

The Kingdom of Belgium

Green OLO Framework

February 2018

I. Introduction

The Kingdom of Belgium is committed to the transition to a more environmentally friendly economy in line, among other things, with the Paris Agreement. The Kingdom of Belgium is taking part in the development of ambitious international environmental policies and aims at being a significant contributor to climate change mitigation and environmental protection in Europe.

The Kingdom of Belgium believes green finance, and Green Bonds in particular, will be a key tool in the financing of this environmental transition, and aims to actively participate in the development of this market segment.

The Kingdom of Belgium already supports the development of Green and Climate Finance with various initiatives - such as its support of global and European economic and regulatory forums and institutions; the inclusion of mobility and energy transition in the strategic pact for investments; the focus on investments and green finance in the high level group of the Belgian financial sector - and decided to underline its commitment with the creation of this Green OLO Framework that will enable the Belgian Debt Agency to issue Green OLOs.

The Green OLO is designed to provide investors with the financial features of a standard OLO (comparable size and liquidity), combined with the best Green Bond market practices: it will follow the Green Bond Principles, 2017, and use its best efforts to follow best practices as they evolve. A second opinion has been obtained from Sustainalytics. The Kingdom of Belgium will provide two reports to investors: an annual allocation report (until full allocation) and a report on environmental impact (at an appropriate frequency).

The Green OLO Framework will enable the Belgian Debt Agency to issue a Green OLO with the same approach as for any OLO. The initial size and total size after taps are expected to be equivalent to standard OLOs.

II. Background on Belgian commitments and environmental policies

Under the Paris Agreement, Parties decided to hold the global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit this temperature increase to 1.5°C. To achieve this objective, the European Union and its member states have committed to achieve an 80% to 95% reduction in greenhouse gas (GHG) emissions by 2050, compared to the level in 1990.

Such a target has also been adopted by the Federal State of Belgium. In the mid-term, it is foreseen that Belgium will reduce its GHG emissions from the transport, buildings and agriculture sectors by about 35% in 2030 w.r.t. their level in 2005. These objectives require a profound transition that goes even beyond the energy system.

In terms of biodiversity protection, the world faces severe challenges. Therefore the Kingdom of Belgium aims at protecting at least 17% of continental areas and 10% of marine areas. Additional steps should be taken in order to continuously improve the conservation status of our habitat and of (endangered) species.

In terms of pollution, around 3.7 million premature deaths are attributed annually to outdoor air pollution. The Kingdom of Belgium aims at reducing exposure to outdoor particulate matter PM_{2.5}¹ to maximum 18 µg/m³ by 2020. Moreover, the unsustainable use of resources has triggered critical scarcities and caused widespread environmental degradation. In the EU alone, around 600 million tonnes of waste materials are lost every year. At the EU level, the objective of the Kingdom of Belgium is to recycle at least 65% of municipal waste and 75% of packaging waste by 2030.

In line with its environmental commitments and policies, the Kingdom of Belgium has oriented its Green OLO Framework towards addressing three main Global Environmental Challenges:

- Climate Change Mitigation and Adaptation
- Biodiversity Conservation
- Preservation of Natural Resources

III. Belgium's support of the Green Bond market

The Kingdom of Belgium is convinced that Green Bonds may become a key tool, at the international level, to channel investments to green assets and thereby to contribute to shift the economy toward a low-carbon and more environmentally friendly economy.

Issuing the inaugural Green OLO is expected to catalyze the development of the local green bond market and to increase the environmental awareness of the general public in Belgium, as well as capital markets participants, such as issuers, investors, service providers, market observers and other actors in the green capital market.

Those Global Environmental Challenges require massive investments which would be partially financed by debt capital markets. The Green Bond market, through its recent development, has demonstrated its ability to:

- channel an increasing part of global debt capital markets to finance Green projects, and
- mobilize a new financial ecosystem, from Green Bond issuers providing depth and liquidity to this market, to Socially Responsible investors launching dedicated Green Bond funds.

The Green Bond market is an efficient tool to increase the financial sector's awareness of the urgency of actions on global environmental challenges. By creating a specific investor demand, the Green

¹ fine particles with an aerodynamic diameter of 2.5 µm or less

Bond market has started to mobilize private investment and increase investment volumes dedicated to the environmental transition.

Issuing Green OLOs would allow the Kingdom of Belgium to:

- raise funds to support its climate and environmental policies, and
- support the development of the Green Bond market, especially in Belgium

IV. Application of the Green Bond Principles 2017 for the Green OLO

a. Use of Proceeds

i. Definition and scope of Green Eligible Expenditures

Eligible Green Expenditures are Federal State expenditures that can qualify under the Green OLO Framework. It includes expenditures within the Federal State’s budget and expenditures towards Green Holdings within the Federal State Portfolio (“FPIM/SFPI” plans and BIO-invest) that fall within the Green Sectors defined in the next session.

Eligible Green Expenditures include tax expenditures, investment expenditures and operating expenditures, as any of such expenditure can be deployed to meet Belgium’s climate and environmental policies.

Eligible Green Expenditures can be directed towards state agencies, regions and communities, companies and households. Nevertheless, Eligible Green Expenditures will exclude any Federal State expenditure to a Belgian agency or a local authority planning to use it for its own Green Bonds. The Federal State wants to protect the Green Bond issuance capacity of other Belgian public sector players.

ii. Green Sectors

Five sectors have been defined: Energy Efficiency; Clean Transportation; Renewable Energy; Circular Economy; and Living Resources and Land Use (see Table 1).

Green Sector	Scope for the Eligible Green Expenditures and examples
Energy Efficiency	<ul style="list-style-type: none"> • Invest in green buildings and improve buildings energy efficiency (i.e. roof / wall / floor insulation, new boiler, new heat pump, solar heater)² • Improve energy efficiency of private sector production facilities – see Appendix 1 • Promote demand-side management (DSM) measures <p><i>Examples of Eligible Green Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Tax credit for corporates investing in energy efficiency</i>

² criteria will be communicated at a later stage when it is relevant, according to regional regulation linked to energy efficiency renovation of buildings

	<ul style="list-style-type: none"> • <i>Investments in Sustainable Real Estate Funds with Green certification</i>
Clean Transportation	<ul style="list-style-type: none"> • Promote transport services and modal shift towards public transportation and soft mobility; support multimodal transport solutions • Support the development of electric vehicles and related infrastructure <p><i>Examples of Eligible Green Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Federal State’s support for investment and operating expenditures related to the extension, improvement and maintenance of public transport and rail-related infrastructure</i> • <i>Tax credits in favor of electric vehicles</i>
Renewable Energy	<ul style="list-style-type: none"> • Develop and support/deploy renewable energy technologies and related investments (e.g. wind off-shore, on-shore, solar, hydropower*, including supply and storage infrastructure) <p>* Large hydro projects exceeding 25MW are excluded</p> <p><i>Examples of Eligible Green Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Federal State’s support to renewable energy infrastructure</i>
Circular Economy	<ul style="list-style-type: none"> • Promote sustainable consumption and production modes (including waste reduction and recycling) <p><i>Examples of Eligible Green Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Tax expenditures for reusable packaging</i>
Living Resources and Land Use	<ul style="list-style-type: none"> • Improve the resilience to climate change and other natural disasters, including in developing countries • Preserve the biodiversity and enhance environment protection (including pollution prevention and control) • Develop pollution monitoring and control systems • Mitigate non-CO2 emissions in agriculture <p><i>Examples of Eligible Green Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Operating expenditures of academic research programs in biodiversity, climate change and other global environmental challenges</i> • <i>Investment expenditures for soil rehabilitation</i> • <i>Investment in sustainable programs for climate change mitigation and adaptation in developing countries</i>

Table 1: Green Sectors and examples of Eligible Green Expenditures

The list of examples of Eligible Green Expenditures is for illustrative purpose only. The Eligible Green Expenditures are not limited to this list. Any Federal State expenditure contributing explicitly to Green Sectors as defined in Table 1 is eligible for the Green OLO Framework, including Federal expenditures contributing to several Green Sectors.

The Inter-Ministerial Working Group aims at excluding all nuclear activities, all armament and any expenditure mainly related to fossil fuel.

b. Process for Expenditure Evaluation and Selection

The selection of Eligible Green Expenditures will be annually managed by an Inter-Ministerial Working Group, coordinated by the Ministry of Finance (“Federal Public Service Finance”) and the Belgian Debt Agency (BDA), the Minister of the Environment and the Prime Minister.

Each FPS (“Federal Public Service”) holds the responsibility for identifying and reporting on Eligible Green Expenditures within its programs. Each FPS leverages on existing budgetary processes and relies on its services and agencies (see Figure 1).

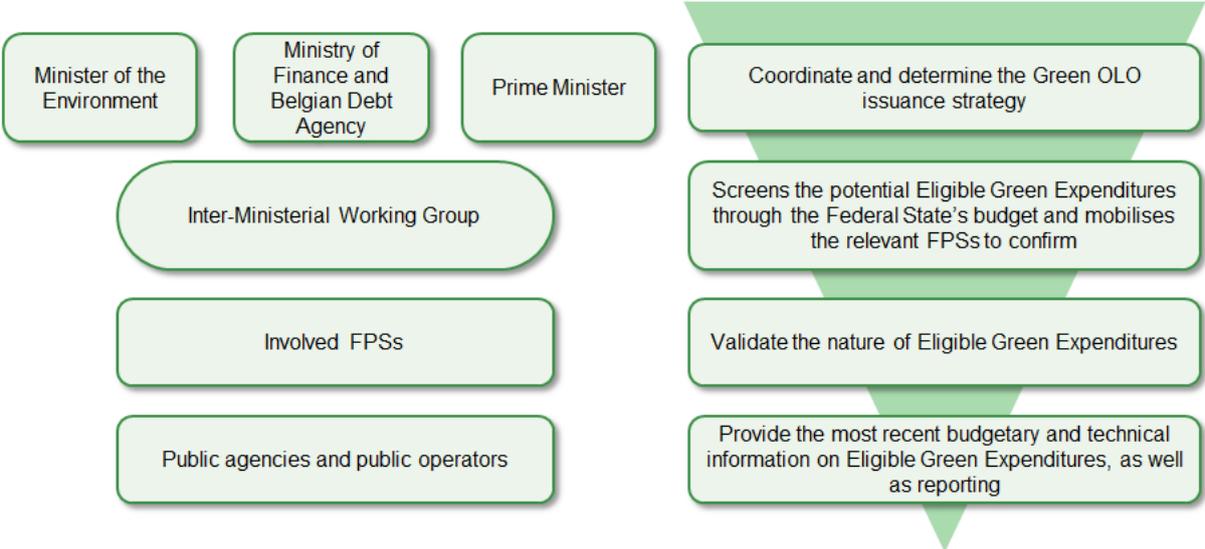


Figure 1: Selection Process for the Eligible Green Expenditures

Green Expenditures that other Belgian agencies could refinance by Green Bond issues will be excluded.

c. Management of Proceeds

The tracking of Eligible Green Expenditures will be done by the Belgian Debt Agency, ensuring that the allocation of proceeds will not allow for listing of the same budget allocation twice.

Eligible Green Expenditures include:

- Recent Expenditures: Green Expenditures from the Federal State’s budget made in the year preceding the issuance (or tap) date.
- Current Expenditures: Green Expenditures from the Federal State’s budget made in the same year as the issuance (or tap) date.

- Federal State's Portfolio of Green Holdings (FPIM/SFPI and BIO-Invest): Federal State's investments in Green investment funds, with investment commitment taken no more than 2 years prior the issuance (or tap) date.

The proceeds of the Green OLO will be allocated between these categories of Eligible Green Expenditures, with no priority given to any one of the categories.

The inclusion of Recent and Current Expenditures is designed to minimize the impact of potential variations of Federal State' budget on the immediate capacity of the BDA to issue a Green OLO.

Only expenditures net of EU grants, loans, or other revenues earmarked for specific purposes are eligible.

The management of Eligible Green Expenditures will be done on a notional basis.

d. Reporting

The Kingdom of Belgium is committed to provide to investors two types of reporting:

- For all issuance under this Framework, the Ministry of Finance and the Belgian Debt Agency will coordinate and publish a report on the management/allocation of the proceeds of the preceding year to Eligible Green Expenditures or their estimates that will be further refined throughout the year. The latter is particularly the case for tax credits that can only be known once household and corporate tax returns are processed. These expenditures represent a limited part of total Eligible Green Expenditures.

The first allocation reporting will be published in the year following the first issuance and then annually until full allocation.

The allocated proceeds will be broken down by Green Sector (e.g. Energy Efficiency, Clean Transportation, Renewable Energy, Circular Economy, Living Resources and Land Use) and by type of expenditure (e.g. investment expenditure, tax expenditure, operational expenditure...)

The allocation of the proceeds will be reviewed annually by an independent audit firm.

- The Minister of the Environment will coordinate and publish a report assessing the environmental impact of Eligible Green Expenditures.

For the purpose of this reporting, a task force – consisting of the DG Environment, FPS Finances, FPS Mobilité, FPS Economie / DG Energie, Régie des Bâtiments, Politique scientifiques and Coopération au développement, and any other relevant body – will provide input.

The first impact report will be published in the year following the issuance, and as necessary thereafter following additional issuance/tap or subject to other relevant information becoming available.

Examples of potential impact indicators are provided on Figure 2.

Green Sectors	Examples of potential impact indicators
Energy Efficiency	<ul style="list-style-type: none"> ▪ Annual energy savings in MWh/GWh ▪ Annual GHG emissions reduced/avoided in tonnes of eq. CO2
Clean Transportation	<ul style="list-style-type: none"> ▪ Annual energy savings in MWh/GWh ▪ Annual GHG emissions reduced/avoided in tonnes of eq. CO2 (per passenger/tonne-km) ▪ Number of km of new train lines created / maintained ▪ Number of people in [new] environmentally friendly means of transportation
Renewable Energy	<ul style="list-style-type: none"> ▪ Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent ▪ Annual renewable energy generation in MWh/GWh ▪ Capacity of renewable energy systems installed in MW
Circular Economy	<ul style="list-style-type: none"> ▪ Amount of waste diverted from landfill ▪ Monetary value of products (recycled materials, etc.) created from waste processing / products containing a high proportion of recycled materials
Living Resources and Land Use	<ul style="list-style-type: none"> ▪ Area of land remediated / rehabilitated (for polluted sites) ▪ Area conserved or protected ▪ Number and nature of projects that support climate change adaptation / resilience

Figure 2: Examples of potential impact indicators provided for the Green OLO

The report will be made publically available on the following website: www.debtagency.be/en

V. Second Party Opinion

This Green OLO Framework obtained a “Second Party Opinion” from Sustainalytics. Both Green OLO Framework and Second Party Opinion are available at the following address www.debtagency.be/en.

This Second Party Opinion certifies ex-ante the relevance of this approach in view of the announced Global Environmental Challenges and its compliance with the Green Bond Principles, 2017.

VI. Legal documentation

The following wording will be added in the Ministerial Decree related to the issue of the Green OLO:

«L’Etat belge a l’intention de réaliser des dépenses dans les secteurs de l’efficacité énergétique des bâtiments, des énergies renouvelables, des transports, de l’économie circulaire et de la protection des ressources vivantes et la gestion du territoire (les « Dépenses Vertes Eligibles ») pour un montant équivalent à la présente émission.

L'Etat belge publie annuellement un rapport d'information relatif à l'allocation des dépenses vertes éligibles. Un rapport d'informations relatif aux impacts environnementaux des dépenses précitées est publié selon une fréquence appropriée. »

« De Belgische staat heeft de intentie om uitgaven te doen in de sectoren van de energie-efficiëntie van gebouwen, de hernieuwbare energie, het vervoer, de kringlooeconomie, de bescherming van de biologische hulpbronnen en het bodembeheer (de "in aanmerking komende groene uitgaven") voor een bedrag dat gelijk is aan het huidige uitgiftebedrag.

De Belgische staat publiceert jaarlijks een informatieverslag over de toewijzing van die in aanmerking komende groene uitgaven. Een informatieverslag over de milieu-impact van die uitgaven wordt met een passende frequentie gepubliceerd. »

Appendix 1

Energy Efficiency: investments in energy efficiency of private sector production facilities

As of the date of the Green OLO Framework, Federal state grants a tax credit on revenues (13.5% of the total investment, or of the investment leading to energy savings), for any corporate investing in energy saving in the following 12 eligible categories of investments:

- for buildings over 5 years old or systems over 3 years old, investments:
 - Limiting energy losses in buildings or greenhouses (category 1);
 - Limiting energy losses with insulation, for example, of machineries, and pipes (category 2);
 - Limiting energy losses due to ventilations systems in ovens (category 3) or buildings (category 4);
 - Enabling the recovery of heat in various systems (category 5);
 - in the reutilization of energy from gas handling pressuring systems (category 7);
 - in renewal or improvement of heating, air conditioning or lighting systems (category 8); and
 - in industrial processes (category 9).

- For new systems (installed in new or existing buildings):
 - cogeneration (category 6),
 - renewable energy production(category 11), including biomass (category 10), and
 - transport by train or boat (category 12).

The regions deliver a certificate confirming investments fall within one of the 12 categories of eligible investments.

These criteria are valid at the time of publication of this Green OLO Framework and may evolve over time which may modify – or not – the green eligibility of these tax expenditures.

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