GRAYDONcreditsafe

COMPANIES IN TRANSITION

From investment needs to resilience through social partnerships

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Foreword by:
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1. Scenario thinking and ESG

Foreword by Professor Rudy Aernoudt

> “It isn’t always easy, because people tend to think in either/or terms, as in either compete or cooperate, rather than compete and cooperate [1].”

Almost all readers know what ESG stands for. However, despite its appeal, the concept involves significant costs. To achieve the sustainable transition, it is crucial for various sector players to develop an efficient ecosystem.

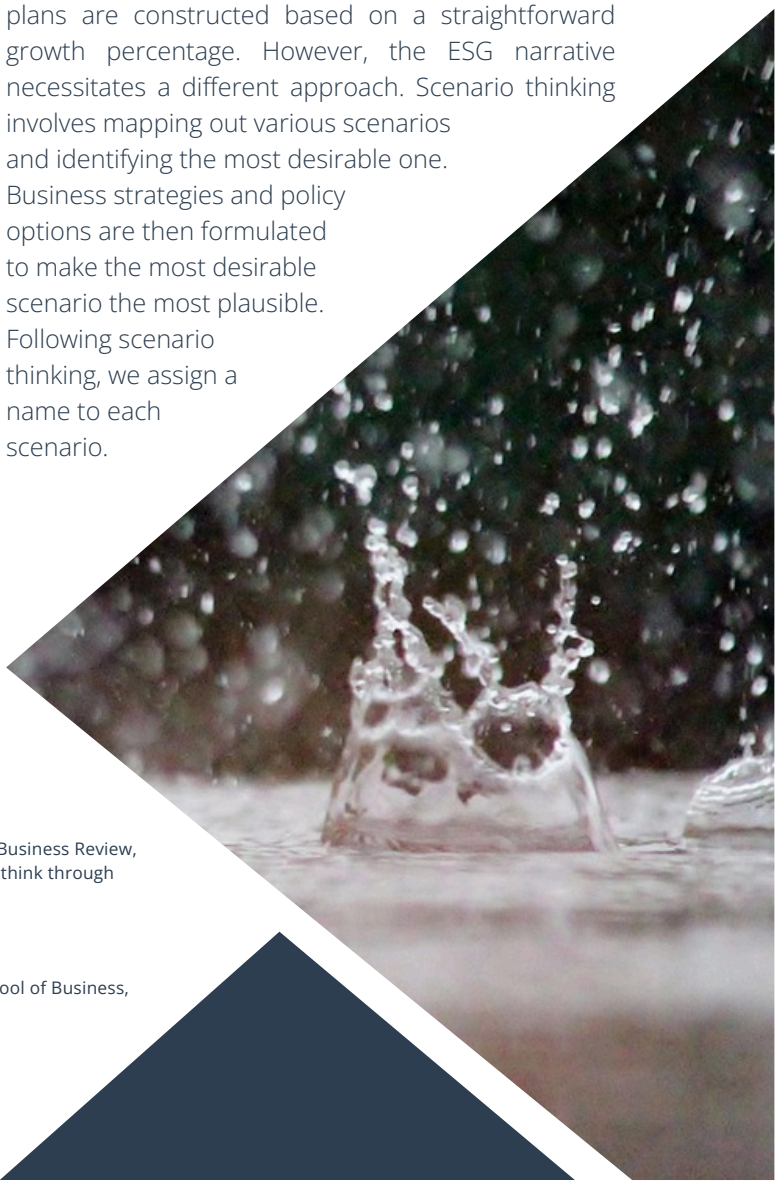
The required investment amounts for this transition are truly substantial. The International Energy Agency has calculated that if global zero-carbon status is to be achieved by 2050, annual investments in clean energy must increase from 1.6 trillion dollars in 2022 to 4.6 trillion dollars by 2030 [2].

Most studies estimate the cost of the green transition to be between 3% and 5% of turnover. Based on this analysis, GraydonCreditsafe has estimated that 44% of SMEs with 20 to 50 employees do not generate sufficient cash flow to fund these investments on their own. Additionally, 30% of companies lack adequate reserves to cover the shortfall in cash flow. These figures are alarming.

Moreover, the benefits of the necessary investments remain ambiguous. Some studies even suggest that the impact of increased ESG on corporate growth is negative [3].

Scenario thinking

In a simple world, extrapolating data from the past would suffice to estimate the future. Many business plans are constructed based on a straightforward growth percentage. However, the ESG narrative necessitates a different approach. Scenario thinking involves mapping out various scenarios and identifying the most desirable one. Business strategies and policy options are then formulated to make the most desirable scenario the most plausible. Following scenario thinking, we assign a name to each scenario.



[1] Adam Brandenburger & Barry Nalebuff, The Rules of Co-opetition, Harvard Business Review, Januari, 2021Rivals are working together more than ever before. Here’s how to think through the risks and rewards, https://hbr.org/2021/01/the-rules-of-co-opetition.

[2] Bain, State of the Transition, 2023.

[3] Sebastian Johnson, et. Al, the impact of ESG on Turnover Growth, Umea School of Business, 2020.

Scenario one: après moi le déluge

Given the high costs and the ambiguous impact on revenue growth and profit, we disregard the entire ESG narrative. It is a product of climate gurus spreading their catastrophe thinking with messages of panic. Thus, we choose to bypass the entire ESG discussion. Aside from ethical considerations, this scenario faces the legal reality of mandatory reporting. Investors are guiding their investments by ESG considerations, and banks are demanding higher premiums. Après moi, le déluge essentially means removing all future prospects for your company, making it the best strategy to become a zombie company in the short term.

Scenario two: survival of the fittest

We adopt an 'every man for himself' approach. Competition becomes even more cutthroat, leading to even lower margins. Large corporations impose extended payment terms on their suppliers. The 30% of companies lacking sufficient reserves will either go bankrupt or be absorbed by larger, solvent entities [4]. This will increase the sector's concentration level, as measured by the Herfindahl index, resulting in consumer losses.

Scenario three: the 'helping' hand

In this scenario, Tier 1 companies extend support to weaker businesses that are unable to become sustainable on their own. The benefit is that the ecosystem would remain intact, maintaining adequate supply and competition within the supply chain. For companies lacking sufficient reserves, this provides a solution. However, it is also a justified investment for stronger companies, as it ensures the supply chain, which is crucial during times of crisis.

Financing might occur through solvent companies systematically obtaining minority stakes in their suppliers via capital increases. This would assist suppliers but could reduce the effectiveness of the ecosystem. Such an approach could result in 'farmers' union' scenarios, wherein the minority shareholder, who is also a customer, could gain excessive power over the supplier, potentially obstructing normal market dynamics.

Scenario four: on to the pool

Co-opetition could also be pursued through the formation of a pool. Solvent companies collectively invest in a fund targeting only those sector companies for whom funding the sustainable transition is financially unattainable, but which still have promising future prospects. This pooling system holds the advantage of exemplifying sustainable co-opetition, favouring a mindset of competition combined with cooperation rather than competition versus cooperation.

It is to the credit of GraydonCreditsafe that they identify and quantify the various scenarios and potential leverage effects, thanks to their unique database. Hopefully, this will ignite a societal debate, as during a period of ongoing crisis, long-term resilience is far more crucial than short-term gain.

Rudy Aernoudt
Prof. Economics UGent and BMI

[4] Rudy Aernoudt, https://trends.knack.be/opinie/de-groene-transitie-kan-een-bron-van-faillissementen-worden/

2. Preview

In developing the European 'Green Deal', the European Corporate Sustainability Reporting Directive imposes a reporting obligation on approximately 50,000 European companies concerning their efforts related to ESG (Environment -Social -Governance). Any company that meets at least two of the following three criteria is obliged to report:

- All large companies with a minimum of 250 employees within a group
- A turnover exceeding €40 million
- A balance sheet total of more than €20 million.

There is a common misconception among the general public that it focuses mainly - if not solely - on the 'environment'. This often leads to almost automatic references to 'carbon reduction', 'circularity', or 'water management'.
In reality, the ESG concept extends far beyond this. For instance, within the 'social' pillar, concepts such as 'gender equality', 'diversity and inclusion', 'employee participation' or 'community commitment' are emphasised. In the 'Governance' area, the emphasis is placed on developing and supporting a long-term vision or promoting systemic partnerships. The concept of 'sustainability' must, therefore, be interpreted very broadly in this context. Ultimately, Europe aims to fundamentally and systemically enhance the 'quality of life' of our economic, social, and environmental fabric.

Equally incorrect is the perception that, due to the reporting obligation, only large companies are involved, while small SMEs simply get off the hook. Nothing could be further from the truth. The companies obliged to report feel the immediate consequences of their reporting. We have been observing a trend where both banks (as directed by the ECB) and investors are very reluctant to provide financing to companies that do not show ESG-positive development. In other words, companies that do not adapt and score poorly already face rejection when applying for new loans or seeking fresh capital. This is why many large companies take the reporting obligation very seriously and are working hard towards achieving an 'ESG-proof' status.

A crucial element of this reporting obligation is 'double materiality'. On one hand, the company must report on the impact its activities have on each of the ESG dimensions (from an inside-out perspective). On the other hand, it's also necessary to report on how developments within the ESG dimensions impact the company itself (from an outside-in perspective). This implies that the reporting entity must not only report on itself but also include its stakeholders in the report, such as customers and suppliers, which are frequently SMEs. In addition to the CSRD, the Corporate Sustainability Due Diligence Directive (CSDDD) was approved. According to this directive, companies within its scope need to ensure that other companies in the value chain adhere to ESG standards.

Consequently, ESG standards also demand attention from companies not directly covered by the CSRD or CSDDD, including smaller SMEs. The rationale is that you can only have an insight into your own sustainability if you understand the sustainability of each member within your ecosystem. Indeed, companies inherently function within ecosystems. Thus, their sustainability largely relies on the sustainability of the actors within their value chain.

In other words, a company aiming for a strong ESG position will naturally involve the entire logistics chain and require its SME customers or suppliers to pursue ESG initiatives. Banks and investors take a similar stance. This is referred to as the 'trickle-down' effect, which ensures that nearly every company, irrespective of size, is engaged.

The year 2024 was undoubtedly pivotal for ESG development in business: a trend set to intensify in the coming years. Increasingly, every entrepreneur, including those running small and medium-sized enterprises, recognises that ESG regulations initially place obligations on larger companies. However, they ultimately have a trickle-down effect, necessitating that every company address the transition to a qualitatively enhanced social and economic fabric.

Moreover, the shift of each individual company towards ESG presents many opportunities. Consider, for instance:

- Significant cost reductions in areas like energy and mobility [1].
- Enhanced stakeholder loyalty [2]
- Important competitive advantages
- Greater investor readiness
- Banks are more inclined to offer cheaper loans
- When awarding government contracts, consideration is given to the ESG identity
- Significant increases in revenue

However: there is no such thing as a free lunch, so the intended turnaround requires investments. Various international studies indicate that the cost of transition will require our companies to spend approximately 3% of their turnover annually until 2030 [3]. Naturally, there are differences depending on the individual company and sector [4].

Based on this assumption, we calculate a total transition investment requirement for Belgian companies to be €38.333 billion. Of this, €11.937 billion is attributed to Belgian SMEs (enterprises with up to 50 employees) and €26.396 billion to larger companies. [5]

[5] For example, consider two companies in the same industrial area, both with large fleets delivering goods nationwide daily, yet these vans often depart only partially full. In the spirit of developing systemic partnerships, it is entirely feasible to bring these companies together to coordinate their delivery routes. The consequence: reduction in carbon emissions, mitigation of mobility issues, and a significant decrease in transport costs for both companies.

[6] For example, we are considering the employees. Several studies clearly indicate that companies adopting ESG practices enjoy increased employee loyalty, resulting in reduced turnover. The result: lower recruitment costs and diminished expenses associated with temporary replacements. Additionally, there is a clear correlation—as shown by various studies—between greater gender equality in firms and increased innovative capacity. A recent study, conducted jointly by Graydoncreditsafe and Securex, demonstrated clear links between the growth in gender equality in companies and a reduction in long-term absences, mainly due to burn-outs.

[7] Among others, we refer to studies conducted by McKinsey. The present study, applied to the entire population of Belgian companies, adopts this same 3% as a working assumption. It is clear that our tools allow for adjustments of this assumption, for instance, to reflect sector differences or other typologies. It should be noted that even minor adjustments to this assumption (e.g., an investment cost of 5% of turnover) can substantially influence the final conclusions.

[8] In September 2023, GraydonCreditsafe, in collaboration with Federgon, published a report suggesting a transition investment cost of 5% following sector consultation. Similar figures are prevalent within the Food and Retail sector.

[9] The calculations for this study were finalised in late July 2024 and are based on the most recently published annual accounts available at that time. In this instance, it largely pertains to annual accounts concluded in the 2022 financial year. Wherever the annual accounts for the 2023 financial year were available, they were included in this study as well.

Within the scope of this study, we first outline the issue. We deploy the ESG indicator [10] developed by GraydonCreditsafe, which, based on the available data, distinguishes for each company in our country between:

- those firms showing signs of being fully engaged in transition,
- those moderately engaged, and
- those with no data suggesting movement in that direction.

Based on these findings, we apply weighting factors concerning the necessary investments in this area.

We then deploy the resilience calculations [11] developed by GraydonCreditsafe. Thus, we assess the resources that each company can presently utilise to independently withstand potential new shocks or, as the case may be, to address the investment requirements associated with the ESG transition. In doing so, we identify surpluses or shortages.

Relying on these observations, we investigate various approaches that could potentially offer solutions to mitigate these shortages. We calculate the outcome every time it is applied. Thus, we utilise data and derive insights from it. In this context as well. We neither advocate for nor against any specific solution. The manner in which a society should ultimately be directed is determined by political/social choices . In other words, we consistently adopt a position where data enables us to clearly define certain issues. From this definition, we can explore various options as potential solutions and calculate the outcome when applied. Doing so, we hope to provide clean insights that might lead to a social debate that needs to be conducted by the relevant stakeholders. In this manner, the debate can be based on observations and facts, not on gut feeling.

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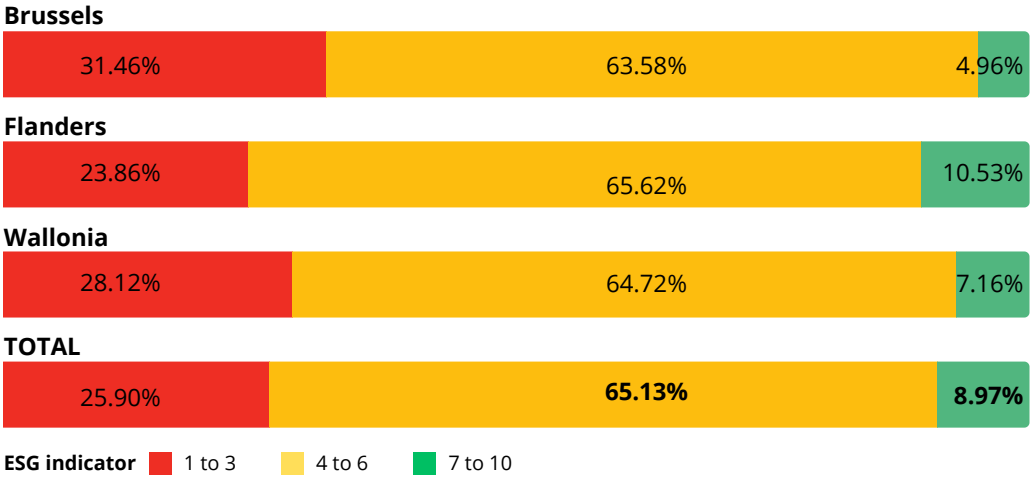
Directeur of Research & Development
GraydonCreditsafe

[10] The ESG indicator is calculated based on 182 distinct data elements, with the result expressed as a number ranging from 0 to 10. The fewer indications of a transition movement in the composite data elements, the closer a company gets to zero. This ESG indicator is actively utilised by companies to examine their stakeholder portfolios (customers, suppliers, etc.) within the scope of reporting obligations and double materiality, or to specifically concentrate on particular target groups in customer prospecting (for example, in response to inquiries about which companies are already fully transitioning).

[11] The resilience indicators, or 'shock resistance', were utilised by the National Crisis Cell ERMG during the Covid crisis, among other situations. Subsequently, we have continued to update these by evaluating the impact of each new shock on companies via observatories we established. Considering the redundant reserves reported in the most recent annual accounts, these are adjusted for the impact of more recent shocks, such as the wage shock in January '23, the energy shock of mid-'22 that significantly affected Belgian companies in '23, and the more recent interest shock.

3. From factual data-driven observations to potential scenarios

If we examine the entire landscape of Belgian companies, based on a data-driven indicator developed by GraydonCreditsafe [12], it is evident that a significant portion of the population does not yet display characteristics indicative of even an initial progression towards ESG-readiness. At the federal level, this accounts for 25.9%. In contrast, nearly 9% of companies exhibit characteristics indicating advanced ESG maturity. 65.13% display characteristics suggesting that while part of the journey has been completed, further efforts are necessary. The graph below illustrates regional differences.



Utilising available company data [13], GraydonCreditsafe accurately calculates the extent to which companies can manage their transition financing. The figures related to this study were finalised at the end of July 2024. We therefore primarily begin with annual accounts pertaining to the 2022 financial year, and to a limited extent, those relating to 2023. The 'outdated data' is then extensively updated [14] through the use of the various data observatories developed by GraydonCreditsafe [15]. In this manner, we calculate the 'redundant reserves', which are the reserves not required to cover the standard operations of a company. These reserves are thereby available to be utilised without additional input, for example, to mitigate future shocks and/or for transition investments.

In this manner, the 'now-moment', as a company's starting point for transition investment, is precisely defined. The possibilities and challenges are thusdetermined as accurately as possible.

[12] This refers to a data-driven ESG score applied to each company. It evaluates data characteristics that assess evolutions in Environmental, Social, and Governance aspects.

[13] In this study, we focus solely on those corporations that are obliged to publish annual accounts. In other words, sole proprietorships and those companies that have been established too recently or fail to publish annual accounts are not considered.

[14] The calculations for this study were finalised on 31 July 2024. The basic data from these annual accounts have therefore been updated to reflect the impacts of the surge in energy prices, the wage shock, and the at that moment rapidly developing increase in interest rates (see also footnote 11). Regarding the annual accounts already available for the 2023 financial year, the initial shocks have been integrated within those accounts. Here, only further changes in interest rates are taken into account.

[15] At the time this study was prepared, the majority of available annual accounts have a closing date of 31 December 2022. On one hand, this indicates that the full impact of Covid has been incorporated into the annual accounts for the 2022 financial year. On the other hand, our companies faced the significant, more recent developments primarily in 2023. For instance, the wage indexation for most joint committees was implemented only in January 2023. The increase in energy prices was almost immediately felt by consumers from mid-2022. However, companies largely had annual agreements. Our observations in this regard clearly demonstrated that the impact of energy tariffs became noticeable to the majority of our companies only from the spring of 2023. The increase in interest rates has been distinctly perceptible, particularly since September 2023. In this case, our observation tools indicate that a small group of companies is severely impacted.

From the 'now-moment' outlined above, we develop various scenarios that may offer solutions to the identified issues. These data-driven scenarios reveal not only the options themselves but also their outcomes. This provides decision-makers with better insight into the implications and results of potential options. Thus, mankind choosing its future is supported by knowledge, not guesswork.

Traditionally, subsidies are used in such circumstances. We deliberately choose not to include these. Mass transition subsidies are not an option: the societal burden built on future generations would increase. Conversely, it's clear: *laissez-faire* is not an option either.

4. Laissez-faire is not an option

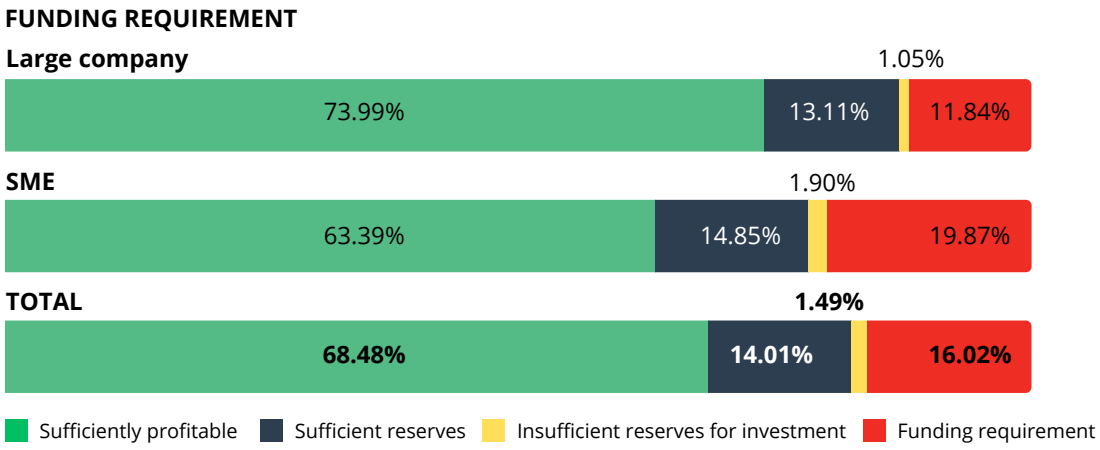
Zero scenario 1: classical competition from the 'now-moment'

Assuming that our companies finance this investment from their profits, then 68.5% of Belgian companies can make this transition. If we only consider large companies, this amounts to 74%, while within SMEs, it is 63.4%.

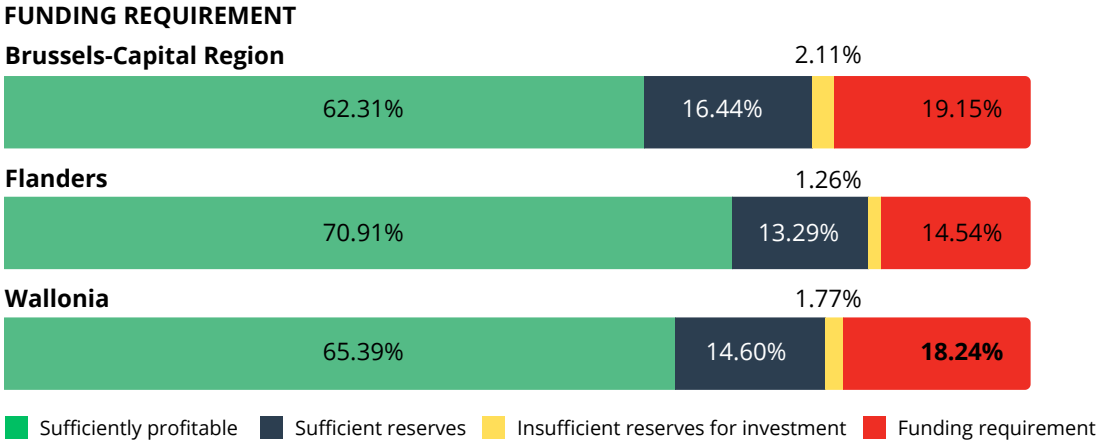
Additionally, some possess a significant amount of redundant reserve, comparable to a war chest. If utilised, another 14% can manage the transition independently: often retaining substantial reserves post-transition investment. Among large companies, 13.1% are included, and within SMEs this is 14.8%.

1.5% of companies possess redundant reserves currently, but these are insufficient to cover transition costs

Without further intervention in the form of cash injections, 16% of these companies will ultimately be unable to manage the transition. This includes 11.8% of large companies and as much as 19.9% among SMEs [16].



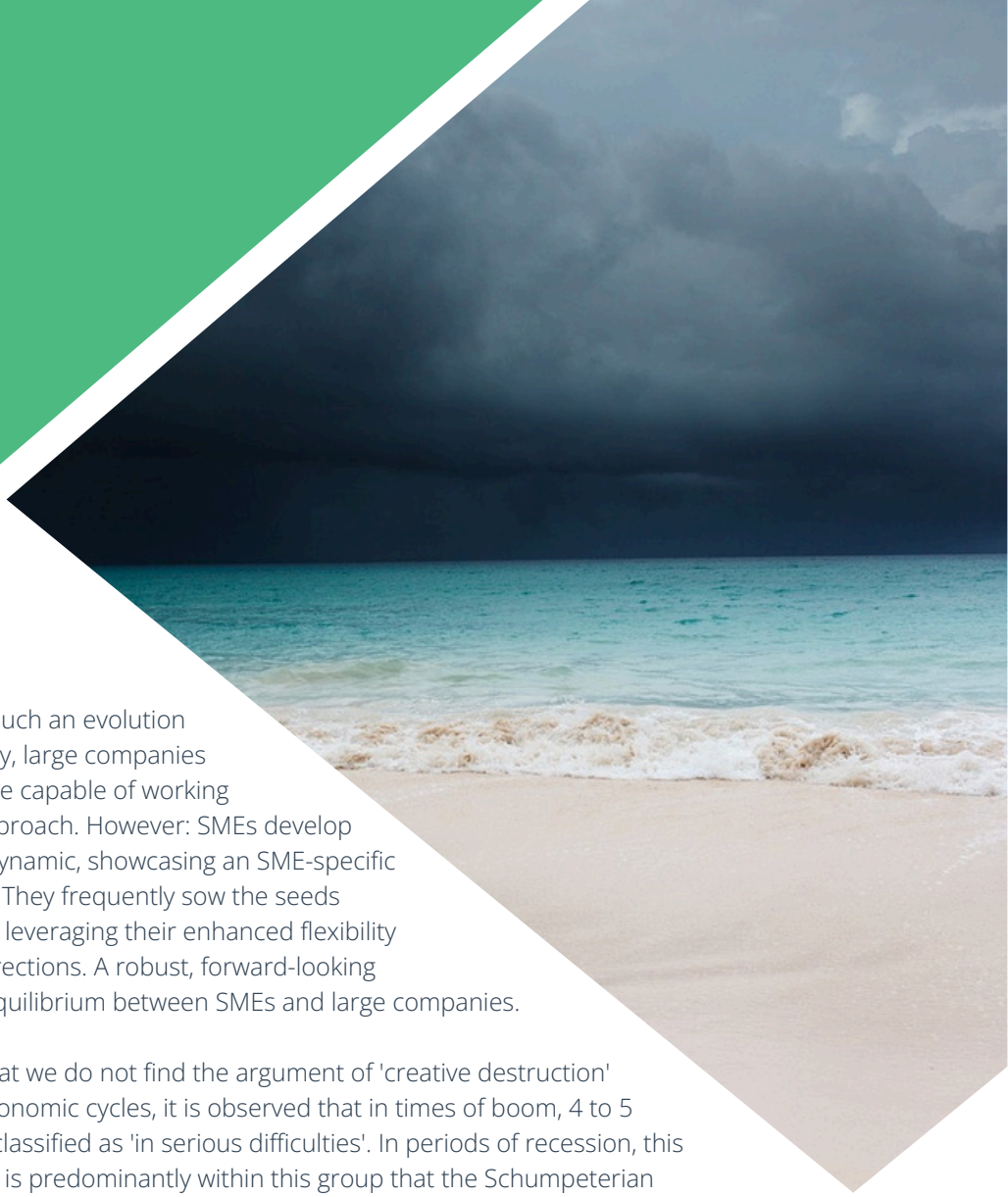
At a regional level, the group of companies unable to manage the transition without acquiring additional funds is noticeably larger in the Brussels region, where we identify 19.5% of companies. In Wallonia, we see a similar situation with 18.2%, while in Flanders, the figure is 14.5%.



In the scenario without intervention, we remain in the traditional 'every man for himself' approach. Competition is intensifying, leading to reduced profit margins. Large corporations impose extended payment terms on their suppliers. The 16% of companies lacking sufficient reserves need to once again seek external financing and/or new contributions. This task is particularly challenging for SME managers, especially as many have already drawn on their previously accumulated personal assets during the Covid period, depleting them entirely. In extreme cases where additional financing cannot be secured, the options are limited to closing operations, halting activities, or being absorbed by larger and/or solvent entities [17]. The risk of vacancies and increasing uniformity in the high street environment is growing noticeably.

[16] The problem becomes more significant as SMEs employ more staff, where the Board of Directors consequently often has a greater influence. For instance, within the category of 'SMEs employing between 20 and 50 people', only 56.31% of companies can finance the transition from profits, supplemented by 13.59% that can do so by utilising redundant reserves. About a third (30.01%) will need to secure additional resources.

[17] Prof. Rudy Aernoudt, https://trends.knack.be/opinie/de-groene-transitie-kan-een-bron-van-faillissementen-worden/

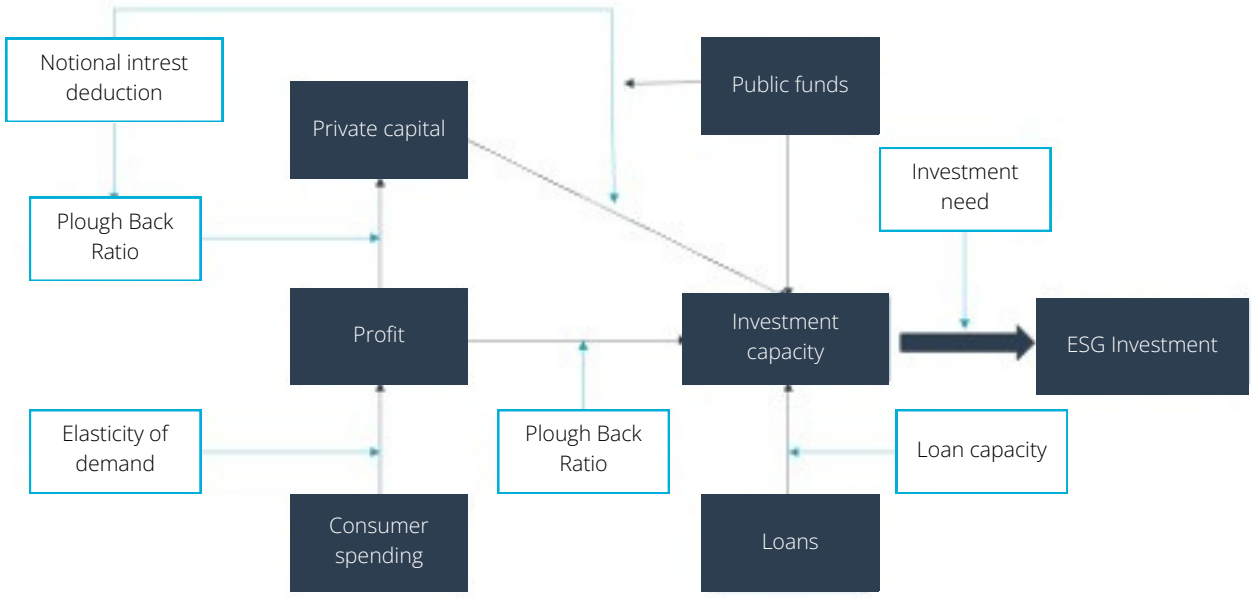


The question arises as to whether such an evolution is desirable for society. Undoubtedly, large companies possess significant influence and are capable of working creatively with a future-oriented approach. However: SMEs develop a distinct but clearly recognisable dynamic, showcasing an SME-specific creativity that has a different focus. They frequently sow the seeds for future employment and growth, leveraging their enhanced flexibility and agility to swiftly explore new directions. A robust, forward-looking economic structure maintains an equilibrium between SMEs and large companies.

Moreover, it is important to note that we do not find the argument of 'creative destruction' convincing. Indeed, during usual economic cycles, it is observed that in times of boom, 4 to 5 percent of Belgian enterprises are classified as 'in serious difficulties'. In periods of recession, this figure rises to between 6 and 7%. It is predominantly within this group that the Schumpeterian process of creative destruction occurs.

THE BELGIAN SME LANDSCAPE IN TRANSITION

Financing the transition



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Zero scenario 2: increasing margins

In this scenario, we assume that the companies are able to increase their margins by 5% and direct the additional margins towards transition objectives. We further assume that these margins are utilised with a plough-back ratio of 90% [18].

We stress that this approach is merely a theoretical exercise: within the current competitive landscape, such a development is almost inconceivable in many sectors. Furthermore, it is invariably the consumer who ends up footing the bill.

This is comparable to a drop in the ocean: the number of companies able to fund the transition from profit reserves after increasing their margins does not even rise by 2.5% [19].

[18] The plough-back ratio indicates the extent to which a company's profits are reinvested into the business. Historically, we observe a median plough-back ratio of approximately 80%. In this approach, we assume that the additional profit generated by a price increase allows companies to choose a 90% reinvestment of these profits, thus a rise of 10 percentage points.

[19] Refer to the graphs following scenarios 1 (Debra) and 2 (Bank guarantees), where we examine the combined effects of the three approaches.

5. Scenarios providing solutions: the quest for strong leverage effects

In the following scenarios, we pursue powerful levers where minimal societal costs lead to maximum transition investment effects. We delve into various scenarios below.

Scenario 1: DEBRA

We recognise the recommendation from the European Commission concerning DEBRA (debt-equity based reduction allocation). This initiative bears numerous similarities to the Notional Interest Deduction principle introduced in Belgium in 2006. Nonetheless, in October 2022, the Federal Government abolished the notional interest deduction, in order to save €176 million.

Our recent and comprehensive analysis of historical data trends concerning capital flows and equity growth at the Belgian level reveals that for every percentage point of growth in the notional interest deduction, the overall volume of equity rises by 0.672%.

POSSIBLE FINANCING MODELS

Potential effect reinstating the notional intrest deduction

The notional interest deduction (NID) allows Belgian companies to deduct a fictitious interest cost on equity from their tax base and tackles the classical tax discrimination between debt and equity financing.

Using a financial dataset consisting of 3.943.301 firm-years we estimated the following two-way fixed effects model to measure the effect of the NID on equity growth:

$$\Delta\log(Equity)_{i,t} = \alpha_i + \gamma_t + \beta_1 * NID_{i,t} + \beta_2 * Debt\ Ratio_{i,t-1} + \beta_3 * ROE_{i,t} + \beta_4 * Liquidity\ Ratio_{i,t} + \beta_5 * \log(Total\ assets)_{i,t} + \beta_6 * \frac{Tangible\ assets}{Total\ assets}_{i,t}$$

β_1 = 0,00672: A ceteris paribus 1 percentage point increase of the notional intrest is associated with a 0,672% additional increase in equity.

These numbers may seem minor, but loosely translated, this implies that at the Belgian level, if we implement a notional interest deduction measure with, for example, a 5% [20] deduction, we could observe an increase in equity of nearly €19.94 billion. Meanwhile, the state would initially forfeit only 250 million in revenue.

[20] Naturally, the so-called 'notional interest deduction' can only apply if the injected sums are genuinely and demonstrably transition-focused.

$$\Delta\log(Equity)_{i,t} = \alpha_i + \gamma_t + \beta_1 * NID_{i,t} + \beta_2 * Debt\ Ratio_{i,t-1} + \beta_3 * ROE_{i,t} + \beta_4 * Liquidity\ Ratio_{i,t} + \beta_5 * \log(Total\ assets)_{i,t} + \beta_6 * \frac{Tangible\ assets}{Total\ assets}_{i,t}$$

β_1 = 0,00672: A ceteris paribus 1 percentage point increase of the notional intrest is associated with a 0,672% additional increase in equity.

Assuming the cost of this measure is NID*ΔEquity*τ where both NID and τ < 1 and the benefit is ΔEquity, there is an inherent leverage effect:

NID	ΔEquity	Cost (τ = 25%)
1%	3.988.2016.709	9.970.542
3%	11.964.650.126	89.734.876
5%	19.941.083.543	249.263.544
7%	27.917.516.960	488.556.547

Indeed, initially; as in the long term, new equity must generate returns and consequently new tax revenue. There is insufficient emphasis on the fact that many ESG-oriented measures can create not only long-term profitability but also enhance cost efficiency in the short term. Based on historical data, we calculate an average return on investment of 5%, amounting to approximately 1 billion on a capital increase of 20 billion. Over time, this results in a tax benefit that compensates for the societal loss due to the implementation of this tax measure.

The new revenues and cost savings reduce the social cost to nearly zero, with the leverage effect being quite remarkable. By linking the deduction to the requirement that newly injected funds be fully directed towards transition, the cycle is effectively completed.

Scenario 2: bank guarantees

In the second scenario, we assume that our government encourages the taking out of bank loans through state guarantees, once again coupled with transaction-oriented taxation.

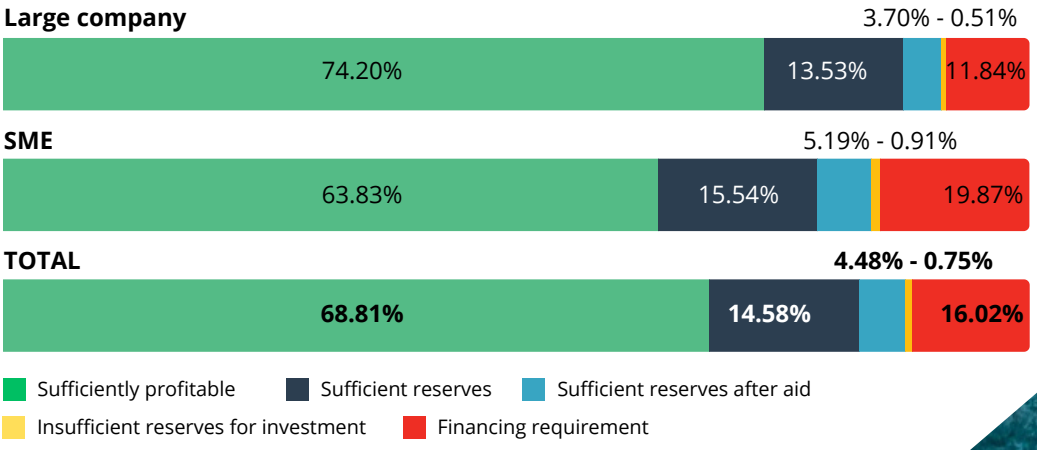
In any case, not every company is in a position to take a loan; sometimes borrowing capacity is fully utilised, or it's simply inadequate. Furthermore, post-Covid, banks appear to be somewhat more hesitant. Furthermore, within the context of current developments, there is a preference to lend to companies already clearly establishing themselves within an ESG evolution, as opposed to those that still need to reinvent themselves in this aspect.

By implementing the scenarios outlined above, namely a notional interest mechanism and bank guarantee systems, the government can create an additional €29.915 billion in capital and financing contributions.

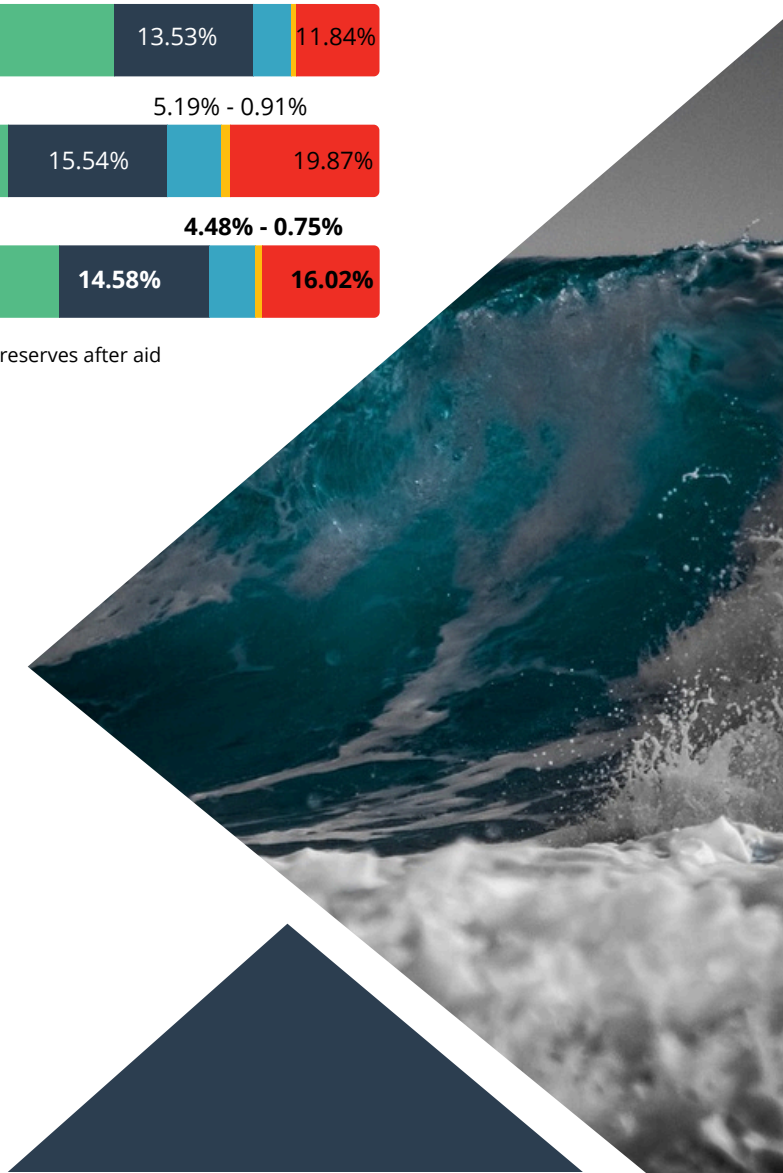
Applying both scenarios involving external financing mechanisms and increasing profit margins (as seen in zero scenario 2), the number of companies able to manage the transition effectively rises by 4.48%. This effect is slightly more pronounced among SMEs, where we observe a 5.19% increase.

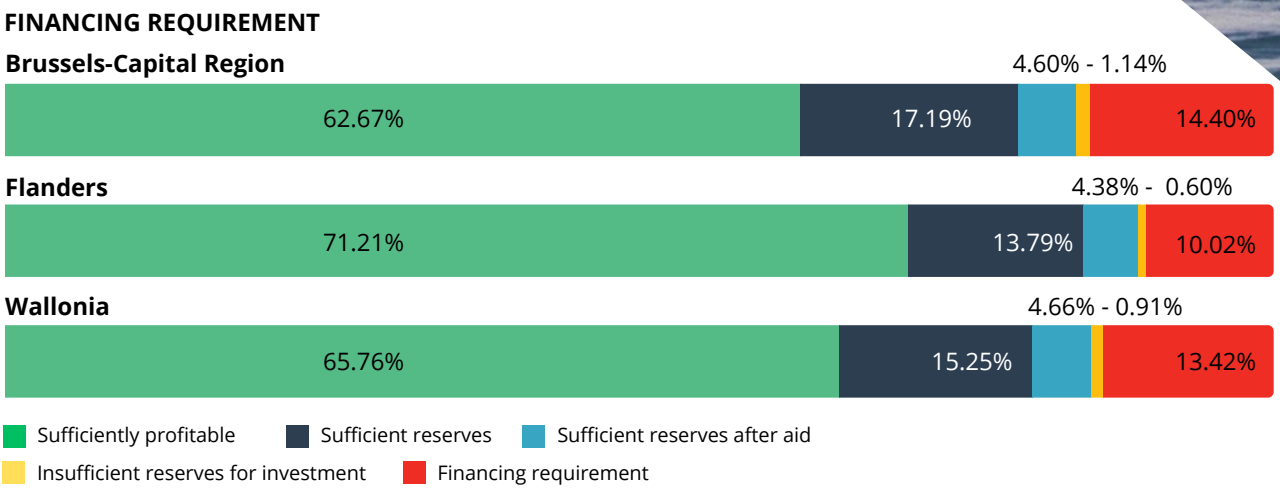
These are indeed sensible measures. However, nearly 12.15% of businesses (15.4% among SMEs and 8.6% among larger enterprises) still fail to succeed. This leads us to identify a residual investment requirement of €11.824 billion across all Belgian enterprises.

FINANCING REQUIREMENT



Regionally, the effects of the fiscal measures previously mentioned appear to yield nearly identical outcomes. In fact, when implementing the aforementioned scenarios, we notice remarkably similar outcomes within the Walloon and Brussels regions, where 4.66% and 4.60% of businesses respectively find more relief, to thereby effectively handling transition financing. In the Flemish Region, though fewer companies require intervention, 4.38% still take advantage of it.





Conclusion

The scenarios illustrated above—provided they are fully exploited—will significantly address the need for cash injections to support the transitional phase. However, it is important to note significant variations in ratios depending on the sector [21].

Conversely, we observe that despite the significant impact of the options explored above, a substantial residual group remains that cannot manage the transition. The historically tested options thus appear to be inadequate. Accordingly, we explore the development of more expansive systemic partnerships below.

[21] For instance, a study carried out in September 2023 by GraydonCreditsafe in collaboration with Federgon concerning the service voucher sector revealed that nearly half of the companies are unable to manage the transition. Additionally, the residual investment requirement within the sector is particularly high when compared to the overall proportions presented in this study. Moreover, the surplus reserves post-transition (as mentioned in the following paragraphs) appear to be minimal. This means that within the service voucher sector, it can't even be assumed that a takeover movement will occur. These conclusions, along with Federgon, were presented to the then-minister Jo Brouns, who initially developed a series of emergency measures. Subsequently, the newly formed Flemish government took additional measures regarding the service voucher sector.

6. The alternative approach: follow the money

Exploring systemic intersectoral partnerships

There is also the alternative route: follow the money.

We remind you that, based on the assumption that 'transition investments amount to 3% of turnover', the overall transition investment need for Belgian companies is calculated at €38.333 billion. Of this, €11.937 billion is attributed to Belgian SMEs (enterprises with up to 50 employees) and €26.396 billion is attributed to larger enterprises.

Within Belgium, we can indeed identify a significant number of companies that, thanks to their profit volumes, do not need to access their own redundant reserves at all, as well as a number of companies that can sufficiently rely on the available redundant reserves [22].

Among the 83.39% of businesses that have sufficient profits and/or redundant reserves, we still observe a residual reserve volume totalling €425.697 billion after implementing the necessary transition investments, of which €153.886 billion is within the SME landscape [23].

Many of these 'autonomous' enterprises, therefore, maintain a significant reserve surplus even after completing their own transition investments. This surplus of reserves ensures extensive continuity in the forward-looking development of the company.

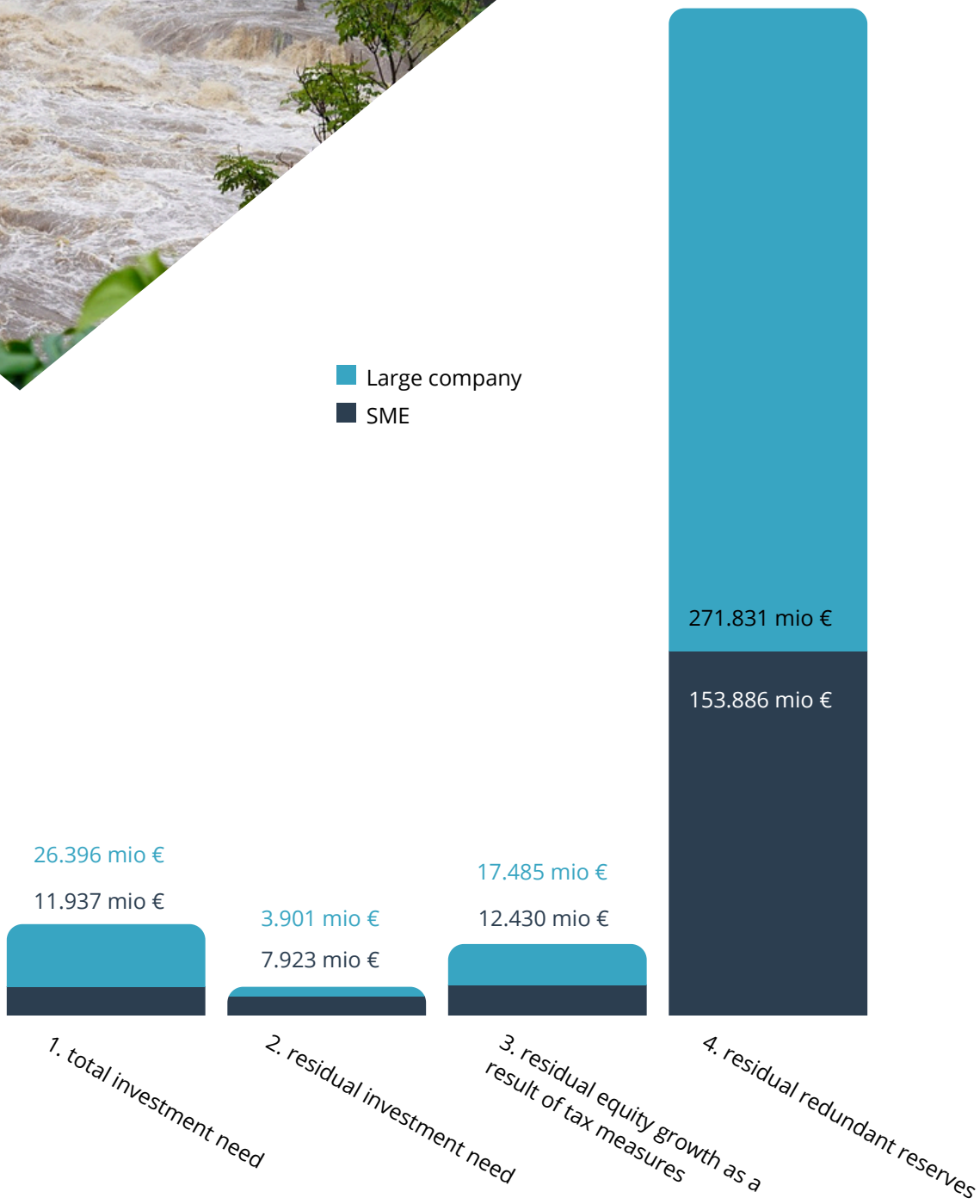
They enable, for instance, a prompt and independent response to suddenly arising opportunities or to mitigate further shocks as needed [24].

It is therefore not improbable that we will encounter extensive waves of mergers and acquisitions in the coming years. Some larger companies may indeed swallow up the smaller ones. This is socially undesirable: such a trend leads to standardisation, a reduction in variety, and a loss of creativity; our social fabric becomes highly dependent on a few large, predominantly international, players for supply and distribution. In the long term, this diminishes our economic and societal resilience, making us reliant on these international entities for our basic needs.

[22] See above.

[23] It should be noted that these same redundant reserves were previously calculated at €1.118 trillion for the entire Belgian business landscape just before the outbreak of the Covid pandemic. Covid and the subsequent economic shocks have thus significantly reduced the total volume of redundant reserves, diminishing them to €275 billion by the end of 2022. Hence, from the end of 2022, we observe a gradual reconstruction of these reserves.

[24] A current exemplar of this is the company Ghelamco, which is fully utilising these reserves (along with the personal assets of its directors) to manage the interest rate shock it is facing.


Large company
SME
26.396 mio €
11.937 mio €
3.901 mio €
7.923 mio €
17.485 mio €
12.430 mio €
271.831 mio €
153.886 mio €
1. total investment need
2. residual investment need
3. residual equity growth as a result of tax measures
4. residual redundant reserves

Scenario 3: co-opetition with minority interests

Particularly within the Green Deal and ESG endeavours, systemic thinking is essential. Bearing in mind the leverage effect, we advocate for the development of tax regimes that incentivise companies with redundant reserves to partially re-invest them in transition efforts within their logistics chains, even with associates, provided the participation stays as minority interests. In this way, autonomous entities support dependent ones, which in turn are reinforced, leading to the emergence of new partnerships where the creative input of each member substantively enhances the collective. And conversely.

In this manner, resilient companies lend their support to startups, innovation, and advancement, within the context of new consumer trends. Furthermore, such developments bolster the exchange of knowledge and mutual enrichment in areas such as innovation.

In this scenario, e.g. strong companies with significant surplus reserves will support weaker companies who are unable to achieve sustainability independently.

The benefit is that the ecosystem would remain intact, maintaining adequate supply and competition within the supply chain. For companies lacking sufficient reserves, this provides a solution.

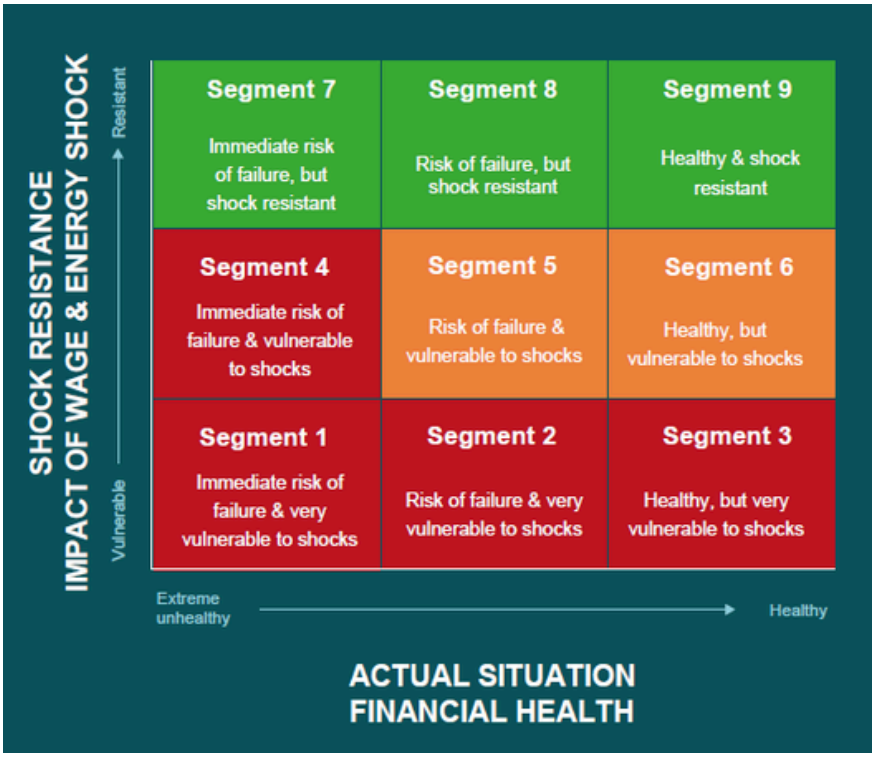
However, this also represents a prudent investment for stronger companies, as it ensures the continuity of the supply chain, which is crucial, particularly during times of crisis.

Financing can be realised by solvent companies taking systematic minority interests through capital increases in their supplier and/or customer portfolios. The current WVV provides numerous options regarding share characteristics to uphold the 'minority principle' in terms of both capital and influence, having moved away from the 'one share, one vote' concept.

This approach can mitigate situations where a minority shareholder who is also a client accumulates excessive power, thereby promoting normal market operations.

It is advisable to exercise some selectivity in this context. From our perspective, there is little sense in providing support to companies that have long been grappling with structural issues unrelated to shocks or investment transitions. Based on the 9 Grid approach concerning corporate resilience, this translates to:

- Companies in segment 9 (healthy and with ample reserves) and the government should ensure that funds are invested in companies within segment 3 (healthy under normal conditions but lacking redundant reserves due to previous shocks).
- Conversely, investments should be avoided in companies found in segment 1 (structurally troubled with no reserves). Governments can also apply this principle: indeed, companies in the 9 Grid segment 1 frequently display characteristics of financial distress, which are often legally substantiated (such as negative equity or defaults).



Scenario 4: co-opetition with pooling

Co-opetition could also be pursued through the formation of a pool.

Solvent companies from a specific sector or within a defined geographic area (such as cities) could collectively invest in a fund that exclusively targets companies for whom financing the sustainable transition is financially unfeasible yet possess promising future prospects. The position of the particular company within the nine-grid should also be considered during the due diligence process. These funds can be organised by sectors that take the initiative independently (potentially with government support), or by (local) authorities organising such a fund within a non-profit structure featuring a transparent oversight body.

This pooling system offers the advantage of being a unique example of sustainable co-opetition in the sector or within a municipality, meanwhile ensuring the 'normal' commercial relationships within the ecosystem are upheld. The fund solely invests in projects focused on making the company sustainable.

The fund may potentially be further financed, if desired, by the European Investment Fund and/or FPIM to enhance its investment capacity.

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