The Green Funds Scheme
A success story in the making
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The Green Funds Scheme creates a win-win situation: cheaper loans for green projects, a reasonable return for investors and benefits for the environment.

The Netherlands has a unique method of funding environmental projects that actually works. Following the Dutch model of consensus decision-making, the various stakeholders work together to improve the living environment by funding innovative environmental technologies and investing in nature and the environment.

The Green Funds Scheme
The key element in this model is the Green Funds Scheme, a tax incentive scheme enabling individual investors to put money into green projects that benefit nature and the environment. Individuals who invest in a green fund or save money with financial institutions practicing ‘green banking’ receive a lower rate than the market interest rate, however this is compensated by a tax incentive. In return, the banks charge green projects a lower interest rate.

The results so far
The Green Funds Scheme is an undoubted success. Thousands of projects – from environmentally friendly greenhouses and wind turbines to organic farming and afforestation – have been implemented with funds provided by a few hundred thousand individual investors. Thanks to the scheme, new environmental technology found its way to the market and is now widely accepted. But even more important, all the stakeholders – individuals, banks, entrepreneurs and government – have started to realise that green investment is profitable for people and the environment. So the definitive history of the Green Funds Scheme has still to be written.
How it works

The Green Funds Scheme is a tax incentive scheme launched in 1995 by the Dutch government to encourage green initiatives. In a nutshell, it comprises the Green Projects Scheme (which establishes the conditions governing the projects), the Green Institutions Scheme (which regulates the role played by the financial institutions) and finally the tax incentive for individual investors (which gets the flow of funds moving).

Green Projects
The Green Projects Scheme designates projects that are eligible for green project status. There are a few technical and financial conditions, but the main requirement is that these are new projects providing a significant and immediate environmental benefit. Projects are divided into categories (see page 7) covering a broad range of activities, from high-tech environmental innovation to low-tech improvements in the area of nature and the landscape.

Green Institutions
The majority of Dutch banks have a ‘green fund’ or a ‘green bank’ which meets the strict requirements imposed by the Green Institutions Scheme. The banks issue bonds with a fixed value, term and interest rate, or shares in a green investment fund. Usually the interest rate or dividend paid out by the bank is lower than the market rate, which means that the bank can in turn invest the funds in green projects for a lower interest rate.

Tax incentive
In the Netherlands an individual investor would normally pay 1.2% capital gains tax on the amount invested, but green capital is exempt up to about fifty five thousand euros per person. Green investors also pay less income tax on their green capital. Their reduction is 1.3%, so the total tax advantage is 2.5%. This means they can accept a lower interest rate or dividend on their investment.

Green flows

There are two flows of interactions that determine the way the Green Funds Scheme works. One is the procedural flow and the other is the money flow.

The procedural flow
A project manager goes to the bank to ask for financing. The project may be quite specific, like building a deep litter house, for instance, but it could be a citizens’ initiative to jointly manage wind turbines. The bank makes the normal economic assessment. If the project looks a likely candidate for the Green Funds Scheme, the bank applies for a green certificate to the government. The green certificate is needed if the financing is to be done through a green fund. The government checks whether the project meets all the conditions of the Green Funds Scheme and, if so, it issues a green certificate that remains valid for ten years. The procedure is then complete and the project, which is then an official green project, is eligible for green financing.

The money flow
The bank offers private savers and investors two options: green saving and green investment. Private individuals can choose either to put their money in a savings account or make a low risk investment. That makes no difference to the principle: the money is labelled green and has to be used by a bank for a minimum of 70% for certified green projects. The government sees to it that this happens. The bank finances green projects with green money and asks for a return that works out at about 1% under the going rate. The bank can do this because the savers and investors are also prepared to accept a lower return on their money. The crux of the scheme is that in return private investors receive a tax incentive on their green investment. So private savers and investors still make a good return on their money.
What is the scheme worth?

This is the story so far after fifteen years: since the scheme was launched around a quarter of a million investors have put up seven billion euros, enabling six thousand green projects to be funded.

Projects that make a difference
Many of the projects relate to innovative environmental technology that by far exceeds the prevailing standards but is expensive and technically risky. Examples include over 1700 wind turbines, innovative drinking water treatment, and underground heat storage. Or the Green Label greenhouses, which set a global standard in terms of low energy consumption and low environmental impact. One third of all the greenhouses in the Netherlands now meet the standard, which gets stricter every year. Low-tech projects have also achieved remarkable results. More than 800 million euros have been invested in organic farming and more than 1700 square kilometres of woods and nature conservation areas have been created over the last decade.

Awareness that makes a difference
The Green Funds Scheme has had a clear impact on the way in which people think about their responsibility for the environment. The scheme enjoys broad public support in the Netherlands and has encouraged the banking sector to offer a wide range of sustainable investment products, enhancing its contribution to corporate social responsibility. Together with other tax incentives and grants, the scheme has increased environmental investment among entrepreneurs, making the Netherlands a breeding ground for new environmental technology.

What the government does
The government sets the criteria applying to green projects and issues green certificates for projects that meet these criteria, thus ensuring that they qualify for green funding.

How the government benefits
Together with other tax and grant programmes offered by the Dutch government, the Green Funds Scheme has created thousands of projects that could otherwise not have been realised or would have been much less environmentally friendly and energy efficient. Since 2001 green projects have led to a decrease in CO₂-emissions of average 0.5 MT annually. As the reduction lasts for ten years (the green certificate remains valid for ten years), the complete CO₂-emission reduction is quite spectacular.

Low-tech projects have also produced remarkable results. Since 2000 over 1700 square kilometres destined for agricultural nature management and organic farming have been financed through the Green Funds Scheme. But the scheme’s most important achievement is the way it has revolutionised thinking on the environment and nature among individual investors and banking institutions.

What the government wants
The government wants a clearer focus on environmental and energy issues when investment decisions are made. To achieve that aim, it uses both legislation and tax schemes that boost environmentally friendly and energy-efficient investments. Examples of such schemes — which to a degree are complementary — include VAMIL (free depreciation of environmentally benign investments), the EIA (Energy Investment Allowance) and MIA (Environmental Investment Allowance) tax deduction schemes for green investments by companies, and the Green Funds Scheme for individual investors. The government also aims to ensure that the increasing availability of private capital for green investment under the Green Funds Scheme will promote greater involvement on the part of private investors and banks.
**What the consumer wants**

Individual investors – consumers – want a reasonable return on their money. An increasing number of them are also concerned about the environment. Currently, one out of seven individual investors buys green bonds or shares in green funds.

**What the consumer does**

Consumers can choose from a variety of financial products, from negotiable green bonds with a fixed term and interest rate to shares in green investment funds. Sometimes it is possible to invest directly in green projects closer to home. All of them are government-certified projects funded by green banks or funds. The tax incentive of 2.5% that compensates for the lower return on green investments is what initially attracts the majority of investors. But quite apart from this they continue to show growing interest in green projects. Many take the opportunity to visit organic farms receiving green funding, for example. The average green investor is somewhat older, has a substantial income and has invested an average of €30,000 in green funds or bonds.

**How the consumer benefits**

The return on green investments for the individual investor consists of interest or dividends, plus the 2.5% tax incentive. Taken together this provides a return roughly comparable to what the market offers. An example: the green investor receives an interest rate on financial products of (on average) 1.4% to 2.2% below that offered by government securities but on balance comes off slightly better.

In social terms, in 2010 the scheme cost the country barely 150 million euros in tax incentives, for an investment of six billion euros in the environment. That makes the Green Funds Scheme one of the most successful environmental schemes to date in terms of leverage.

**What the bank wants**

Banks may be commercial institutions, but that does not mean they are not concerned about the environment. Even before the Green Funds Scheme was launched, some Dutch banks offered green financial products, such as investment in wind turbines and organic farming. These were mostly smaller banks operating in a niche market. Since the scheme’s introduction, the demand for green savings and investment opportunities has risen sharply and the larger banks have now broadened their range of green products.

**What the bank does**

The banks use the green money from individual investors to invest in green projects and they apply for green certificates for companies wanting to launch such projects. Under the Green Institutions Scheme, the banks are obliged to invest at least 70% in certified projects. They may invest the remaining 30% elsewhere to spread the risk and to compensate for financing projects which turned out to be barely profitable. The Dutch central bank and the tax authorities supervise the entire process.
How the bank benefits
Thanks to the banks’ efforts, available green capital rose to seven billion euros in 2010 (of which roughly 85% has actually been invested in green projects). The banks manage these funds and propose projects. The banks therefore play a vital role in developing environmental technology and protecting the environment. The Green Funds Scheme has had a snowball effect on progress towards more corporate social responsibility (CSR) in the banking sector. In fact, Dutch banks are among the world’s best when it comes to the environment and CSR.

What the company wants
Companies and organisations that invest in environmental technology or management have differing interests. Some – like wind farm operators, organic farmers and environmental managers – are already active in this area. They want low-cost funding to facilitate projects which are often barely profitable. Others are not primarily concerned with the environment, but are willing to make an extra investment in innovative environmental technology or in measures to make an investment environmentally benign, provided there is an incentive. But they all need capital to realise this, and this is where the Green Funds Scheme comes in.

What the company does
Companies that take advantage of green funding for projects achieve an environmental performance that is far better than that of their standard counterparts. These projects are of substantial value to the environment (e.g. agricultural nature management), or use currently unprofitable technology to achieve environmental gains (e.g. air treatment exceeding that required by law in industry). Some fall into both categories (e.g. innovative water purification technology).

How the company benefits
The Green Funds Scheme covers a wide variety of projects and its results are accordingly diverse: from sustainable fish farming to sustainable office buildings, from energy storage in aquifers to fermentation systems for biomass. The immediate advantage for companies realizing green projects is an interest rate that is on average 1% lower than the market rate. That can be a vital factor in any investment decision. For organic farmers, for instance, just 1% may be the difference between profit and loss.

Because green projects often involve innovative environmental technology in the phase just before introduction on the market, companies build up a technological advance in this field that in many cases improves their international competitiveness. This has led to a growing awareness in the Netherlands that the environment offers profit opportunities and that the environment and the economy can go hand-in-hand.
Green Projects

The Green Projects Scheme applies to projects that have a positive effect on nature and the environment. They are generally situated in the Netherlands and fall into one of the following categories.

Nature, forest and landscape
Many green projects relate to nature, forest and landscape. For example the creation of ‘new’ nature areas in protected zones or even in towns and cities, or all kinds of nature management measures such as wildlife tunnels and nest protection.

Agriculture
Green projects are to be found in the agricultural sector as well. Examples include organic farming and highly environmentally friendly and energy efficient horticultural greenhouses. The environmentally friendly processing of agricultural products is also eligible for a green certificate. One option you might not expect is fish farming as an alternative to overfishing.

Energy
The Green Funds Scheme does of course provide scope for projects to generate sustainable energy. Options here include wind turbines, solar cells, hydropower or heat pumps. Energy saving, for instance led lamps for street lighting or using waste heat for urban heating also comes under the scheme.

Sustainable mobility
New cycle paths and cycle parks can help reduce car use and are therefore good for the environment. Environmental gains in public transport by using clean ‘green’ engines are also very worthwhile. The Green Funds Scheme helps to bring about these improvements in the public transport sector but also to introduce cleaner inland ships and refuse collection vehicles.

Other projects
This list of projects eligible for a green certificate is by no means exhaustive. Other innovative projects that need some financial boost are equally eligible, as long as they always generate major environmental benefits and are really innovative.

Sustainable construction
Environmental gains from sustainable construction are great. ‘Green’ homes and offices must meet strict sustainability standards. They have to be highly energy efficient, constructed from environmentally friendly materials and involve water saving faculties.

Green certificates by project category, 1995-2009

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Nature, Forests and Landscape</td>
<td>782</td>
<td>13.06</td>
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<tr>
<td>Organic Farming</td>
<td>1606</td>
<td>26.51</td>
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<tr>
<td>Green Label Greenhouses</td>
<td>1680</td>
<td>27.70</td>
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<tr>
<td>Agrification</td>
<td>6</td>
<td>0.10</td>
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<tr>
<td>Renewable Energy</td>
<td>1184</td>
<td>19.52</td>
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<tr>
<td>Sustainable Construction</td>
<td>546</td>
<td>9.00</td>
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<tr>
<td>Voluntary Soil Sanitation</td>
<td>2</td>
<td>0.03</td>
</tr>
<tr>
<td>Cycle-track Infrastructure</td>
<td>1</td>
<td>0.02</td>
</tr>
<tr>
<td>Other Projects</td>
<td>247</td>
<td>4.07</td>
</tr>
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</table>

Cumulative numbers of individual investors and total capital available, 2000-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of investors</th>
<th>Million (€)</th>
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<tbody>
<tr>
<td>2000</td>
<td>125000</td>
<td>2136</td>
</tr>
<tr>
<td>2001</td>
<td>160000</td>
<td>2639</td>
</tr>
<tr>
<td>2002</td>
<td>161000</td>
<td>3054</td>
</tr>
<tr>
<td>2003</td>
<td>162000</td>
<td>3637</td>
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<tr>
<td>2004</td>
<td>188000</td>
<td>4068</td>
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<tr>
<td>2005</td>
<td>195000</td>
<td>5187</td>
</tr>
<tr>
<td>2006</td>
<td>229500</td>
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</tr>
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<tr>
<td>2008</td>
<td>234000</td>
<td>6849</td>
</tr>
<tr>
<td>2009</td>
<td>250000</td>
<td>7361</td>
</tr>
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</table>
Lessons learned

Fifteen years after the launch of the Green Funds Scheme, it is abundantly clear that innovative environmental projects can be financed from individual capital. The essence of the scheme is a modest financial incentive that persuades companies to make extra investments in the environment and motivates individuals to invest in the resulting projects. A very low-cost incentive too: every euro of public funds spent generates a private investment of 40 euros.

Confidence
Schemes like the Green Funds arrangement are based on trust: individuals invest their savings and companies enter into long-term obligations with the banks. As soon as they lose confidence in the scheme, consumers withdraw and companies and banks show no further interest in green financing.

Innovation
The project criteria in the Green Project Scheme are always stricter than current legal standards. Continuing performance improvements are achieved by continually raising the bar for green projects. An example: it took about four years to introduce Green Label greenhouses on the market, after which sales really took off. Then the criteria were tightened up, leading to an initial decline in interest. After a couple of years interest picked up again, but for a more ambitious product. That is how the Green Project Scheme promotes continuing environmental innovation.

Energy
The Green Funds Scheme does of course provide scope for projects to generate sustainable energy. Options here include wind turbines, solar cells, hydropower or heat pumps. Energy saving, for instance led lamps for street lighting or using waste heat for urban heating also comes under the scheme.

Involvement of the banking sector
The banking sector is an obvious intermediary between individual investors and companies and organisations realizing green projects. But the volume of investment has to reach a certain level. This is achieved in the Netherlands by offering the incentive through income and capital gains tax. As a result, everyone who invests in green bonds or green funds is eligible for a tax advantage of 2.5% on his or her green capital. That generates sufficient capital for active involvement by the banking sector and healthy competition between banks. Once a critical mass has been achieved, the system is self-perpetuating: all the stakeholders have their own particular interest, that of the government being the importance to society of nature and the environment.

Positive effects
Because the scheme makes them active participants, consumers are more involved in achieving national environmental objectives. The capital they invest enhances the banks’ corporate social responsibility, which gradually filters through to their approach to corporate management. Banks develop new green financial products, and ensure that green capital is deployed by actively searching for green projects. As a result, green projects are easier to finance, and innovative and environmentally benign solutions gain access to the market.
Jan Kees de Jager, Minister of Finance

“Where ‘green’, ‘innovative’, ‘entrepreneurial’ and ‘straightforward’ meet, as they do in the Green Funds Scheme, that means profit for the environment and the economy.”

Klaas Berghout, former senior advisor at ABN AMRO bank:

“As a bank, we are increasingly realizing that it’s not just a question of making money. We have a sustainability department because we feel we have a role to play with respect to corporate social responsibility. The Green Funds Scheme has been an important catalyst in this awareness process.”
Organisations involved

Implementation of the Green Funds Scheme
The Green Funds Scheme is operated by four ministries working closely together: Housing, Spatial Planning & the Environment (VROM); Finance (FIN); Agriculture, Nature & Food Quality (LNV) and Transport, Public Works & Water Management (VenW). VROM is responsible for coordinating implementation. The National Service for the Implementation of Regulations (Dienst Regelingen) at LNV and NL Agency (Agentschap NL) are authorised by VROM to issue green certificates on behalf of the minister.

Approved green institutions
The following banks and institutions are recognised by the government as green institutions, and are described in the scheme as green funds or as banks with a green fund.

ABN AMRO Groenbank, www.abnamro.nl
ASN Groenprojectenfonds, www.asnbank.nl
ASN Groenbank, www.asnbank.nl
Fortis Groenbank BV, www.fortis.nl/duurzaamheid/groenbank
BNP Paribas Groen Fonds, www.fortisinvestments.com
ING Groenbank N.V., www.ingbank.nl
Nationaal Groenfonds, www.nationaalgroenfonds.nl
Rabo Groen Bank BV, www.rabobank.com/mvo
Triodos Groenfonds NV, www.triodos.nl
Stichting NOTS RE Investments, www.nots.nl

More information
See www.agentschapnl.nl/green_funds_scheme for more information. The site provides a more detailed description of the project categories eligible for a green certificate, a list of green banks with contact details, and several downloadable reports.

More information is also available from:
Agentschap NL, Groen Beleggen
PO Box 8242, 3503 RE Utrecht
E-mail: groenbeleggen@agentschapnl.nl

Neelie Kroes, EU Commissioner
“I am satisfied that the revised Green Funds Scheme will contribute to the EU efforts for a greener economy without unduly distorting competition. The fund has proven in the past an effective catalyst for environmentally friendly and energy-efficient investments in the Netherlands.”
Dr Marc Munnik, a general practitioner in the province of Limburg who invested in a local wind farm:

“So we thought, that would be nice for the boys – we can drive along there one day and say: Look, you own a little piece of that wind turbine. The initiative is far more interesting because it’s near to us, and because local residents can participate.”

Eef Leeuw, manager of a wastewater purification plant:

“What we have here is the very latest technology for removing nitrogen and phosphates. It’s a purification plant that produces 800,000 m³ of biogas, 50% less sludge, no phosphate sludge but very useful phosphate compounds, and still manages to save around 1.5 million kWh per year.”
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The division NL Environment stimulates the achievement of sustainability goals by creating alliances, assessing environmental legislation and providing finance, information and advice.