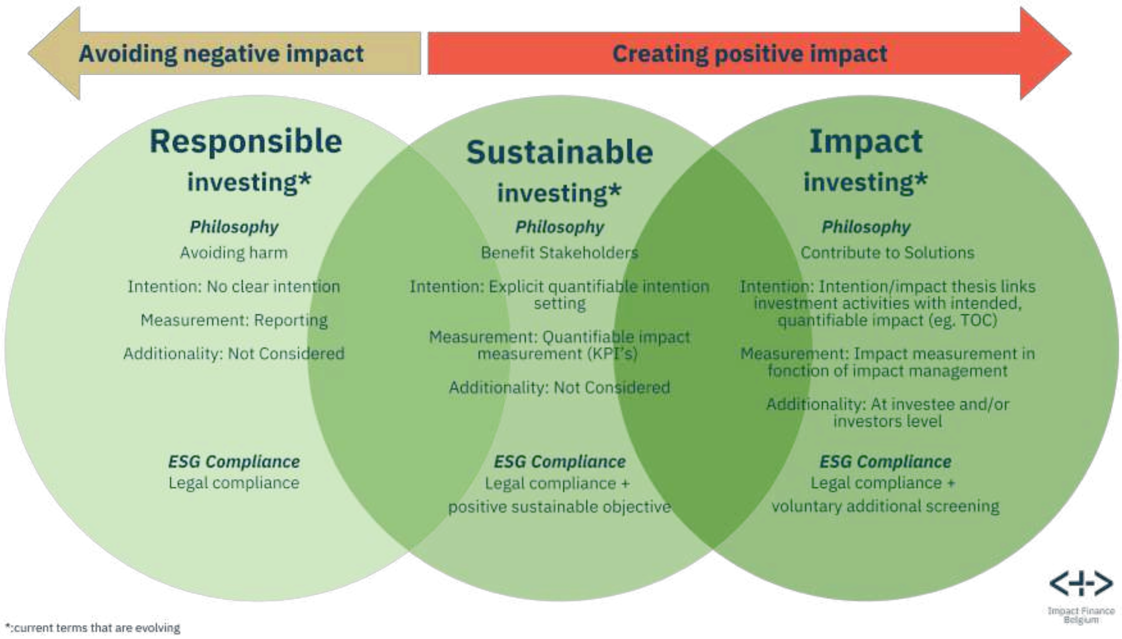
Freshfields' team spans specialisms, regions and industries to deliver against three fundamental business needs: transactional, regulatory and risk. As they help their clients navigate the uncertainties of the future, their shared purpose and values give them a common identity and direction as a responsible business.

Scope of the Report

This report provides an overview of policy measures and regulations at Belgian level, within a European context, which can significantly enhance **sustainable and impact investing** in **Belgium.** The objective is to formulate an advocacy strategy and path forward that promotes the implementation of policy measures and appropriate regulations. With the ongoing developments and regulatory changes in sustainable and impact investing, the contents are subject to amendments and evolution.

IFB drew inspiration from the position paper[3] released by Impact Europe along with EU National Partners (NPs) and the Global Impact Investing Network (GIIN). This combination of insights led to the development of the IFB framework below. A more elaborate version can be found in Annex 1.

3. Position Paper: The 5Ws of Impact Investing", https://impactfinance.be/researches/position-paper/.



In this framework, IFB uses general and widely recognised terms such as ‘responsible’, ‘sustainable’, and 'impact’ investing, acknowledging that the interpretation of these terms is evolving. They refer to different investment strategies, each with specific characteristics and objectives. ‘**Impact investing**’ *focuses on contributing to solutions to address societal challenges and managing their societal impact towards that goal, alongside a financial return*[4]*,* while ‘**sustainable investing**' *primarily emphasises on mainstreaming and growing of environmental/ social best practices to extend them to more beneficiaries.* Both investment strategies, sometimes called dark green investments, are necessary and complement each other in achieving a sustainable society, as they generate different but complementary positive impacts.

When IFB uses the term Impact Finance, this can overlap with both circles on Sustainable investing and Impact investing, as long as the investment contributes to intentional, positive impact.

4. Own interpretation of GIIN definition of impact investing: ‘investments made with the intention to generate positive, measurablesocial and environmental impact alongside a financial return. More details on IFB’s report: https://impactfinance.be/researches/esgand-impact-how-to-navigate-through-these-two-approaches-their-principles-standards-labels-and-tools/.

Methodology and Approach

This report aims to develop an initial assessment of different policy measures and regulations, resulting in a targeted set of proposals at the Belgian level and within the European context, which can significantly enhance sustainable and impact investing in Belgium.

Defining a Long List

To develop this set of proposals, IFB has first identified a long list of several key regulations and legislative actions, **many of which have been successfully implemented in neighbouring countries.**

These included:

> *Analysing the French 90/10 fund model, significantly increasing impact investments, leveraging the substantial pension reserves and fostering social enterprise growth.*

> *Incorporating green budgeting tools into national and regional budget to promote sustainable public policies and investment.*

> *Exploring the UK dormant assets scheme unlocking substantial funds for addressing social challenges, fostering economic growth, and supporting environmental projects.*

> *Encouraging retail investors to participate more in impact finance, fostering greater public involvement in sustainable and impact-driven financial markets.*

> *Introducing tax benefits or fiscal incentives to encourage investments in sustainable and impact investing.*

> *Promoting the creation of sustainable impact bonds and green sovereign bonds designed to finance impactful projects.*

> *Expanding fiduciary duty to include sustainable and impact considerations, ensuring financial decisions also promote long-term sustainability and social responsibility.*

> *Establishing distinct financial categories focused on sustainability and impact to guide and simplify investment decisions for investors.*

> *Reducing complex regulations to facilitate easier access to and growth of sustainable and impact investment opportunities.*

Selection Criteria

We have narrowed down the long list to our short list by applying two main criteria: effectiveness and feasibility. This process involved evaluating each topic against the criteria described below to ensure that only the most suitable options for the Belgian context were retained for further consideration.

> Effectiveness

+ *Amount of Capital: Measures with a large impact in terms of capital redirected towards sustainable and impact finance were prioritised.*
+ *Timing of Implementation by Market Participants: Preference was given to "quick wins" or "low hanging fruit."*

> Feasibility

+ *Legal Feasibility: Assessment of the complexity of legal implementation.*
+ *Political Feasibility: Consideration of the perceived willingness of political entities, including potential impacts on State revenues.*

The final selection also aimed for a diversity of investor groups and actors (retail, insurance groups, pension funds, banks, impact funds, domestic-overseas) to spread the risk of implementation.

This work results on the selection of four proposals:

1. **Leverage private capital** by repurposing State support for projects generating positive environmental and social impact.
2. **Unlock retail savings** to enable citizens to participate in sustainable growth in Belgium.
3. **Stimulate institutional investors** to direct part of their investments towards scaling societal benefits.
4. **Adopt green budgeting and frameworks** at federal and regional levels to facilitate the transition to a sustainable and inclusive future.

An overview of the assessment of the selection criteria per topics is available in Annex 2.

The Role of External Partners

In order to secure appropriate expertise, practical considerations and buy-in from relevant stakeholders, IFB closely collaborated with:

Legal Experts. IFB collaborates with a dedicated team of lawyers from Freshfields and Géraldine Bourguignon, an independent advisor, to gain comprehensive insights into the legal and regulatory aspects of these topics.

IFB's members and targeted stakeholders. Through interviews, qualitative insights were collected to both have a better understanding of the current situation and shape meaningful proposals. The list of members and stakeholders consulted is mentioned in the acknowledgment part of the report.

Sounding Board. To validate key insights, methodology and proposals, an independent Sounding Board represented by subject-matter experts from both the impact finance industry and the regulatory sector (BEAMA, BVA, Forum Ethibel, FSMA, Impact Europe, Incofin) has been appointed and involved throughout the writing of this report.

Leverage Private Capital

by Repurposing State Support for Projects Generating Positive Environmental and Social Impact

The Leverage Effect of Public Support

Public support for sustainable and impact finance in the form of a guarantee can have a significant effect, without affecting the State's resources.

The Power of Blended Finance Structures[5]

Blended finance is **'the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development'[6]**. Providing credit enhancement through guarantees (or insurance) granted by public (or philanthropic) investors is one of four commonly recognised blended finance structures[7].

Convergence estimates that blended finance has mobilised approximately 231 billion of US dollars in capital towards sustainable development in developing countries from 2015 to 2024, representing approximately 6.800 financial commitments.

Blended finance acts as a powerful leverage for social impact: by combining public and private (and possibly philanthropic) capital, the effectiveness of investments is maximised. The leverage allows for greater resource mobilisation, enabling impactful projects to scale and reach more beneficiaries.

These structures also contribute significantly to a more sustainable and impact finance ecosystem: by **mitigating risks for private investors,** they encourage investment in sectors that are critical for sustainable development, such as infrastructure, healthcare, and education. This not only ensures a steady flow of capital into these vital areas but also fosters innovation and long-term resilience. .

Using Guarantees to Leverage Private Capital

Using (public) guarantees to unlock private investments is an effective strategy to mobilise significantly more capital than the amount guaranteed. The leverage ratio, or multiplication factor, depends on the specific terms and conditions of the guarantee, the perceived risk, and the sector involved.

Typically, **leverage ratios range from 3 to 10.** For instance, the Center for American Progress[8] notes that even for high-risk projects, a leverage ratio of 6x to 10x can be achieved. This means that for every unit of public funds guaranteed, six to ten units of private investment can be mobilised. For relatively lower-risk projects, this ratio might be on the higher end, closer to 10x.

The amount of capital that can be leveraged using public guarantees is therefore substantial and can vary widely based on the specific conditions and instruments used. Generally, a conservative estimate would place the leverage ratio around 5, but this can be higher in favourable conditions and with effective risk mitigation strategies.

Use of Dormant Assets

Dormant assets refer to financial products such as bank accounts, rental guarantees, insurance contracts, or safety deposit boxes that have been inactive for several years and whose owners cannot be located. These assets, while seemingly dormant, hold the potential to bring about significant positive changes in our society.

5. Extracts from "A Blended Finance Facility initiative to boost Belgian impact investments in the Global South", unpublished document by Katrien Delaet, Steven Serneels, Ivan Godfroid, Chris Claes, Loïc De Cannière.

6. Definition used by Convergence (https://www.convergence.finance/blended-finance/).

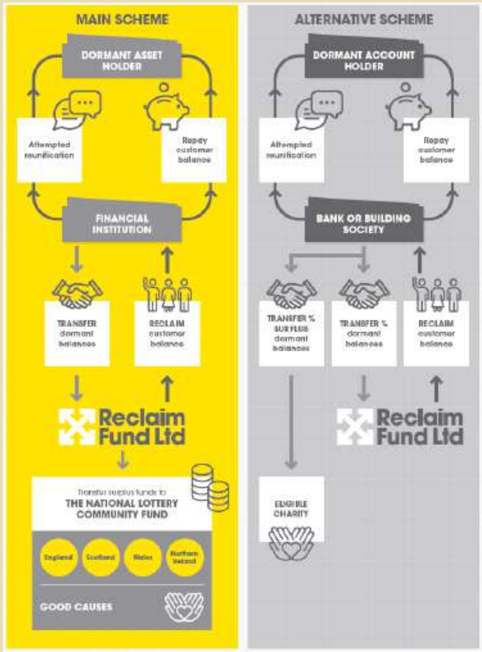
7. Other structures are (i) public or philanthropic investors providing funds on below-market terms within the capital structure as an additional layer of protection to private investors (referred to as concessional capital); the first-loss tranches' main purpose is to attract additional private capital, so that the funds can expand their outreach and achieve more societal impact (rather than 'subsidising' the private investors' return); (ii) transactions associated with a grant-funded technical assistance facility that can be utilised pre- or postinvestment to strengthen commercial viability and developmental impact (referred to as technical assistance funds) and (iii) transaction design or preparation being grant funded (including project preparation or design-stage grants) (referred to as design-stage grants); see for example, Aceli Africa (https://aceliafrica.org/), a facility that provides 'origination incentives' to lenders for granting (less or non-profitable) smaller loans to unserved agricultural SMEs in the East-African agricultural value chain.

8. https://www.americanprogress.org/article/leveraging-private-finance-for-clean-energy/

Insights: A Story from the UK

In the UK, the dormant assets scheme has been an example of how dormant financial products can be used for the greater good. Established under the Dormant Bank and Building Society Accounts Act (2008 and updated in 2022)[9], managed by Reclaim Fund Ltd (RFL) and regulated by the Financial Conduct Authority (FCA), this scheme first aims to reconnect owners with their financial assets and, when reconnection is not possible, ensures that surplus funds from dormant accounts support charitable purposes across the UK, directing millions of pounds towards impactful social and environmental initiatives.

The UK dormant assets scheme is underpinned by several key principles designed to ensure both the protection of asset owners and the effective utilisation of dormant funds. First and foremost, the 'Reunification First' principle emphasises the priority of reuniting owners with their assets. This ensures that every effort is made to contact and return the dormant assets to their rightful owners before any other action is taken. Additionally, the scheme operates on the basis of 'Voluntary Participation', allowing intermediaries to choose whether or not to join and determine the extent of their involvement. This voluntary nature provides flexibility and encourages a wide range of companies to consider participation. Lastly, the 'Lifelong Right to Reclaim' principle guarantees that owners can reclaim their assets at any time, with the insurance that the necessary funds will always be available for this purpose. This lifelong right ensures that owners retain control over their assets, providing a safeguard that funds are not permanently lost to them. Together, these principles ensure a balance between the effective use of dormant assets for public benefit and the rights and interests of asset owners.



Since its inception, the scheme has exceeded expectations, significantly contributing to social and community projects.

Source: Annual report RFL 2022-2023

There are other successful examples of blended finance structure where public support has unlocked significant amounts for social and environmental projects based on the leverage effect. See, for a short description of a selected few, Annex 3.

9. Launched under the Dormant Bank and Building Society Accounts Act 2008, the scheme involves 33 banks and building societies. The main scheme mandates the transfer of the entire dormant account balance to RFL, while the alternative scheme allows a portion of the balance to be directed to RFL and the remainder to eligible charities (exclusively accessible to smaller banks and building societies meeting specified criteria). The 2022 Act expanded the scheme to assets from the insurance, pensions, investment, wealth management, and securities sectors, unlocking an additional 880 million of pound (around 1 billion of euro) for social and community initiatives.

Proposal: Using Dormant Assets to Back a Guarantee Scheme for Attracting Private Capital

Dormant Assets in Belgium

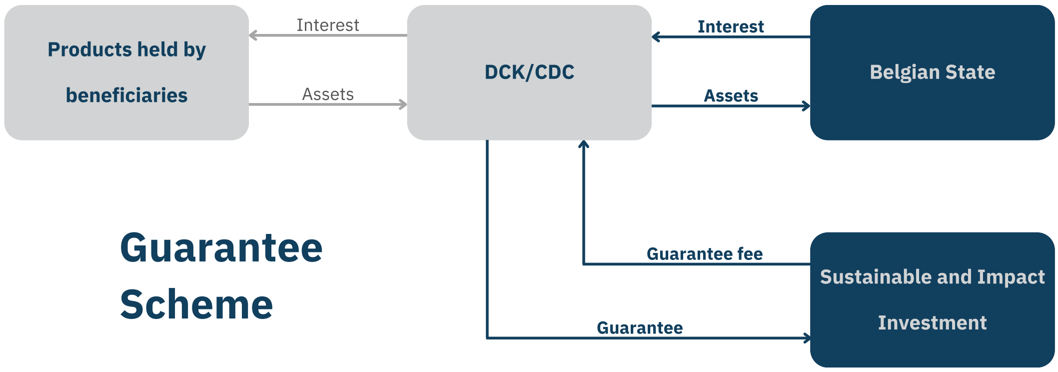
In Belgium, dormant assets are transferred to the *Deposito en Consignatiekas/ Caisse des Dépots et Consignations* (DCK/CDC), part of the FOD/SPF Finance[10]. The DCK/CDC acts as a custodian of these assets, which beneficiaries may easily recover by submitting a request. After 30 years, the funds are forfeited to the State treasury. Any amounts below 60 euro are transferred to DCK/CDC without identification and so without possibility to recover.

Dormant assets are a subset of various assets managed by DCK/CDC, which are generally invested in the public sector, including in Belgian federal sovereign debt such as Linear Bonds (OLO) (>1 year) and Treasury certificates (TC) (< 1 year).

Dormant assets represent **more than 700 million euro in Belgium** as at July 2024[11]. The amount has increased over the past decade, and this upwards trajectory is very likely to persist in the foreseeable future, as evidenced by the fact that inflows remain much higher than outflows, despite extensive media coverage instructing the general public how to recover dormant assets.

A Guarantee Backed by Dormant Assets

An asset-backed guarantee scheme could be structured against the value of dormant assets.



10. See the law of 24 July 2008 containing various provisions.
11. Source: Minfin.fgov.be

The scheme would have the following **key characteristics:**

> It would be asset-backed, without affecting DCK/CDC's ability to otherwise invest in the ordinary course. The maximum aggregate amount of guarantees would be set by factoring in several parameters, such as the liquidity profile of investments made by DCK/CDC and credit risk of the underlying impact investments. If the UK model can serve as a comparison, around 45% of dormant assets Scheme funds could be allocated to the reconstitution of claimed assets, management and administration, and security reserves, and up to 55% could be allocated to the guarantee. The funds not allocated to the reconstitution of claimed assets held by DCK/CDC (including sovereign debt instruments and claims against public entities) would be used to cover the risk exposure created through the guarantee scheme.

> The Belgian State would provide independent guarantees to private parties making eligible sustainable and/or impact investments. If the investment fails, the investor would be entitled to demand compensation under the guarantee, covering all or part of the investment loss. This (partially) de-risks these investments, allowing more types of investors with various levels of risk appetite to enter the investor pool.

> The Belgian State would receive a guarantee fee on these transactions, ensuring that the risk is appropriately compensated, at a rate to be determined, and that management and the guarantee scheme's operating expenditure is covered. This may also provide an additional inflow of funds, growing the scheme and maximising the underlying volume of impact investment.

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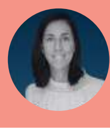
Targeted guarantee mechanisms have proven to be a very effective way to unlock funding for impact, for the large needs in social infrastructure, education and a fair ecological transition. To attract more private capital as a force for good, blended finance is a solution in which Belgian public players can definitely play an important role.

Céline Vaessen
Chief Investment Officer of SFPIM



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When further defining the scheme's characteristics, appropriate consideration should be given to the absence of impact on the State's deficit and on the State's rating, compliance with the EU State aid rules, and all operational and management aspects.

There are multiple **ways in which the scheme can be structured:**

> ***Governance.*** Implementation of the guarantee scheme would require amendments to the current legislative framework in respect of dormant assets and, in particular, a legislative act defining the key principles on the basis of which the guarantee scheme will operate. More detailed rules could be set out in a Royal Decree. The management of the guarantee scheme would be conducted internally or externally by a team of professionals with relevant expertise, with proper consideration given to the time and costs associated with it.

> ***Level of standardisation.*** Guarantees may range from highly standardised (e.g., typically for lower amounts, granted on the basis of strict eligibility criteria with limited to no due diligence and on the basis of template documentation) to highly tailored (e.g., typically for higher amounts, guaranteeing investments in a particular project). Standardisation levels may impact the qualification of the guarantees under the European System of Accounts 2010 and their treatment for State budgeting and State debt purposes, with tailored 'case-by-case' guarantees (for which the probability of the guarantee being called cannot be estimated) likely qualifying as one-off guarantees that are not counted in the Belgian State's consolidated debt (unless called on).

> ***Guarantee policy and risk management.*** The guarantee policy would describe, among other things, the types of social and environmental investments for which guarantees can be granted (with a strict definition to avoid greenwashing and the related reputational and depreciation risks), the total maximum guarantee exposure (per individual file and across the entire scheme), and the form that impact investments may take (e.g., direct investments into projects, investments into retail impact funds that offer capital protection to investors, etc.). This policy would also set out the pricing framework for the guarantee fee, which could be at arms' length terms (if there is sufficient appetite), or below market (provided that any below-market fee arrangements can benefit from the de minimis exemption or block exemption under EU State aid rules).

The guarantee policy would be closely **tied to risk management,** which is aimed at ensuring that the scheme has sufficient liquidity to meet any outflow requirements, thereby protecting the interests of the dormant assets' ultimate beneficiaries and ensuring they remain able to recover their assets at all times.

Based on the same proportions as in the UK, with 55% of the 721 million euro of dormant assets, 396 million euro could be used as collateral. With a leverage ratio of 5 to 7, **the scheme could facilitate between 2.0 and 2.8 billion euro of private investment** into social and environmental projects.

Other Inspiration for Belgian Authorities

Existing examples of blended finance could also inspire Belgian authorities to establish other (semi-) public blended finance structures. Nations around the world have recognised the value of blended finance and have implemented supportive frameworks to drive social and environmental investments. Belgium's adoption of such a mechanism would not only align it with global best practices but also enhance its competitiveness and leadership in the impact finance arena. For instance:

> The UK example might also inspire the Belgian National Lottery to explore how it can multiply its social impact by using (part of) its important financial reserves as guarantees in combination with other blended tools such as technical assistance or transaction design grants.

> Similarly, the Belgian development agencies might build on the example to explore the set-up of a more structural blended finance structure.

Conclusion

The government can determine the scope and reach of blended finance structures, using (semi-) public funds to leverage private capital, linking it to key areas such as health, education, poverty or environmental projects, within and outside Belgium. It is a strategy that not only safeguards individual interests but also mobilises more resources to address some of the most pressing challenges.

More specifically, inspired by the UK model, Belgium presents a unique opportunity to harness its dormant assets for the greater good. Institutional investors have expressed interest in a guarantee scheme to unlock significant capital for sustainable and impact investments.

The proposal, **unlocking 2.0 to 2.8 billion euro of private investments**, could be implemented gradually, starting first with a pilot on a small portion of dormant assets before ultimately reaching 55%.

The ultimate success will require further analysis to determine

i. how to limit the impact on the State's budget;

ii. how to ensure compliance with EU rules on State Aid;

iii. the practical support mechanisms from the government, the Treasury and the CDC/CDK;

iv. the operational, management and cost aspects;

v. the precise definition of permitted investments; and

vi. the detailed terms of a scheme for sufficient risk appetite.

By reallocating dormant assets to support social and environmental initiatives, the Belgian government can create a more inclusive, prosperous, and sustainable society.

Unlock Retail Savings

to Enable Citizens to Participate in Sustainable Growth in Belgium

The Potential and the Barriers

In general, EU-based individuals have high savings. The household savings rate in the EU was 14.4% for the first quarter of 2024 and 13.9% for Belgium in 2023. This places Belgium in the upper middle range of European countries in terms of household savings rates[12], with retail savings reaching **342 billion** euro at the end of 2022.

The volume of sustainable savings represents 0.76% of this figure, or 2.6 billion euro. Overall savings are up by 2.3% and sustainable savings are up by 5.3% at the end of 2022 compared to the previous year[13]. This increase and the **growing interest of savers in environmental and social considerations[14]** is an opportunity for Belgium to unlock capital to finance the transition towards a sustainable future, which requires annually tens of billions of euros to meet the SDGs by 2030.

> ***Citizens don't want to do harm, not to people, not to the planet, also not with their money, so let's enable them to avoid doing harm with their savings money.***
>
> ***Linda van Goor***
> Independent advisor in
> sustainable finance regulation.

Access to capital is crucial for impact funds, yet retail investors in Belgium currently face **significant barriers and lack appropriate structures for sustainable and impact investing:**

> Sustainable and impact investments are generally less known from and visible by the public.

> Very few impact businesses are publicly traded, due to the smaller size of these companies, and for the few listed on capital markets, effective liquidity is hard to reach because of a limited offer and demand in the impact sector, usually leading to heavy discounts on the stock trading price.

> On the other hand, AIF funds primarily target institutional investors, with minimum investment ticket sizes which are often prohibitive for many retail investors, limiting their participation in the sustainable and impact ecosystem.

> Retail investors are therefore left with the limited possibilities offered by crowdfunding[15] or cooperatives[16], which by definition and structural set-up, are limited in terms of amounts and outreach.

> Some specific structures are tax-incentivised[17], but have a specific scope, such as the Tax Shelter for startups.

12. Source: World Population Review and European Commission (Eurostat).
13. Source: Forum Ethibel – Ersis report 2023.
14. See for instance the number of impact retail funds for financial inclusion in Global South, an overview of which is provided in Annex 4.
15. Examples of direct Investments via crowdfunding and crowdlending platforms include LITA and Ecco Nova. The amounts remain relatively limited.
16. Examples of funds structured as cooperatives investing in startups include Impact Shakers or CitizenFund, which offer the benefit of diversification. Direct investment in cooperatives: Belgian impact cooperatives often focus on areas such as renewable energy, sustainable agriculture, real estate, and community projects; examples include Ecopower (renewables), Cera (agriculture, culture and welfare) and Stadsmakersfonds (real estate).
17. Offering individual investors, a personal income tax reduction of 30% to 45% of the invested amount.

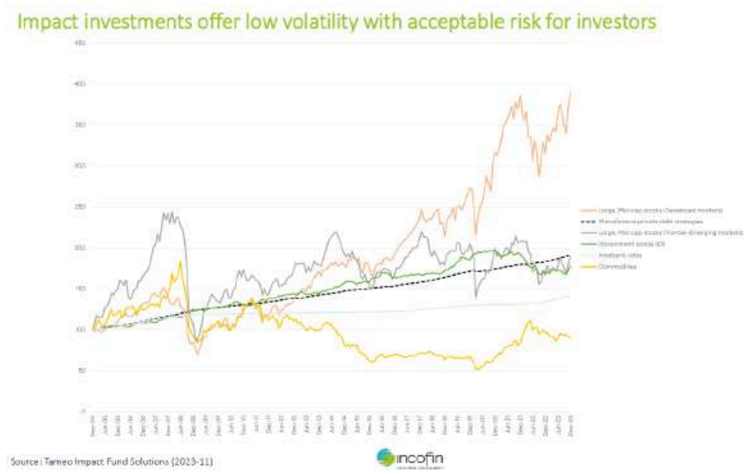
> At the EU level, the new European Long-Term Investment Funds (ELTIFs), a form of alternative investment funds for investments in the real economy, are now open to a broader range of retail investors, without a minimum investment amount being required[18]. These investments include investments that promote the European Deal and other priority areas, in line with the Union objective of smart, sustainable and inclusive growth. As such, ELTIFs may be interesting for certain sustainable and impact investments (e.g. direct investments in undertakings located mostly in the EU) by retail investors, but these are not appropriate for all types of sustainable and impact investing, e.g. investing in or through financial undertakings (like financial institutions that promote social inclusion, or provide financial services to promote climate adaption or mitigation), and investing in jurisdictions outside of the EU (although possible, there are material limitations, e.g. wide interpretation of the non-cooperative jurisdictions for tax purposes).

By **creating a legal framework** that lowers investment thresholds and appropriately addresses liquidity concerns from the investors, fund management and regulator's perspectives, **Belgium can democratise sustainable and impact investments**, attracting a broader range of investors and significantly increasing capital for these projects.

Retail Investments in Impact: Refuting a Misconception

Before going deeper into the proposal, it may be useful to address a widespread misconception that impact-related investments are highly volatile and risky, implying that they may not be suitable for retail investors. The reality on the ground proves otherwise.

In relation to debt financing, the graph below shows the evolution of volatility of private debt impact funds as compared to mainstream asset classes. It shows that impact investments in debt instruments offer low volatility and acceptable risk for retail investors.



We would also like to take this opportunity to extend our sincere gratitude to Incofin for their understanding of the market and for their valuable contribution in helping us to develop this proposal.

18. See Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760 as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules.

Insights: Learning from Other Countries

Some countries have successfully implemented mechanisms effectively allowing retail investors' participation in sustainable and impact investing, in many cases with lower investment thresholds and tax incentives.

France

The *Fonds d'Investissement de Proximité* (FIPs) are investment funds that focus on small and medium-sized enterprises (SMEs) within a specific geographic area in France. The minimum investment is around 1,000 to 5,000 euro. Investors can receive income tax reductions of up to 18% of the amount invested, subject to certain conditions.

Additionally, some fund managers offer retail-focused private equity funds, known as Retail Private Equity Funds. These funds are designed to be more accessible to individual investors while still providing exposure to private equity. The minimum investment starts from 10,000 to 50,000 euro. Examples include funds from established asset managers like BNP Paribas, Schroders, AXA and BlackRock.

Germany

In Germany, the legislator has provided the option for certain investment fund types to invest up to 95% of their assets in microfinancing (e.g., uncertificated loan receivables from microfinance institutions to refinance such microfinance institutions). The microfinance institutions need to comply with certain criteria before the funds can invest their assets. This has been included in section 222 of the German Investment Code (*Kapitalanlagegesetzbuch*). These German funds have both institutional and retail share classes with low entry tickets and have been successful so far.

The Netherlands

The Venture Capital Trusts (VCTs) and Business Development Companies (BDCs), with minimum investments ranging from 10,000 to 50,000 euro, offer structures suitable for retail investors seeking exposure to private equity while maintaining some degree of liquidity, as they are listed on stock exchanges.

Additionally, specific Alternative Investment Funds (AIFs) target retail or semi-professional investors and can be structured to accommodate lower investment thresholds, typically around 50,000 euro.

The Dutch impact investing startup Carbon Equity is trying to remove the barriers preventing young, affluent investors to access impact-driven private equity investments. Carbon Equity has created a climate venture capital and private equity fund investing platform. It enables small ticket access to top climate venture capital and growth equity funds. The capital injection will allow Carbon Equity to expand its platform offering in Europe enhance distribution channels, and pave the way for its inaugural ELTIF fund, accessible from 25,000 euro.

United Kingdom

Venture Capital Trusts (VCTs) are listed companies on the London Stock Exchange (LSE). Investors purchase shares in the VCT, and the VCT then invests in a portfolio of small, unlisted companies. Investors can claim 30% income tax relief on investments up to 200,000 pounds (around 230,000 euro) per tax year, provided the shares are held for at least five years. Dividends received from VCT shares are exempt from income tax. Minimum investment starts from 3,000 to 5,000 pounds (around 3,500 and 5,900 euro), making VCTs accessible to a wider range of investors.

Enterprise Investment Scheme (EIS) investments are typically made directly into qualifying small, unlisted companies. Investors receive shares in these companies. Some funds offer EIS as part of their portfolio, pooling investor money to invest in multiple qualifying companies. Investors can claim 30% income tax relief on investments up to 1 million pounds (around 1,170 million euro) per tax year. Minimum investment starts from 10,000 pounds (around 11,700 euro), although some funds may accept lower amounts.

Proposal: Unlock Retail Savings by Creating a Retail Impact Fund

Based on these insights, challenges and opportunities for Belgium, and based on consultation with relevant stakeholders, IFB proposes to create a retail impact fund[19] whereby retail investors can get easy access to sustainable and impact investing, while enabling adequate protection. Two types of funds could be created: (i) an open-ended fund focused on impact debt instruments, where retail investors may step in and out easily and (ii) a closed-ended fund focused on longer term impact investments.

> ***To reach the Sustainable Development Goals by 2030, we need to massively mobilise funding. Contributions by governments and institutional investors to impact finance will not suffice. We need to tap on the huge potential of retail investors, who want to invest for good. Today, European and national regulatory constraints still hamper retail investors' entry into the impact finance space. The time has come to smartly abolish these constraints and provide retailers unlimited access to impact finance.***
>
> ***Loic de Cannière***
> Chair of the Supervisory Board
> Incofin Investment Management

Retail Impact Fund Under the AIFM Law

Retail impact funds could be created by a Royal Decree adopted under the AIFM Law[20], taking into account the FSMA's input and advice. This has also been done for other specific fund types, such as the public starter fund, the private starter privak, the growth fund and the specialised real estate investment fund.

The Royal Decree would allow **investments in sustainable and impact related projects,** as a category of public investments allowed under article 183, first indent, 4° (high risk capital), 5° (non-listed financial instruments) and/or 6° (other types of investments) of the AIFM Law.

These retail impact funds would have to be managed by a licensed alternative investment fund manager and registered with the FSMA. Relevant disclosures would be made available (e.g., fund regulations, prospectus, key investor document, annual reports, SFDR disclosures, etc.).

The funds could be marketed in Belgium, and possibly in other EU Member States (although there is no passport currently available, hence on a case-by-case basis). Their investments could be made in Belgium, in the rest of the EU or anywhere else (no geographical restrictions expect for sanctioned and high-risk countries).

A Clear Sustainable and Impact Definition

Retail impact funds would be entirely invested in sustainable and impact investing, with the Royal Decree providing a clear definition. In addition, retail impact fund would have to be approved by a public authority keeping a list of such funds (e.g., the Minister of Finance, possibly based on FSMA's advice, and also issuing further guidelines). These clear definitions and approval would need to be adopted to avoid greenwashing and provide reliability.

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19. The ultimate name for this type of fund is yet to be determined, taking into account the existing and upcoming rules regulating the use of specific terms, such as "sustainable", "impact", "green" and the like, under the scrutiny of ESMA and the FSMA.

20. Belgian law of 19 April 2014 on alternative investment funds and their managers (***the AIFM Law***), in particular, the chapters on public alternative investment funds (articles 180 and ff. of the AIFM Law).

Two Types of Funds

1. Open ended retail fund (BEVEK/SICAV under article 181, 1° of the AIFM Law)

This fund focuses on Belgian retail investors (with a potential to scale up to EU retail investors) having an interest in investing smaller amounts in impact investing as part of their ordinary investment portfolio, with flexibility to enter and exit.

> ***Investments***. The open-ended retail fund would focus on impact investing by way of (small) loans and other types of qualifying sustainable and impact financing. The permitted investments of the fund would include **mainly debt** instruments for sustainable and impact investing, e.g. direct microfinancing loans or investments in loan originating financial intermediaries. In addition, the fund would also be allowed to invest up to a certain percentage (e.g., maximum 10%) of its assets in equity instruments for sustainable and impact investing. In order to allow the full potential of such investments, there would be no statutory territorial limitations with respect to the investments, aside from any sanctioned or high-risk countries. Under the AIFM Law, appropriate diversification requirements would apply in relation to the investments of the fund. The fund manager could determine the appropriate diversification policy, without further statutory limitations. .

> ***Liquidity, redemptions and distributions.*** As this would be an open-ended fund, the duration of the fund would be unlimited and investors could invest and **redeem their investments at regular time intervals subject to certain limitations.** The liquidity for the redemptions would be built in by the nature of the permitted investments focussing mainly on debt instruments which would generate regular interest payments and repayments of principal on the (microfinancing) loans. Another consideration in this respect could be that a certain minimum requirement of highly liquid assets could be imposed in the Royal Decree (e.g. 5% of highly liquid assets, either cash or listed SFDR article 9 investments). We propose that the redemptions be subject to certain limitations, such as monthly redemptions limited to a percentage (e.g. 5%) of the net asset value of the fund and subject to a notice of redemption by the investors (e.g. 15 days in advance of the redemption). Any remaining liquidity could be (depending on the characteristics of the specific fund) distributed by way of annual dividends in cash or reinvested. The new AIFMD II rules on loan origination and liquidity management could be useful guidance in this respect.

> ***Amounts.*** In order to promote the fund to a wide audience of retail investors, there would be no legally required (or a very low) minimum investment amount by the retail investor in the fund. It would be **up to the fund manager** to set a minimum investment amount (if any), taking into account the administrative burden linked to servicing exit calls.

> ***Tax aspects.*** The open-ended retail fund would be subject to the tax regime applicable to regulated investment companies with minimal tax leakage at fund level and taxation in the hands of the individual investor. We consider that specific **tax incentives may not be needed** considering that the fund would be invested mainly in debt and that the exit for the retail investors would be flexible given the redemption mechanism.

2. Closed-ended retail fund (BEVAK/SICAF under article 181, 2° of the AIFM Law)

This fund focuses on Belgian retail investors (with a potential to scale up to EU retail investors) having an interest in investing smaller amounts in sustainable and impact funds as part of their ordinary investment portfolio. Due to the lack of liquidity of the closed-ended fund structure, it targets long-term retail investors.

- ***Investments.*** The closed-ended retail fund would focus on sustainable and impact investing only by way of investments in **equity instruments**. It could be considered to impose certain territorial limitations, e.g. by requiring a certain percentage of the investments to be listed on an EU regulated market. As is the case for the open-ended retail fund, any diversification requirements stemming from the AIFM Law would apply. We propose to allow the fund manager to determine the appropriate diversification policy (e.g. maximum single counterparty exposure limited to a certain percentage), without further statutory limitations.

  In line with the philosophy behind the French 90/10 funds, we propose that a certain minimum percentage of the fund's assets would be invested in **liquid instruments** (e.g. listed shares and bonds) that meet certain sustainability criteria. Such more diversified fund type could be an attractive investment opportunity for a broader public (as opposite to e.g. the current public starter fund), thereby also increasing the amounts of funds that are routed to sustainable and impact investing. In addition, such liquid instruments could facilitate price setting in case the fund units would be traded.

- ***Duration, liquidity, redemptions and distributions.*** As this would be a closed-ended fund, the duration of the fund would be limited, e.g. with an initial duration of 10 years, which could be extended either by the fund manager under certain limitations or by a decision of the investors. The **limited duration** of the fund should ensure a clear investment horizon for investors in an otherwise rather illiquid investment. Annual dividends (depending on the characteristics of the specific fund) could be distributed in cash or capitalisation shares. Similar to other types of funds, a **mandatory distribution of 80%** of the net cash profits could also be considered. During the lifetime of the fund, redemptions would not be possible. It could be considered whether any liquidity must be provided at investor level, by creating a secondary market to be organised (regulated market, multilateral trading facility, other), taking into account that fund units may be expected to trade at a significant discount.

- ***Amounts.*** Similar to the open-ended retail fund, in order to promote the fund to a wide audience of retail investors, there would be no legally required or a very low minimum investment. It would be **up to the fund manager** to set a minimum investment amount (if any).

- ***Tax aspects.*** The closed-ended retail fund would be subject to the tax regime applicable to regulated investment companies with minimal tax leakage at fund level and taxation in the hands of the individual investor. Given the risk level and long-term nature of the fund investment, **specific tax incentives could support the "story telling"** around this fund structure and mobilise more private savings. A number of tax incentives could be considered. On the one hand, a tax reduction on investment amounts could be considered for the initial investors that keep their investment for a certain period (e.g. a 30% tax reduction on the net investment, capped at 100,000 euro per year, as currently provided in the tax shelter for "public starter funds"). Alternatively, loss protection could be provided in the form of a tax reduction for the actual losses incurred by the initial investor in case of a liquidation of the fund, (e.g. 30% of the loss, capped at 25,000 euro per year). Further, the success of the Van Peteghem State Bond has shown that a tax incentive can be very appealing to private savers. Such tax incentives and their budgetary cost seem justified and compensated by the fact that retail investors are expected to use savings otherwise held on savings accounts (generating minimal interest and taxes for the state budget) to invest in the retail fund (generating higher returns and taxes for the state budget in addition to a societal return).

The term sheet, available in Annex 5, sets out the main characteristics of a proposed retail impact fund under the AIF framework intending to promote sustainable and impact investing among retail investors (open-ended version and closed-ended version).

Marketing

The effective success of retail impact funds will depend on a number of factors. IFB understands that direct marketing of such funds would stumble across significant administrative (and hence financial costs) hurdles, because of MiFID rules, which require asset managers to proactively assess the investors' profile to determine the suitability of the proposed investments, with an issue of scaling in case of very low investment amounts (unless there is an existing client relationship, e.g., for private banking clients, which by definition is more limited than the broad base of retail investors). Retail impact funds would therefore have to:

> Either **target investors who proactively decide** to invest their savings – in practice, this requires spreading the knowledge about the existence and benefits of the retail impact funds through press coverage, social media and other indirect endeavours, and making sure that the proposed investments are easily understandable. Tax incentives would, of course, be an important element in sparking interest among retail investors.

> Or be included in a **"fund of funds"** structure, as part of the offer otherwise proposed by asset managers, possibly as a pilot project before further scaling.

Conclusion

International examples have collectively unlocked billions of euros for sustainable and impact investing through setting up appropriate structures for retail investors, ultimately supporting economic growth and social and environmental projects.

In Belgium, the potential to leverage retail sustainable and impact investing is significant. Although it is difficult to provide any accurate number, by way of illustration and benchmark:

> We note that in France, solidarity finance (which is only a part of sustainable and impact investing) increased by 4 billion euro in 2023 to reach 30 billion, representing 0.5% of French investors' financial savings (compared with 0.45% in 2022); translating this to Belgium, this would mean 1.71 billion euro and beyond;

> In Belgium, according to Ethibel, sustainable savings represent 0.76% of all savings as at the end of 2022[21], which represents approximately 2.6 billion euro;

The proposed retail impact fund, structured under the alternative investment funds framework, aims to promote sustainable and impact investing among retail investors and is therefore a crucial step toward democratising such investments and making them accessible to a wider audience.

The ultimate creation of a retail impact fund will require further analysis to determine

i. the precise definition of the fund's permitted investments (sustainable and impact),

ii. the readiness of fund managers to market the funds, and

iii. the appetite of retail investors, with or without tax incentives.

By addressing structural barriers and considering necessary regulatory adjustments, Belgium can enhance retail investors' engagement in sustainable and impact finance, fostering a more inclusive and diversified investment landscape.

21. Source:ERSIS Report 2023, Ethibel

Stimulate Institutional Investors

to Direct Part of Their Investments Towards Scaling Societal Benefits

The Potential of Institutional Investors in Belgium and Neighbouring Countries

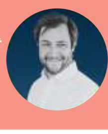
The 2022 IFB study highlighted that insurance companies and pension funds account for approximately 150-200 billion euro, or 25% of total Assets Under Management (AUM) in Belgium. In neighbouring countries, these are also very important sources of funding and some of those, especially in the UK and the Netherlands, have taken large scale initiatives to contribute to impact finance. As much of this funding has a long-term purpose, it is uniquely positioned to match long-term financing needs.

In the Netherlands, insurance companies such as a.s.r. have made large scale commitments to sustainable and impact investing. A.s.r. Nederland, for instance, has committed to increasing its impact investments to 4.5 billion euro by 2024[22]. Also, Dutch pension funds like PGGM[23] pledge to incorporate impact in their portfolios.

In the UK, progress is being made in Place-Based Impact Investing (PBII), as demonstrated by the initiatives of the Greater Manchester Pension Fund, which is fostering sustainable and inclusive development at the local level. While these examples are often localised, they underscore the potential of institutional investors to contribute to sustainable and impact investing.

Next to all potential, it must be recognised that (i) pension and insurance markets are still very local, (ii) fiduciary duties and other prudential considerations impose constraints on the deployment of pension and insurance capital, and (iii) liquidity needs remain a challenge. Above all, (iv) the critical need for long-term investors is a stable and clear framework of rules and definitions to guide their investment strategies. This is where governments have a role to play.

> ***"Real opportunities exist for the investment sector to contribute more effectively to the common good. By mobilizing some of the considerable investments made by pension funds, it is possible to directly finance initiatives and services that are beneficial to the community and to a better future. All this can be achieved without compromising expected financial returns."***
>
> ***Nicolas Crochet***
> Co-CEO at Funds For Good



Several European neighbours developed incentives for such long-term funding to be more geared towards sustainable and impact investing. One exemplary case is what France started to develop over 20 years ago, known as the 90/10 funds. The key to its success lies in its accessibility, allowing individual participants to easily join while maintaining a predominantly traditional investment structure. Important is also that France adopted a clear definition of "Economie sociale et solidaire[24]" which is the target of their scheme.

22. Source: https://www.asrnl.com/-/media/files/asrnederland-nl/investor-relations/aandeelhouders/investor-update/2021/2021-iu-press-release-asr-en.pdf
23. Source: https://www.top1000funds.com/2023/11/pggm-prepares-to-incorporate-impact-in-three-dimensional-approach/
24. Source: https://www.economie.gouv.fr/cedef/economie-sociale-et-solidaire

The Belgian Pension System

The Belgian pension system is structured around three pillars. Pillar 1 is funded through compulsory social contributions by the active population (and employers), following a pay-as-you-go system, and thus does not involve any investment activity. Pillars 2 and 3, however, are based on individual or collective savings, either through private savings plans or company pension schemes, which are managed by pension funds and insurance companies. Further details are provided in Annex 6.

In Belgium, most potential in term of assets is under the second pillar. According to the FSMA[25], for the second pillar of pensions, the reserves are increasing by 3%, compared with 2022, up to 105 billion euro for 2023, of which 69% are from employees and 31% from the independents. This pertains to over 4.3 million (future) pensioners.

The insurance companies (25) manage 85 billion euro of pension reserves in insurance products from the Branch 21 or the Branch 23. Growth in acquired reserve in Branch 23 is faster than growth in Branch 21. The pension funds (138) manage a total of 19.5 billion.

Source: FSMA

Within the employees, the number of affiliations to the Defined Contribution (DC)-type pension plans (79%) is much higher than for the Defined Benefit (DB)-type plans (4%). In terms of acquired reserves, the difference between the two is much smaller (DC 60% and DB 33%).

25. Source: FSMA report Annual sectoral overview on supplementary pensions 2023

The Fiduciary Duty and Liquidity Challenges

The Fiduciary Duty

Given that pension and insurance funding is designed to cover future living costs, it is essential to address the issue of fiduciary duty. While this principle is widely acknowledged, its implementation often varies significantly. Traditionally, fiduciary duty has been understood as a purely financial obligation, but the interpretation is gradually expanding to encompass non-financial aspects that contribute to long-term well-being. For instance, the UK regulator has explicitly included climate-related considerations in its definition, and the European Commission now refers to the "long-term best interests of members and beneficiaries."

This broader interpretation is increasingly reflected in the adoption of Environmental, Social, and Governance (ESG) practices. By integrating ESG considerations, pension funds can avoid harm while also benefiting target groups. This can be effectively combined with traditional financial models, incorporating non-financial outcomes as an add-on. However, directing funds towards higher-risk, innovative solutions remain challenging for much of these portfolios, which is why France, for instance, still allocates at least 90% of its pension assets to traditional investments. Mandating a small allocation of pension and insurance contributions to impact finance may not be universally accepted. Nevertheless, a model offering contributors the option to invest in impact projects—similar to the French 90/10 scheme—could attract comparable levels of funding in Belgium.

The Liquidity Concern

Liquidity is a frequently cited concern in the context of impact finance. Impact investments are often associated with higher risk and longer time horizons, which can make them difficult to liquidate. However, this assumption is not always accurate. A notable solution to this challenge is found in Sweden’s pension system. Initially, 100% of a contributor's pension is allocated to equity investments, maximising long-term growth through the higher returns typically associated with equities. As individuals approach retirement, the system gradually shifts the allocation to reduce exposure to market volatility. This approach presents a valuable model for balancing growth potential with risk management, providing both return and stability for retirees.

Insights: The French 90/10 Example

In 2001, the “Fabius Act” in France enabled the emergence of solidarity funds, the 90/10 funds, by defining the Fonds Commun de Placement d’Entreprises solidaires (FCPE solidaires) and making it mandatory that employees with a pension savings plan were offered to invest in such funds. Public authorities defined the management modalities of FCPE solidaires (the level of solidarity) as well as the characteristics of the solidarity organisations benefiting from the financing (approval as a "solidarity enterprise"). This definition was practically followed by other solidarity funds outside of employee savings. In 2008, this law was extended to all Employee Savings Plans (PEE) and in 2019, it was extended again by including Retirement Savings and Life Insurance contracts.

While this document does not seek to determine whether all social enterprises qualify as impact enterprises, there is broad consensus that the overlap is substantial. Social economy plays a pivotal role in driving the environmental and social transition across Europe. Estimates suggest that the social economy, as defined by the French regulations encompasses approximately 2,8 million enterprises across Europe, employing about 6.3% of the working population. By definition, these companies contribute to the social tissue of Europe, but most actors are small in size, and considered high-risk for conventional financiers.

Structure of the 90/10 funds

The 90/10 funds require 5-10% of assets to be directed towards social enterprises, either directly or through a specialised fund known as Fonds Professionnel Spécialisé (FPS). The percentage allocated to social enterprises target three specific types of organisations:

- > Solidarity-based companies: These entities produce goods or services with significant social and/or environmental utility. They work in a range of areas of public interest, such as the fight against unemployment and poor housing, the development of organic farming and renewable energies, and the development of entrepreneurship in developing countries. To qualify for investment, these enterprises must hold the public accreditation "entreprise solidaire d'utilité sociale" (ESUS).
- > Other solidarity funders: These intermediaries primarily finance activities with high social and/or environmental impact while offering project support services.
- > International solidarity actors: These include funds and microfinance institutions that provide financial services to populations lacking access to traditional banking systems worldwide.

The remaining 90-95% of assets are to be invested in listed assets. The law does not impose management criteria on these assets. However, the Finansol Label has introduced sustainable management criteria (ESG/ISR) for the listed portfolio.

Results of the 90/10 funds

On average, a single 90/10 fund currently finances 17.7 social economy actors (compared to 13.5 in 2009). The diversity of sectors financed has also increased significantly. They typically support access to housing and employment, ecological initiatives, entrepreneurship in developing countries and they finance humanitarian aid, culture, and popular education.

In 2023, solidarity finance increased by 4 billion euro to reach 30 billion at the end of December 2023, i.e. +15% year-on-year. This represents 0.5% of French people's financial savings (compared with 0.45% in 2022[26]). Solidarity employee savings plans account for approximately 60% of the total solidarity savings and remain the primary driver of funding for solidarity enterprises. According to a study by Eres, the proportion of solidarity investments is about 6.5% of assets[27] (maximum of 10% authorised by law).

The 90/10 funds have attracted attention among the French but also among different neighbours, and the European Commission, who are seeking to replicate and expand this model.

Source: lafinancepourtous/Finansol

26. Source: Baromètre de la finance solidaire 2024 - FAIR
27. Source: AFG, Argus des FCPE, 2017.

Proposal: Introducing a Sustainable and Impact Investment Choice in Belgian Pension Plans

Given the significant potential of pension and insurance funding, and drawing inspiration from the French 90/10 model, we believe that a similar approach could prove highly attractive for certain segments of the Belgian pension and insurance landscape. However, it is important to recognise that pension systems across Europe vary significantly, making direct comparisons difficult. A straightforward replication of the French model in Belgium is neither feasible nor legally possible without necessary adjustments.

This proposed allocation should remain modest (similar to France's cap of 10%) and crucially, **contributors must be offered the choice, with a legal obligation for it to be provided.** As such, we propose initiating **a pilot program under the second pillar of the Belgian pension system, particularly within Defined Contribution Plans,** where contributors already have the option to select from different investment options.

The 10% allocation could be directed towards sustainable and impact investments. By adopting a broader scope, the challenges typically associated with investments in smaller enterprises—such as risk, scalability, and the need for specialised knowledge—can be mitigated, offering improved liquidity and diversification for fund management.

Fiduciary duty will require careful consideration and explanation. Here, lessons can be drawn from the French experience, where similar concerns are addressed under a common European regulatory framework.

Currently in Belgium, Defined Contribution Plans account for 60% of the total reserves in the second pillar, amounting to approximately 63 billion euro. If the French 90/10 model were applied, wherein solidarity-based savings represent around 10% of total employee savings, up to 6.3 billion could potentially be invested in sustainable and impact funds. Of this, 6.5%[28] would be **directly allocated to sustainable or impact investments, representing approximately 409 million euro.** By relying on a broader definition than the French "économie solidaire," these figures could potentially be higher.

The initiative would begin with a pilot project within the second pillar, with the potential to expand to the third pillar and other pension or insurance products, depending on the success of the initial phase. This pilot would be led by pension funds and insurance groups actively managing occupational pensions under the second pillar. Simultaneously, it is crucial to promote sustainable and impact investing to generate interest and raise awareness among sector organizations and employers. The pilot aims to introduce stakeholders—employers, employees, pension funds, and insurance groups—to the new offerings, using educational materials and engagement tools to increase awareness. The primary goal is to assess interest and gather feedback, which would be essential in determining the perceived value of the new products.

28. According to a study by Eres, the proportion of solidarity investments is about 6.5% of assets (maximum of 10% authorised by law)

Conclusion

While challenges such as the evolving interpretation of fiduciary duty and the lack of transparency in investment choices persist, given the growing interest in sustainable and impact investing and the anticipated revision of the occupational pension's legislation by the European Commission (likely within the next five years), which is expected to accelerate the ongoing transition from Defined Benefit to Defined Contribution pension plans. This upcoming reform presents an opportunity for Belgium to act proactively, aligning its pension system with future European regulations rather than waiting for mandatory compliance.

By integrating sustainable and impact investment options into pension plans, Belgium can draw on successful international models, attracting a broader range of investors and unlocking substantial capital. If executed effectively, **this proposal has the potential to direct at least 400 million euro** towards fostering a more sustainable and inclusive economy in Belgium.

The ultimate success of the integration of sustainable and impact investment into pension plans will require further analysis to determine

i. the precise definition of permitted investments;

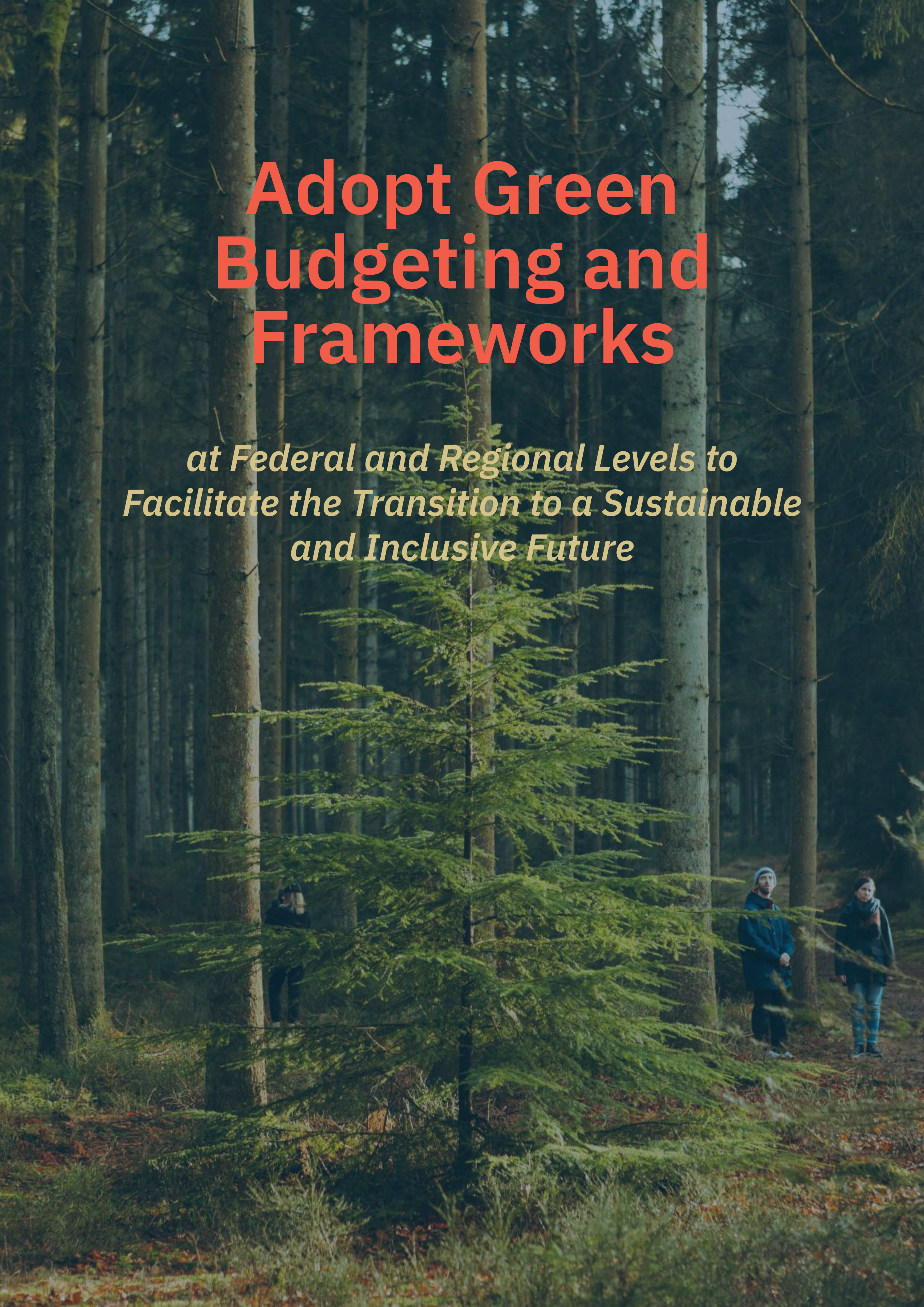
ii. the actual support from the insurance groups, pensions funds, sector' organisations and employers;

iii. that operational and management aspects, including costs, liquidity, risks, benefits are taken into account; and

iv. the appetite of the contributors, with or without tax incentives.

Adopt Green Budgeting and Frameworks

at Federal and Regional Levels to Facilitate the Transition to a Sustainable and Inclusive Future



Adopting Green Budgeting and Frameworks

The previous three sections were about ways that targeted regulatory and legislative changes can encourage the private sector to do more in sustainable and impact investing. At the same time, the public sector has different ways to better embed sustainability and impact in her operations. (i) With more than 50% of Belgian GDP flowing through government coffers, the current public budgeting can be reviewed and, as the case may be, repurposed to achieve more impact. (ii) Publicly owned investors in Belgium, who are excluded from certain regulatory obligations, should set the example by adopting SFDR practices. (iii) The Taskforce Sustainable Finance should be reinforced to become the public knowledge and coordination centre for sustainable finance.

Green Budgeting: The State of Play

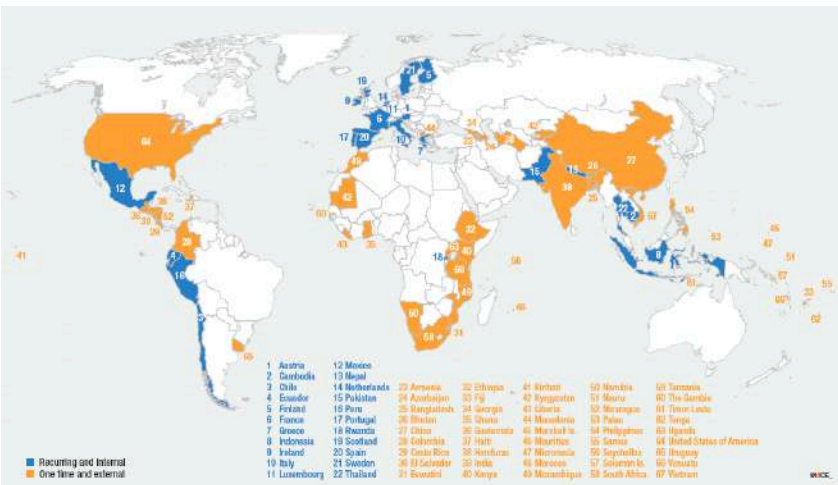
The 2019 Green Deal highlights the importance of green budgeting in "redirecting public investment, consumption, and taxation towards green priorities and away from harmful subsidies." European Governments need to "green" their national budgets to ensure that sufficient funds are allocated to environmentally beneficial activities and diverted from those that cause environmental harm.

Green budgeting involves evaluating the environmental impacts of budgetary and fiscal policies and assessing their alignment with both national and international commitments. The European Commission defines green budgeting as a process where the environmental contributions of budget items are identified and assessed to better align policies with environmental and climate objectives.

Development of Green Budgeting in the World

Green budgeting involves evaluating the environmental impacts of budgetary and fiscal policies and assessing their alignment with both national and international commitments. Green budgeting surfaced around 2010, when several developing countries in the Asia-Pacific region started doing this, funded by development institutions. The United Nations Development Programme (UNDP) and the World Bank have played pivotal roles in advancing this field by funding and implementing climate budget tagging exercises in countries such as Bangladesh and Nepal.

Today, over 60 countries have implemented green budgeting practices. **In Europe, twelve Member States are currently practicing some form of green budgeting,** while five additional Member States plan to introduce such practices in the future.



Source: I4CE 2023.

International Frameworks

Over the past two decades, green budgeting practices have gained traction at both national and subnational levels. International organizations have introduced frameworks to support governments in implementing green budgeting.

In 2020, the EU drafted a Green Budgeting Reference Framework (GBRF), complemented in 2021 by a multi-country capacity-building program. This framework is focused on environmental aspects, not (yet) including Biodiversity, Social Justice, or Transition funding.

The OECD also developed a Framework for Green Budgeting, based on national practices. It identifies four essential building blocks to ensure green budgeting is integrated into the broader public financial management process.

These EU and OECD Framework are complementary, with the latter providing the overarching structure for green budgeting and budgetary policy making within which the former, more operational framework can be applied.

Separately, the IMF developed a Green Public Financial Management Framework. This framework integrates green budgeting with fiscal transparency, external oversight, and coordination with state-owned enterprises and subnational governments. It provides a comprehensive view of integrating climate and environmental considerations into the budget cycle and broader fiscal policymaking.

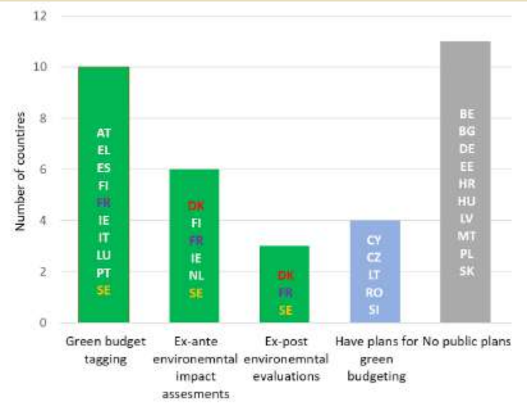
Since 2020, the EU Member States are required to submit 10-year national energy and climate plans (NECPs) and develop long-term strategies to meet Paris Agreement commitments. As NECPs also cover private investment and focus on carbon emission reductions, linking them with green budgeting practices is crucial for achieving broader environmental objectives. The Belgian plan largely consisted of three collated plans from Flanders, Wallonia and Brussels as it is the regions that are responsible for many related topics; energy use, renewable energy, traffic infrastructure, country side planning, agriculture and waste. The next plans are due in 2029.

Insights: Green Budgeting Practices Across EU Member States

The EU Green Deal highlights the importance of green budgeting in "redirecting public investment, consumption, and taxation towards green priorities and away from harmful subsidies." European Governments need to "green" their national budgets to ensure that sufficient funds are allocated to environmentally beneficial activities and diverted from those that cause environmental harm.

Green tagging is a first step in identifying which budgetary items – the input – are likely to have effects, positive or negative, on the environment. A subsequent step could then be to (ex-ante) assess in more detail such potential impacts, particularly when they appear to be significant. In this context, assigning environmentally-related performance indicators to various policies can help monitor their implementation and measure their impact on the environment – the outcome.

Ten EU Member States use tagging to include green considerations in their budget. The tagging methods vary widely across countries reflecting for example: (i) different definitions of what is green, (ii) different budgetary frameworks within which green budgeting is performed, (iii) various national green agendas and commitments that may form the basis for country-specific 'green' definitions, and (iv) different capacity at the government level and political backing.



Source: 2023 European Commission survey on green budgeting

> When identifying the contribution of an item to the environment, several countries are now implementing a scaled approach to tagging, i.e., using different 'shades of green', while some use a simpler binary method, i.e., the entire cost of an item is considered green or not green. Very important is to also identify negative aspects, often labelled as the 'brown' budget items. The 'green' share of the budget captured in the tagging process varies across countries (between 1% and 7%), largely reflecting different methodologies.

> Six Member States reported that they conduct ex-ante environmental impact assessments. The impact assessment methods vary across reporting countries. All practices cover climate mitigation objectives and some capture a broader set of objectives.

> Three Member States reported that they are conducting ex-post environmental evaluations.

Green budgeting information should be reported in both annual budget plans and executed budgets. Countries can also include green budgeting information in multi-annual budget plans and report on green items related to extra-budgetary entities. All deliverables should be made public, and the methodology should undergo independent expert assessment. Practices should also include independent evaluations, parliamentary scrutiny, and regular ex-post reviews of the methodology.

Green budgeting, principally in the form of green budget tagging, has also been implemented by many local governments, including the cities of Venice, Barcelona, Lyon, and the Brittany region in France. Much like at the national level, green budget tagging at the local and regional level varies in scope and level of engagement.

First Results and Strong Momentum for Green Budgeting

Most EU Member States engaged in green budgeting plan to further refine their practices, highlighting both the complexity of the process and a strong commitment to its implementation. While tools to measure the impact of green budgeting processes are still being refined, early signs indicate positive effects. Policymakers are increasingly aware of the potential environmental impacts of budget measures. As these green budgeting processes become more firmly established within national frameworks, we can expect to see more concrete results and significant advancements in achieving environmental objectives.

The Challenge of Implementation and Governance

Each country has to determine the best way to include Green Budgeting into her existing processes. Expertise may need to be acquired and trainings provided. Some of the definitions may need to be clarified and ambitions determined. This is where the EC and other member States can help.

Green budgeting information should be reported in both annual budget plans and executed budgets. This can be done through dedicated sections, annexes, or tables in budget documents. Countries can also include green budgeting information in multi-annual budget plans and report on green items related to extra-budgetary entities. All deliverables should be made public, and the methodology should undergo independent expert assessment. Practices should also include independent evaluations, parliamentary scrutiny, and regular ex-post reviews of the methodology.

Three Proposals: on Green Budgeting, SFDR and the Taskforce Sustainable Finance

(i) Belgium to Adopt Green Budgeting

The primary goal of green budgeting is to obtain an overarching view of the budget for an entity, ensuring that environmental considerations are integrated into all financial decisions. Belgium is well-positioned to adopt green budgeting, drawing on its existing climate mainstreaming methodologies used for the recovery and resilience plan and green bonds. With a National Energy and Climate Plan (NECP) and a long-term strategy already in place, Belgium has a good foundation. Furthermore, the country's public budgeting and financial management processes are well-established, which supports the introduction of green budgeting.

Some countries started with a Gradual Green Budgeting Approach: starting with pilot sectors and gradually expand to a full national methodology. While creating a full national methodology for green budgeting may take up to a year, this initial effort is the most intensive part of the process. Once established, the ongoing implementation of green budgeting will require less effort.

> ***National budgets play a key role in the transition. A greater use of green budgeting tools will help to redirect public investment, consumption and taxation to green priorities and away from harmful subsidies. The Commission will work with the Member States to screen and benchmark green budgeting practices.***
>
> *- European Green Deal[29]*

Benefits of green budgeting: new and better sources of funding

A well-developed Green Budgeting mechanism allows for better insight into the uses of funding. This, in turn, can be linked to attractive sources of funding.

The first example is EU funding. The European Union has many programs at national and project level that actively support and finance sustainable and green investments. These do require a clear substantiation, follow up and reporting, fully in line with green budgeting.

An important source for the public's financial need is institutional funding. These large funders are eager to see positive impact from their investments, beyond financial returns, but would require evidence. Especially at local public level, some cities started tapping into this source of funding already.

Then, green budgeting allows for the issuance of more green (sovereign) bonds. Many reports show that those bonds are issued at slightly lower cost than regular bonds, the so-called "greenium". Even a difference of 5 to 20 basis points can add up when large capital sums are involved. To build on this, the issuance of sovereign green bonds by the Belgian Debt Agency will be much easier if there is a clear view on the uses.

Moreover, sovereign issuers are very important trend-setters and tend to encourage further issuance by domestic and private actors, hence playing an important 'signalling' role in private capital mobilisation.

29. Source: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX%3A52019DC0640

Since 2017, Belgium has issued several sovereign green bonds for a total of 18 billion euro[30]. That accounts for about 5.3% of the Belgian state bonds issued since 2015[31]. Similar numbers (Green bonds issued compared to all state debt issued since 2015) in eight[32] European countries are between 1.3% (Spain) and 7.8% (the Netherlands). Belgium at 5.3% is slightly above the average percentage. **If Belgium would move its ambition to be in the top quartile (defined as 75% of top two examples), it would add around 800 million euro.**

This underlines an opportunity for Belgium to scale up its efforts. By expanding the scope of its Green Budgeting framework and integrating additional areas of sustainable spending, Belgium could further increase its bond issuance capacity.

Whilst we use the term "green" here, as this is the largest use, it is important that "sustainable" bonds also exist, as do "social" bonds, even combinations of these, like the "Green Gilts" in the UK, with similar challenges and benefits. The Climate Bonds Initiative (climatebonds.net) tracks and verifies all these bonds in a GSS+ overview, which we were able to use for this analysis.

(ii) Belgian Public Financiers to Implement SFDR

At the European level, the Sustainable Finance Disclosure Regulation (SFDR) mandates financial market participants to provide greater transparency on how sustainability risks are integrated into their investment decisions, thereby fostering more informed choices by investors and helping to combat greenwashing. Additionally, the European Securities and Markets Authority (ESMA) regulation strengthens the overall integrity and stability of the financial markets by incorporating Environmental, Social, and Governance (ESG) considerations into its regulatory oversight.

Other key regulations, such as the EU Taxonomy Regulation and the Corporate Sustainability Reporting Directive (CSRD), further bolster the framework by providing a clear classification system for sustainable activities and enhancing corporate disclosure requirements, respectively. These regulatory measures collectively aim to harmonise standards across the EU, ensuring that all financial and corporate entities are aligned with the overarching goal of a sustainable and resilient economy.

National and regional public investors, such as SFPIM (the Federal Holding and Investment Company) and PMV (Participatiemaatschappij Vlaanderen), are considering to integrate sustainability principles inspired by SFDR into their portfolios, even though it is not mandatory for them. By doing so, they are aligning themselves with broader sustainability goals, creating a level playing field that promotes transparency and consistent reporting. It also facilitates collaboration between public and private investors. Such partnerships foster greater impact by facilitating co-financing opportunities, making it easier for both sectors to join forces in sustainable and impact investments, while ensuring that progress is closely monitored and aligned with key sustainability objectives.

30. Figures provided by the Green Bonds Initiative, on basis of GSS+, that is all verified Bonds of Green, Social and Sustainable nature, use of proceeds bonds, of which Green is the vast majority.
31. Source: Bloomberg
32. Belgium, Denmark, France, Germany, Italy, Netherlands, Spain, Sweden

(iii) Taskforce Sustainable Finance to Be Reinforced

There is a growing consensus among many advocates that a robust regulatory framework is essential to overcome existing barriers and facilitate this transition. The previous government recognized this need and had already initiated significant steps towards creating a more sustainable financial landscape. A supportive regulatory framework would be crucial for the successful transition to a sustainable economy in Belgium. The transition plan for Belgium highlights the need for a coordinated approach to align public and private financial flows with sustainability goals.

A Taskforce Sustainable Finance was formed with a largely informal, advisory and coordinating role. Endowing this Taskforce with a formal position would create clarity to its partners. It would bundle knowledge and ambition on sustainable finance. It would be an entry point for non-public partners, civil society, experts, etc. for engagement with the public sector.

Upgrading the current Taskforce Sustainable Finance with a formal mission, means and responsibilities, would be very beneficial for the public sector and those who want to engage with the public sector. It could collect the necessary inputs, function as a platform for communication and be a source of consultation by other public entities.

Conclusion

The public actors in Belgium have different ways to better and more deeply embed sustainability and impact in their operations. The current public budgeting can be reviewed, following international frameworks, to implement Green Budgeting practices. This may lead to repurposing of expenses to achieve more impact. On the funding side, it would also allow for the issuance of more Green Bonds in Belgium. We showed how **some increase in ambition could already generate an extra 800 million euro.**

Furthermore, national and regional public investors in Belgium, should set the example by integrating SFDR-based principles into their practices, which would also help them in their co-financing with private financiers.

Finally, the Taskforce Sustainable Finance should be reinforced to become the public knowledge and coordination centre for sustainable finance.

The ultimate success of the development of green budgeting and regulatory frameworks will require further analysis to determine

i. the actual support from the government to adopt green budgeting and in what form and what steps;
ii. the actual support from national and regional public investors to embrace SFDR principles in their work; and
iii. the interest of different public entities to reinforce that Taskforce Sustainable Finance for everyone's benefit.

Conclusion and Next Steps

Conclusion

The four key proposals outlined in this report represent a significant opportunity to unlock both private and public capital for sustainable and impact investments in Belgium. Each proposal offers a clear and strategic pathway to mobilise resources that will support environmentally and socially beneficial projects, reinforcing Belgium's transition towards a more sustainable economy and inclusive society.

Based on the potential of 3 out of the 4 proposals (Dormant Assets: 2.0-2.8 billion euro; Retail Impact Fund: not estimated; Sustainable and Impact Investment choice in Pension plan: 400 million; more Green Bonds: up to 800 million euro), **these initiatives have the direct potential to generate an estimated 2.5 to 4.0 billion euro in new capital for sustainable and impact investments.** Indirect and follow-on initiatives provide an even larger potential. By leveraging private capital, unlocking retail savings, stimulating institutional investors, and integrating green budgeting at various levels of government, Belgium can tap into substantial funding with a strong commitment to sustainability and positive impact while minimising public expenditure.

These proposals are expected to foster economic growth while addressing pressing environmental and social challenges, thereby creating a more sustainable landscape. However, the success of these initiatives will depend on effective collaboration between public and private sectors, strong regulatory frameworks, and long-term government support to ensure sustainability and impact remain central to investment decisions.

To ensure the effective implementation of these proposals, **the strategy is to begin with targeted pilot programs that allow for gradual expansion based on their success.** These pilots will help fine-tune the regulatory framework, address challenges, and build investor confidence. (i) Institutional investors will be encouraged to align a greater portion of their portfolios with sustainability objectives. (ii) Green budgeting will be introduced in key sectors, ensuring that public spending is more closely aligned with environmental goals and enabling the issuance of additional green bonds to finance large-scale sustainability projects. (iii) A guarantee structure backed by dormant assets could also be expanded to include other public assets, further enhancing Belgium's capacity to leverage additional capital for sustainable and impact-driven initiatives. (iv) To foster retail participation, the government may introduce incentives that make sustainable and impact investing more attractive and accessible to more individual investors.

Ongoing consultation and close collaboration with key stakeholders such as sector organisations, regulators, policy makers and practitioners, will be crucial for the successful implementation and scaling of these initiatives. Continuous dialogue will help to address any emerging challenges and ensure that the proposals remain relevant and effective. Active engagement with governments and political representatives will also be essential to secure political support and push for the necessary legislative changes to create a strong regulatory framework. This collaborative approach will help align public and private interests, ensuring that sustainable and impact investing are prioritised within Belgium's broader economic and policy frameworks.

IFB is willing to initiate next steps: defining the critical issues to be further analysed and inviting relevant stakeholders to join a coalition to unlock the potential this report identifies. This coalition can set objectives, agree on an appropriate project plan and decide on the pilot.

Continuous monitoring and evaluation will be vital to ensuring that these initiatives remain impactful and scalable, contributing to Belgium's sustainability and social goals. This process will be supported by evolving European regulations, which will provide greater clarity and uniformity, further advancing the development of the sustainable and impact investment sector.

Acknowledgements

We would like to extend our sincere gratitude to all those who have contributed to the completion of this report. Collective efforts and expertise have been instrumental in the progress of this project.

Freshfields

IFB has worked closely with a dedicated team of pro bono lawyers from Freshfields, and the collaboration with them has been a cornerstone of this report. Their team provided extensive legal insights and expertise, which were indispensable in addressing the complex regulatory landscape and ensuring the comprehensiveness of our analysis.

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Counsel Tax

Wouter Van Der Veken
Counsel Finance

Sounding Board

The active involvement of our independent Sounding Board throughout this project played a vital role by providing expertise, ensuring a critical view on substance, bringing innovative input, and sharing valuable experience in the adoption of new policies and regulations.

The Sounding Board comprised the following esteemed members:

Geoffrey Delrée
Deputy Director - FSMA

Jan Alexander
Secretary General - The Belgian Venture Capital & Private Equity Association (BVA)

Jana Bour
Head of Policy & EU Partnerships - Impact Europe

Kenny Frederickx
General Director - Forum Ethibel

Loic De Cannière
Chair of the Supervisory Board - Incofin Investment Management

Marc Van de Gucht
Director General of BEAMA, Director Asset Management & Private Banking of Febelfin

Supporting Stakeholders

We would also like to express our sincere appreciation to the IFB members and stakeholders who have generously shared their views, analyses, and proposed solutions, providing a thorough understanding of the market. A special thanks goes to independent experts such as Ariane Meunier, Jan Longeval and Linda van Goor.

Contact

This report provides an overview of policy measures and regulations at Belgian level, within a European context, which can significantly enhance sustainable and impact investing in Belgium. The objective is to formulate an advocacy strategy that promotes the implementation of policy measures and appropriate regulations. With the ongoing developments and regulatory changes in sustainable and impact investing, the contents are subject to amendments and evolution.

To any reader, we would like to extend the invitation to share your observations. To do so, or if you have any questions or would like further information, please consult our website (www.impactfinance.be) or contact the IFB team (hello@impactfinance.be).

Thank you for reading and we look forward to hearing from you.

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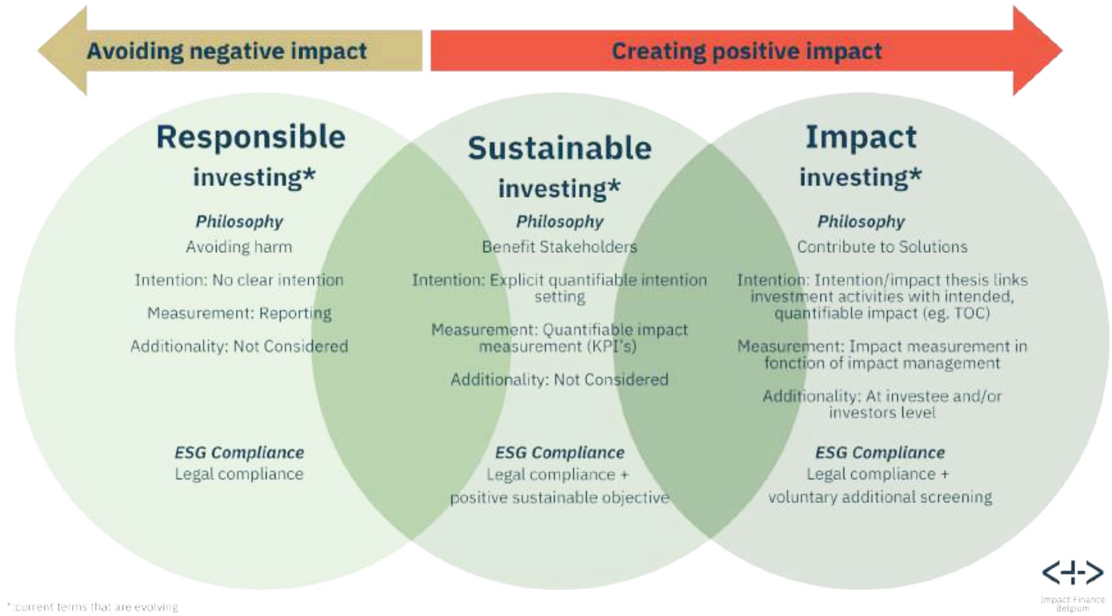
Annexes

Annex 1: IFB Guiding Sustainable and Impact Investing Framework

In order to clarify the distinctions between the responsible, sustainable and impact investing, IFB has outlined their key differences in the figure and guiding table below.



IFB emphasises explicitly that:

> Both strategies, for sustainable and impact investing, each with its own advantages and disadvantages, are complementary and are crucial for achieving a sustainable society.

> Like the overlapping circles, the dotted lines indicate that these strategies may (temporarily) overlap, due to the continuous evolution within the environmental and social sectors.

> As such, the table below should not be viewed as a checklist but as a guide to help identify where particular investments and/or practices can be situated. It also indicates opportunities for further deepening of practices.

> Definitions and technical requirement are critical but only one part of the journey. The internal culture and incentives and management tools are equally important.

		FOCUS OF IFB	
	RESPONSIBLE INVESTING	**SUSTAINABLE INVESTING**	**IMPACT INVESTING**
PHILOSOPHY			
Avoid harm	V	V	V
Benefit Stakeholders		V	V
Contribute to Solutions			V
PRINCIPLES			
Intentionality			
Quantifiable sustainable objective/target (social and/or environment) put forward upfront		V	V
Impact thesis links investment activities with intended impact (TOC, ...) at level of investees and/or portfolio level			V
IMM			
Systems in place to monitor quantifiable social/environmental targets at least at output level		V	V
Systems in place to monitor quantifiable social/environment targets at least at outcome level		V	V
Management focusing on continuous improvement of social/environmental outputs in order to enhance organisations proper performance (internal focus)		V	V
Management focusing on continuous improvement of social/environmental outcomes in order to enhance their impact in society (external focus)			V
ADDITIONALITY			
Systematic approach for financial support towards investee/sector level			V
Systematic approach for non-financial support towards investees			V
ESG COMPLIANCE			
Strategy in place to contribute to a positive objective at social and/or environmental level		V	V
Voluntary additional screening on negative impacts (e.g. PAI)			V

Annex 2: Selection Criteria by Topics

	Effectiveness		Feasibility		Stakeholders	Proposed Decision
	Amount of Capital	Timing (To Start)	Legal (complexity)	Political (buy-in)		
90/10	Up to €409 million.	Long term.	Medium.	Federal (interest expressed) - no extra cost. Pensio+, Assuralia, FSMA, DG EMPL	Retail, via pensions funds and insurance groups.	Short list.
Green Budgeting	No direct new funding, but indirect effect.	Long term.	Low.	Federal and regional (interest expressed) - no extra cost. Ministry of Finance, FSMA, BNB	Belgian State and/or Regions.	Short list (including sovereign green bonds).
Dormant Assets	Up to €1.980 billion.	Short term.	Low.	Federal / Treasury, FSMA, BNB	Belgian State, CDC/CDK	Short list.
Retail Impact Fund	Potentially several billions.	Variable.	Medium.	Possible at zero (public) cost. FSMA	Retail investors, asset and fund managers	Short list.
Fiscal Incentives	TBD.	Variable.	Medium.	Ideally at zero (public) cost, but likely a lower (public) revenue.	Belgian State	Underlying other topics.
Green and Impact Bonds	No direct new funding, but indirect effect.	Short term.	Medium.	Federal and regional - possibly at lower cost.	Belgian State and/or Regions.	Partly included in the short list (with green budgeting)
Fiduciary Duty	TBD.	Short term.	Medium.	EU level.	Banks, Pensions funds, Insurance groups	Out of scope (EU level and expected strong resistance).
Sustainable and Impact Categories	TBD.	Short term.	Low.	EU level.	Banks, pensions funds, insurance groups	Out of scope (harmonisation needed at EU level and additional definitions are unlikely to be welcome).
Regulatory barriers for institutionals	TBD.	Long term.	High.	EU level.	Pensions funds, insurance groups	Out of scope (EU level, where rules on stability of the financial system will prevail).

Annex 3: Examples of Blended Finance

Japan follows the lead of the UK dormant asset scheme

In 2019, Japan launched an initiative to address various social issues by using dormant bank deposits. These deposits, which have remained unclaimed for over ten years, amount to approximately 70 billion yen (438 million euro) annually (around 50 billion yen are reclaimed every year by their original owners). This initiative aims to support non-profit organisations working on critical social challenges such as child poverty, social isolation, and community decline. The funds are managed by the Japan Network for Public Interest Activities (JANPIA), which selects intermediary organisations to distribute the grants.

The initiative focuses on three main areas: supporting children and young people, aiding economically and socially disadvantaged individuals including those with disabilities, and revitalising communities facing social difficulties.

In addition to financial support, JANPIA emphasises capacity building by offering training and managerial support to non-profit organisations, ensuring better management and accountability. This innovative funding model, inspired by similar schemes in other countries, aims to make a significant impact on social welfare and community development in Japan. By reallocating dormant assets, Japan hopes to enhance the effectiveness of non-profit efforts in addressing complex and diverse social issues.

The UK Growth Fund

The Growth Fund in the UK is a blended grant and loan fund aimed at providing small, affordable, unsecured loans to social enterprises and charities. There is an increasing demand for unsecured loans under 150.000 pound among these organisations. To address this gap, the Growth Fund was created in partnership with the National Lottery Community Fund and Access – the Foundation for Social Investment. The main objective is to help social enterprises and charities build resilience and self-reliance through financial support.

The Fund has invested in 16 loan funds dedicated to offering finance to social enterprises and charities seeking to expand or diversify their business models. These finances come in the form of small, flexible, unsecured loans, sometimes combined with grants, up to a total of 150.000 pound.

By blending loans and grants for both the fund manager and the charity or social enterprise, the Growth Fund makes it possible to offer financial support where previously the risks and costs were too high. This innovative approach ensures that social enterprises and charities can access the funds they need to become sustainable and impactful, despite financial challenges.

Public Development Agencies

Public development agencies in some of our neighbouring countries are intensively using Blended Finance structures such as FMO (Dutch entrepreneurial development bank) in the Netherlands, BMZ (The Federal Ministry for Economic Cooperation and Development) in Germany or USAID (United States Agency for International Development) in the United States. As an example, the major 'providers' of Blended Finance in the field of agricultural investments are being shown in the chart here under[33].

Figure 21: Most active concessional investors in agriculture blended finance, investment count and aggregate investment size (incl. guarantees / risk insurance), 2018-2023

A Pilot Case in Belgium

In one pilot case, the Direction *Générale Coopération au Développement et Aide Humanitaire* (DGD) has granted a subsidy of 900,000 euros to Kampani, an agricultural investment fund, of which 785,000 euros was used as a first-loss tranche. The Fund's first-loss tranche aims at derisking private investors and at growing the investor base with a target multiplier of the tranche of 3 to 5.

33. Source: Convergence, 'State of Blended Finance 2024'

Annex 4: Overview of Funds for Financial Inclusion in the Global South

(source: Incofin IM)

Market Appetite for Impact Funds – Financial Inclusion Funds (1/5)

#	Fund Name	Manager	Headquarters	Fund Domicile	Countries available	Description	Minimum Ticket Size	AuM (overall)*
1	Incofin CVSO	Incofin Investment Management	Antwerp, Belgium	Belgium	Belgium	Open ended hybrid private debt and private equity fund active since 1992 focusing on smaller MFIs in emerging markets	EUR 130.20[1]	EUR 75m
2	Social co-op, Alterfin Guarantee Fund	Alterfin	Brussels, Belgium	Belgium	Belgium	Finances the development of social enterprises in LATAM, Asia, Africa, with 6,000 co-op members and 200 companies since 1994	EUR 62.50[2]	EUR 70.5m[3]
3	Social co-cop	OikoCredit	Amersfoort, Netherlands	The Netherlands	Austria, Belgium, France, Germany, Ireland, Italy, The Netherlands, Spain, Sweden, Switzerland, United Kingdom, Canada[4]	Promotes sustainable development through loans, investments, capacity building in financial inclusion, agriculture and renewable energy	EUR 200[5]	EUR 1 bn[6]

*AuM includes both institutional and retail investors, as applicable

Sources: 1. Incofin CVSO Website 2. Alterfin Website 3. Alterfin Annual Report 2023 4. Oiko Credit Website 5. Oiko Credit Website 6. Oiko Credit Website

Source: Respective fund websites and associated documents

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Market Appetite for Impact Funds – Financial Inclusion Funds (2/5)

#	Fund Name	Manager	Headquarters	Fund Domicile	Countries available for retail	Description	Minimum Ticket Size	AuM (overall)*
4	responsAbility Global Micro and SME Finance Fund	AIFM: MultiConcept Fund Management Distributor: responsAbility	Zurich, Switzerland	Luxembourg	Luxembourg, Switzerland[7]	Launched in 2003, the fund supports MFIs and SME FIs through short to med term private debt investments and limited private equity	USD 1,000 (on first issue in 2003, current is not publicly available)[8]	USD 575m[9] (~EUR 532m)
5	BlueOrchard Microfinance Fund (BOMF)	BlueOrchard Finance	Zurich, Switzerland	Luxembourg	The Netherlands[10]	Private debt fund launched in 1998, provides loan to MFIs in developing and emerging markets	Not publicly available	USD 2.6b[11] (~EUR 2.4b)
6	Triodos Microfinance Fund	Triodos Investment Management	Driebergen-Rijsenburg, The Netherlands	Luxembourg	Belgium, Denmark[12]	Launched in 2009, provides debt and equity investments	EUR 250,000 (Belgium) EUR 100,000 (Denmark)[13]	EUR 417m[14]
7	Triodos Fair Share Fund			The Netherlands	The Netherlands[15]	Launched in 2002, listed mutual fund with debt and equity investments	Dependent on share class	EUR 319m[16]

*AuM includes both institutional and retail investors, as applicable; For BlueOrchard, ~EUR 87m is the share capital for P Class shares (private investors); 1 EUR = USD 1.08

Sources: 7. responsAbility Website 8. responsAbility Global Microfinance Fund Sales Prospectus 9. responsAbility Audited annual Report 2023 10. BOMF Prospectus 2024 11. BOMF Factsheet 12. Triodos Annual Report 2022 13. Triodos Annual Report 2022 14. Triodos Website 15. Triodos Website 16. Triodos Website

Market Appetite for Impact Funds – Financial Inclusion Funds (3/5)

#	Fund Name	Manager	Headquarters	Fund Domicile	Countries available for retail	Description	Minimum Ticket Size	AuM (overall)*
8	ASN Microcredit Fund	asn bank Manager: ASN Beleggingsinstellingen Beheer B.V Distributor: Triple Jump	The Hague, The Netherlands	The Netherlands	Europe**[17]	Started in 1999, the fund makes financial inclusion focused investments in debt and equity in Africa, Asia, Eastern Europe, and Latin America	~EUR 54	EUR 209m[18]
9	IIV Mikrofinanzfonds	INVEST IN VISIONS Invest in Visions GmbH	Hamburg, Germany	Germany	Germany, other countries on approval[19]	Launched in 2011, this is a public AIF that acquired securitized loan receivables from MFIs in developing and emerging countries	No minimum limited for some share classes (others have a minimum of EUR 30,000)[20]	EUR 747m[21]
10	Monega Microfinance & Impact Fund	Developing World Markets (DWM)	Cologne, Germany	Germany	Germany, and other countries on approval; not permitted in the US and Canada[22, 23]	Multithematic impact mutual fund for Germany focusing on MFIs and the achievement of UN SDGs	Dependent on share class – some have no minimum value[24]	EUR 23.75m[25]

*AuM includes both institutional and retail investors, as applicable; **Does not publicly specify which countries; mentions it is listed in Europe

Sources: 17. Triple Jump Website 18. ASN Bank Website 19. Invest in Visions Prospectus 2024 20. Invest in Visions Website 21. Invest in Visions Monthly Report May 2024 22. Monega Prospectus 2023 23. Monega Factsheet 24. Monega Prospectus 2023 25. Monega Website

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Market Appetite for Impact Funds – Financial Inclusion Funds (4/5)

#	Fund Name	Manager	Headquarters	Fund Domicile	Countries available for retail	Description	Minimum Ticket Size	AuM (overall)*
11	GLS AI - Microfinance Fund	Frankfurt School Financial Services	Frankfurt, Germany	Luxembourg	Germany, other countries not publicly specified	Launched in 2015, the GLS Fund primarily invests in microfinance institutions focusing on financial and social sustainability	Minimum investment is 1 share (savings plan start from EUR 25 per month)[26]	EUR 227m[27]
12	Solidarity International Development Investment	Solidarity International Development Investment	Paris, France	France	Subscription form places no limitation on the subscriber's country[28]	Created in 1983; encourages community shareholders to invest and finance small entrepreneurs and farmers	EUR 152[29]	EUR 34.4m[30]
13	Lendahand Crowd Funding	Lendahand	Rotterdam, The Netherlands	Financial Markets Authority (AFM), Europe	European Economic Area[31]	Crowdfunding platform supporting entrepreneurs in developing countries	EUR 10[32]	EUR 180m[33]

*AuM includes both institutional and retail investors, as applicable

26. GLS Website 27. GLS Microfinance Website 28. SIDI Website 29. SIDI Website 30. SIDI Annual Report 2023 31. Lendahand Website 32. Lendahand Website 33. Lendahand Website

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Market Appetite for Impact Funds – Financial Inclusion Funds (5/5)

#	Fund Name	Manager	Headquarters	Fund Domicile	Countries available for retail	Description	Minimum Ticket Size	AuM (overall)*
15	Kiva Crowdfunding	kiva Kiva	San Fransisco, USA	California	No limitation placed on geography[36]	Pioneer in the crowdfunding space (non-profit), launched in 2005; aims to reinvent microfinance with flexible terms	No minimum ticket size	Loans worth USD 2b funded through the platform[37]
							TOTAL*	**~EUR 6.3b+**

*AuM includes both institutional and retail investors, as applicable; **Does not include Kiva as it is a not-profit
Source: 36. Kiva Website 37. Kiva Website

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Annex 5: Term Sheet for a Retail Impact Fund

Impact Finance Belgium – Retail impact fund

This term sheet sets out the main characteristics of a proposed retail impact fund under the alternative investment funds framework intending to promote impact finance among retail investors (open-ended version and closed-ended version). The intention is to open up impact investment to retail investors.

Currently, the only available retail funds in Belgium are as follows:

i. *UCITS funds: very strict requirements, liquid assets only, including pension savings funds (around 14 pension savings funds, 8 contractual funds and 69 corporate funds are registered);*

ii. *public AIFs investing in (liquid) financial instruments and other liquid assets, including pension savings funds (around 8 funds are registered);*

iii. *public real estate AIFs (none are registered);*

iv. *public AIFs investing in non-listed and growth companies (currently only one fund is registered, i.e. Quest For Growth NV);*

v. *public starter AIFs (none are registered);*

vi. *ELTIFs: these European Long-Term Investment Funds are now open to retail investors for investments in the real economy[34]. While these may indeed be interesting for certain impact investments (e.g. direct investments in impact undertakings, mostly in the EU), ELTIFs may not be appropriate for all types of impact investing, e.g. impact investing in financial undertakings (like financial institutions that promote social inclusion or provide financial services to promote climate adaption or mitigation) and impact investing in jurisdictions outside of the EU (although possible, there are material limitations, i.e. wide interpretation of the non-cooperative jurisdictions for tax purposes).*

34. Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760 as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules.

A. INTRODUCTION		
1.	Legal Framework	The law of 19 April 2014 on alternative investment funds and their managers (*the AIFM Law*), in particular articles 180 and ff. of the AIFM Law (on public alternative investment funds). A Royal Decree under the AIFM Law would be the appropriate manner to introduce a retail impact fund. Other relevant legal frameworks: MiFID rules, crowdfunding rules, etc.
2.	Target fund managers	Based on IFB's survey of market appetite and readiness, fund managers may include BNPPF AM, Incofin, Funds for Good, and others.
3.	Target investors	Belgian retail investors (potential to scale up to EU retail investors) having an interest in investing smaller amounts in impact investing as part of their ordinary investment portfolio. The impact retail fund could also be used for pension schemes, as part of another proposal developed by IFB.
B. CHARACTERISTICS		
General		
4.	Regulatory framework	Public alternative investment fund under the supervision of the FSMA, requiring: > Licensed fund manager (at fund level) > Approval of the prospectus (at product level)
5.	Registration	Registration of the retail impact fund with the FSMA, including the filing of the following information (review and approval by the FSMA): > Prospectus > Articles of association / fund regulations > Information on related parties > Governance and organisational information > Auditor information > Fund manager information > Investment policy
6.	Disclosure requirements	Disclosure documents in accordance with the AIFM Law: > Prospectus > KID > Annual report > SFDR disclosures
7.	Impact investing	Clear definition to be provided, taking into account environmental and social aspects, as to: Content: Royal Decree to contain minimum requirements to be considered an impact investment fund (based on existing definitions and frameworks), to avoid greenwashing and enable possible tax benefits; fund to be approved by public authority who would keep a list of impact investment funds (e.g. Minister of Finance, possibly based on FSMA's advice and also issuing further guidelines) Structure (e.g. indirectly through SPVs should also qualify as impact investing, or through master-feeder, fund of funds, participations in other retail impact funds)

B. CHARACTERISTICS			
General			
8.	Marketing and distribution	By fund manager, possibly through a network of distributors (impact of MiFID rules to be confirmed). An EU marketing passport is currently not available for retail funds, although the applicable rules in some EU member States may allow marketing.	
9.	Management fee and costs	To be determined by fund managers based on market dynamics (also to be covered by the European Commission proposal made under its Retail Investment Strategy to "create value for money" and prevent "undue costs").	
		Open ended retail fund (bevek/sicav)	Closed ended retail fund (bevak/sicaf)
10.	Fund type	Open ended retail fund under article 181, 1° of the AIFM Law.	Closed ended retail fund under article 181, 2° of the AIFM Law.
11.	Permitted investments	In accordance with article 183, 6° of the AIFM Law, the category of permitted investments would be set by Royal Decree.	
		Debt instruments (mainly) for impact investing, e.g. microfinancing loans, as such or from originating financial intermediaries *Equity instruments (limited)* for impact investing (e.g., up to 10% - could be zero)	*Equity or debt instruments* for impact investing only
		No territorial limitations (other than for sanctioned and high-risk countries).	No territorial limitations (other than for sanctioned and high-risk countries).
		Possible diversification requirements, e.g. maximum single counterparty exposure limited to 5%.	
12.	Min. own fund requirement	Minimum fixed amount TBD	Minimum fixed amount TBD
13.	Duration	Unlimited duration	Limited duration of 10 years, with possible extensions (ensuring a clear investment horizon for investors in illiquid assets).
14.	Distributions	Annual dividends (allowed, but not mandatory) through cash distribution or capitalisation shares.	Annual dividends (allowed, but not mandatory) through cash distribution or capitalisation shares. Mandatory distribution of 80% of net cash profits.
15.	Redemption or liquidity	Redemptions at NAV possible during the lifetime of the fund, but within certain quantitative and timing limits e.g. monthly redemptions limited to [5] % of the fund NAV [15] days' notice of redemption by investors	No redemptions during lifetime (100% at the end of the lifetime of the fund).

B. CHARACTERISTICS			
16.	Liquidity requirements	Fund manager to have appropriate liquidity management system to service redemptions, through e.g. - repayment of interest and principal on loans (from investment in debt instruments, representing min. 90% of the funds' assets); - min. [5] % of highly liquid assets (cash or listed SFDR article 8 and/or 9 investments)	To be determined whether any liquidity must be provided at investor level, by creating a secondary market to be organised (regulated market, MTF, other), taking into account that fund units may be expected to trade at a discount. – To be discussed with BNPP (marketability – see also tax incentives)
17.	Minimum investment	None or low (e.g., €200 to 1.000) – up to the fund manager.	None or low (e.g., €200 to 1.000) – up to the fund manager.
18.	Maximum investment	None preferred (but could be considered per investor, per fund or otherwise).	None preferred (but could be considered per investor, per fund or otherwise).
19.	Fiscal incentives	In principle, usual tax regime of this type of fund structure (minimising tax leakage at the level of the fund with taxation of income in the hands of each individual investor when distributions are made or gains are realised). Specific tax incentive may not be needed considering that the fund would be invested mainly in debt and that exits are allowed.	In principle, usual tax regime of this type of fund structure (minimising tax leakage at the level of the fund with taxation of income in the hands of each individual investor when distributions are made or gains are realised). Specific tax incentives that could be effective include: > for the initial investment (subject to a holding period): [30] % tax reduction of the net investment, capped at €[100.000] per year (cf. existing tax shelter for "public starter funds"); OR > loss protection: [30] % tax reduction of the actual losses incurred by the initial investor in case of a liquidation of the fund, capped at €[25.000] per year; and > for the pay-out: reduced WHT on dividends or liquidation bonus, or exemption.
20.	State guarantee	Possible guarantee scheme to be provided by the State (or State-related entity).	Possible guarantee scheme to be provided by the State (or State-related entity).

Annex 6: The Belgian Pension System

The Belgian pension system is organised around 3 pillars.

Pillar 1 - State pension consists of a basic amount paid out by the State whereby contributions from the active population (and the general state budget) are used to fund current pensions. There is therefore no actual money invested.

Pillar 2 - Complementary pension for employees (PLCS) and independents (PLCI, EIP, CPTI). For employees such pensions are generally financed by employer contributions and (sometimes) employee contributions; for independents the contributions are generally made by the independents or their company. Such contributions are tax-deductible within certain limits, reducing the tax burden of the person making the contribution.

There are 3 types of pension plans for the employees:

- **Defined benefit plan (DB):** Retirement benefits are defined in advance based on the employee's salary and length of service. It provides greater security for employees, as they know in advance the amount of their pension but it’s more costly and risky for employers in the event of market fluctuations. It constitutes around 10% to 20% of total plans. Although their popularity has declined, some sectors, notably the public sector and certain large companies, continue to use them.
- **Defined Contribution plan (DC):** Contributions are fixed, but retirement benefits depend on investment returns. It’s less risky for employers and give flexibility in investment choices. Employees bear the market risk with uncertainty over final pension amount. This type of plan has become increasingly popular in recent years. They account for some 80% to 90% of all supplementary pension plans.
- **Hybrid plan:** Combine elements of the previous two types.

This pillar is the largest in terms of amounts invested. It is organised through pension funds (one pension fund per company or for a group of companies, sometimes organised by sector) and insurance companies (through group insurance contract).

An insurance company can manage a complementary pension in a branch 21 or branch 23 insurance product:

- **Branch 21:** the insurance company guarantees a fixed return and cannot offer an investment choice.
- **Branch 23:** the insurance company does not guarantee a return. The contributions paid are invested in one or more investment funds chosen, and the return is determined by the performance of these investment funds.

In terms of legal framework, the Law of April 28, 2003 on complementary pensions applies, as well as, for insurance companies, the broader regulatory framework (e.g., Solvency II), all under the supervision of the FSMA.

Pillar 3 - Optional additional pension savings with a tax reduction equal to 30% of the invested amount (up to 1,020 euro per year is invested) or 25% if more than 1,020 euro is invested (but up to 1,310 euro).

Optional pension savings are organised through pension funds or insurance contracts. Usually, several funds are offered from which the customer can chose in line with its risk appetites.

There are specific rules applicable to pension savings funds in the Income Tax Code (ITC) and the royal decree implementing it (RD ITC).

This pillar is more limited in terms of amounts invested.

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