



CASE STUDY 7:

Green Funds Scheme

Impact Investing

A FRAMEWORK FOR POLICY DESIGN AND ANALYSIS

INSIGHT AT PACIFIC COMMUNITY VENTURES &
THE INITIATIVE FOR RESPONSIBLE INVESTMENT AT HARVARD UNIVERSITY

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About InSight at Pacific Community Ventures

InSight is the thought leadership and advisory practice at Pacific Community Ventures, a US community development financial institution and non-profit organization. InSight has provided research on community development and impact investing to clients including The Rockefeller Foundation, Annie E. Casey Foundation, The California Endowment, and The Federal Reserve Bank of San Francisco, and evaluates the social performance of more than \$1 billion of targeted private equity investments by pension funds including the \$200 billion California Public Employees Retirement System, investment managers including Hamilton Lane, and foundations including the Northwest Area Foundation.



About the Initiative for Responsible Investment at Harvard University

The Initiative for Responsible Investment (IRI) at the Hauser Center for Nonprofit Organizations at Harvard University serves as a platform for dialogue on fundamental issues and theories underlying the ability of financial markets to promote wealth creation across asset classes, while creating a stronger society and a healthier environment. The IRI works across asset classes to build communities of practice around innovative responsible investment strategies and catalyze new opportunities and concepts in responsible investment, promoting the development of the theory and practice of responsible investment through research, dialogue, and action. The IRI is also the home of More for Mission, a resource for foundation endowments who seek opportunities to align their financial investments with their institutional mission.

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GEOGRAPHY	Netherlands
POLICY TYPE	Tax Credit
POLICY MEANS	Directing Capital

DESCRIPTION

Tax incentives to support environmentally friendly projects

LESSONS FOR THE FIELD

- **Targeting:** What the policy gains in its specificity and narrow focus—a discrete and manageable program attractive to many individual private investors—it loses in scalability by excluding other potential investors, projects, and funding mechanisms.
- **Implementation:** For this program to succeed, it requires coordination among a number of government agencies as well as with large private banking institutions. Although it is a potentially laborious process, this sharing of duties separates the oversight and implementation workload into manageable parts.

IN BRIEF

The Netherlands’ Green Funds Scheme, or Regeling Groenprojecten, is a combination tax credit and tax exemption given to investors and savers of all sizes who invest in “green funds,” as defined by the Ministries of the Environment, Finance, and Agriculture. The program provides a secure investment for investors while decreasing the costs of finance for eligible environmentally friendly projects. Since the program’s implementation in 1995, 234,400 individuals have invested more than €6.8 billion in green funds, financing more than 5,000 projects.¹

Policy Context and Development

The Green Funds Scheme is the result of governmental support for market-based projects that result in positive effects on the environment. The government introduced the program in 1995 to promote sustainable economic production and growth.² It aimed to support access to finance for environmentally worthwhile enterprises in accordance with national policy, and to increase individual awareness of environmental issues. The targeted projects are on the cusp of viability. Although they are low-profit, they have the potential to be self-sustaining and need assistance to cover high up-front costs. Examples of such projects include sustainable housing, agriculture, and wind energy.

The collaborative and progressive format of this regulation is a result of the Dutch history of consensus decision-making and action, as well as social and environmental awareness. The inclusion of social issues in investment decisions in the Netherlands dates back to the mid-20th century, and as of the end of 2007, the socially responsible investment industry in the Netherlands was one of the largest in the world, at €435 billion (\$613 billion).³ Although the vast majority of this market is due to the simple exclusion of weapons from portfolios by the country's largest pension funds, there is still evidence of broad-based support for social and environmental issues.

Since its introduction in 1995, the Green Funds Scheme has faced only one major challenge—the adjustment of the tax system in January 2001. That year, the Dutch government revised the calculation of income tax in such a way that it threatened to reduce the tax advantage derived from investment in green funds. In response to strong parliamentary, press, and public support for the program, the Parliament introduced new regulations designed to counteract the negative effects of the new tax system and ensure the continued viability of the Green Funds Scheme.⁴

POLICY IN ACTION: Triodos Groenfond

Triodos Bank founded the first green fund in the Netherlands in 1990, and merged its three existing green funds in 1998 to create Triodos Groenfond, which currently manages €557.2 million in assets (\$785 million). More than 70 percent of the fund's portfolio is invested in renewable energy, sustainable farming, and green building projects. Triodos has been a strong supporter of the Green Funds Scheme.

Implementation

The Green Funds Scheme allows investors to invest in specific “green funds” at designated banks, which then finance environmental projects. The interest rate that investors receive is set lower than conventional rates to allow banks to offer cheaper loans to green projects. This lower interest rate is offset by a tax credit and waiver of taxes on dividend and interest payments. This program expands the availability of financing to projects that might not qualify under conventional lending standards.⁵

Banks that participate in this program are called green intermediaries; the Ministry of Finance decides whether or not an intermediary qualifies as green. To qualify as green, the intermediary, or fund, must allocate 70 percent of assets to green projects. For risk mitigation purposes, green intermediaries can allocate at most 30 percent of their green funds portfolio to nongreen projects. As of the end of 2008, there were eight green intermediaries, representing essentially all of the Netherlands' major banks: ABN AMRO Groenbank, ASN Groenprojectenfonds, Fortis Groenbank, Fortis Groen Fonds, ING Groenbank, Nationaal Groenfond, Rabo Groen Bank, and Triodos Groenfond. Major banks participate in the program because it is profitable, because customers demand it, and because it makes for good public relations.

The Ministry of Housing, Spatial Planning, and the Environment, the Ministry of Finance, and the Ministry of Agriculture, Nature, and Food Quality are all participants in oversight of the scheme. Green projects must receive a green certificate from the Ministry of the Environment after meeting specific criteria, including a high level of environmental benefit, a low level of economic output, the ability to be economically self-sufficient, and a use of applied technology or methods not yet commonly used.⁶ The certificate is valid for up to 10 years.⁷ The program aims for self-sustaining projects that are unlikely to find financing without the reduced loan rate. Projects with long lifetimes and low operating costs, yet high upfront capital needs, have especially benefited from the scheme.⁸ Required returns for the projects are set so that each investment has a positive return, but not so high that it could be financed commercially. Loans from green funds may not account for the full amount of the project; on average, they are only 75 percent of the total costs. Green projects are subject to the same economic examination by banks as nongreen projects.

Green projects may be located abroad, but very few ever are because of complications with administration and difficulties adequately assessing the economic and political risk of projects in other countries.

Impact

The Green Funds Scheme is generally accepted as a success. Although only 1.4 percent or so of the Dutch population actually participates in the program, as of 2008 they have contributed more than €6.8 billion (\$9.6 billion) since 1995 for the financing of 5,000 projects that conceivably would not have existed otherwise.⁹ Between 1995 and 2003, the Green Funds Scheme was responsible for more than half of the growth of socially responsible savings and investments in the country.¹⁰ The vast majority of projects funded under this program are focused on organic agriculture and green greenhouses as well as renewable energy and nature conservation.¹¹ These projects have led to environmental improvements and reductions in carbon emissions.¹²

The scheme has been successful from an economic perspective because it is strongly connected to the mechanisms of traditional lending and investment, with funds allocated on a market-driven basis, close to average economic returns, and with minimal governmental costs.¹³ A 2007 study found that the financial performance of green funds investments barely deviated from that of more traditional investments.¹⁴ The commitment and cooperation of all parties involved in the program have been particularly important to its success. What was originally expected to involve no more than €400 million (\$564 million) has grown precisely because there has been so much public demand for additional funds.¹⁵ It seems that there is an added attractiveness to these low-risk, average-return investments if they demonstrate a positive contribution to society.

A disadvantage of the program is that it is so narrowly construed. It is targeted at individual investors, limited to soft loans, and restricted to projects that can support themselves over time. As a result, it excludes a large number of both beneficial projects and potential investors. For some investors, the financial incentive might not be high enough, and for some project owners, the lower tax rate still may not be feasible.

Although the system may be applicable in other countries, it depends strongly on the willingness of the government and banking industry to work together, an appetite from investors for these products, and a tax regime that is amenable to the credit structure.

Future Directions

It appears that the Green Funds Scheme has staying power, but its viability and usefulness moving forward remain to be seen due to its narrow focus. The extent to which the policy is perceived to serve as a valuable force in encouraging investment in the environment will determine its continuation. As with any publicly funded program, its future is in the government's hands, and the policy may be modified or ended.

The success of the program in the 1990s and early 2000s spurred the government of the Netherlands to clone it in the form of a Social-Ethical Fund program, created in 2004 to support entrepreneurs in developing countries. This program, however, has not been popular, most likely as a result of concerns over political and economic risk assessment. In 2009, the European Commission announced its own version of a green funds program, modeled after the Dutch experience, with some modifications.¹⁶

¹ European Commission, "State Aid: Commission Approves Dutch Green Funds Scheme for Environmentally-Friendly Investment Projects" (press release, October 14, 2009).

² Bert Scholtens, "What Drives Socially Responsible Investment? The Case of the Netherlands," *Sustainable Development* 13 (2005): 129-37; Bert Scholtens, "Financial and Social Performance of Socially Responsible Investments in the Netherlands," *Corporate Governance* 15, no. 6 (2007); Theo van Bellegem, "The Green and Social Fund System in the Netherlands, Cooperation between Public and Private Sectors" (Council of Europe Forum, Strasbourg, France, November 4-5, 2004).

³ Scholtens, "Financial"; Eurosif, "2008 European SRI Study" (Paris: 2008), www.eurosif.org/publications/sri_studies

⁴ van Bellegem, 244.

⁵ International Energy Agency, "Global Renewable Energy Policies and Measures: Green Funds" (Paris: 2004), www.iea.org/textbase/pm/?mode=re&id=1160&action=detail

⁶ van Bellegem, 241.

⁷ International Energy Agency; Scholtens, "What Drives," 130.

⁸ van Bellegem, 235-43.

⁹ Ministry of Housing, Spatial Planning, and the Environment, "Groen Beleggen, Annual Report 2008" (Amsterdam: 2008), www.senternovem.nl/mmfiles/GBJaarcijfers20081_tcm24-307369.pdf

¹⁰ Scholtens, "What Drives," 130.

¹¹ Ministry of Housing.

¹² Scholtens, "Financial."

¹³ Koert Jansen, "Some Thoughts on Mainstreaming Social Finance with the Help of Government: The Example of the Dutch Green Funds," in *Banking and Social Cohesion: Alternative Responses to a Global Market*, ed. Christopher Guene and Edward Mayo, 242-244 (Charlbury: Jon Carpenter Publishing, 2001).

¹⁴ Scholtens, "Financial."

¹⁵ van Bellegem, 239, 244.

¹⁶ Jansen, 244; European Commission.