

# 11 Sustainable finance definitions in the Netherlands

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The Dutch State issued a sovereign green bond. In addition, the country has a long history of developing green finance products such as green loans, green mortgages and green funds.

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## 11.1. Introduction

The Netherlands has developed sustainable finance definitions in three separate programmes, but no overarching taxonomy. The definitions contain mostly principles. Metrics and thresholds could be identified only insofar as they refer to EU legislation (such as the Nearly Zero-Energy Buildings Directive, NZEB) or the CBI taxonomy (in the case of the Dutch sovereign green bond).

The Netherlands has been a pioneer in fostering greater consideration of climate risks in the financial system. In 2016, the Dutch Central Bank (De Nederlandsche Bank – DNB) established the Sustainable Finance Platform. It was set to promote and increase awareness of sustainable funding in the financial sector. DNB jointly founded the international Network (of central banks and financial regulators) on Greening the Financial System (NGFS), which is chaired by a member of the DNB Governing Board. De Nederlandsche Bank also was the first Central Bank to sign the UN Principles on Responsible Investment (PRI). In addition, the state-supported green investment vehicle Invest-NL was launched in 2020 with a capital of € 1.7 billion.

Cumulative Dutch green bond issuance in the fifteen months 2014-Q1 2018 period (therefore excluding the Sovereign Bond discussed below) was € 13 billion, and included eight issuers. The largest issuer was the energy grid Tennet with € 5 billion issued. The next largest was € 3.7 billion from the Nederlandse Waterschapsbank NV for, a dedicated lender which provides loans to the regional Water Boards. Commercial banks ING, ABN Amro and Rabobank, each issued green bonds of around of € 1 billion.

Sustainable finance definitions in the Netherlands were developed in the context of the following activities and programmes:

- Sovereign Green Bond: issued in 2019.
- Green funds scheme: used for various retail projects, mostly organic farming, greenhouses, and renewable energy.
- Green mortgages scheme: for energy performance improvements of buildings.

The Government supports the two latter instruments with financial incentives, which are further described below.

## 11.2. The Dutch Sovereign Green Bond

In May 2019, the Netherlands became the first AAA rated sovereign issuer to issue a green bond. The demand for the bond in capital markets was high, with orders amounting to more than three times the final allocation of € 5.98 billion.<sup>1</sup> The volume is to be increased through a later issuance towards a target of € 10 billion. The Dutch State Treasury Agency has committed to report on the allocation of funds raised and to perform an impact analysis of the proceeds. The bond was certified by CBI as meeting their Climate Bonds Standard, based on a pre-issuance verification letter by verifier Sustainalytics.

As described in the green bond framework (Green Bond Framework, 2019<sup>[1]</sup>) associated with the sovereign green bond, the bond will be invested in solar and marine renewable energy, low carbon land transportation, water infrastructure for climate change adaptation, and thermal insulation of property. Eligible green expenditures include such government expenditures as direct investment, subsidies, tax credits, and selected operational expenditures. Eligibility is limited to Central Government Budget expenditures in the budget year preceding the issuance, the budget year of the issuance and future budget years.

*Renewable Energy:* Subsidies under the Central Government law “Stimulation of Sustainable Energy Production (SDE)”. Energies in scope are solar, on shore and off shore wind (Central Budget, 2019<sup>[2]</sup>)<sup>2</sup>.

Expected impact indicators (i.e. metrics) are actual annual energy production (in MWh), and annual GHG emissions avoidance.

*Climate Change Adaptation and Sustainable Water Management:* Expenditures under the Dutch Delta Programme (Delta Programme, 2019<sup>[3]</sup>) to ensure flood risk management, freshwater supply, and spatial planning will be climate-proof and water-resilient. Eligible expenditures include reinforcing flood defences, monitoring and management of water levels and water distribution. Expected indicators are availability of flood defences (in percentage) and reduction of flood risk / frequency.

*Clean Transportation:* Expenditures for the development, maintenance and management of railway infrastructure, excluding dedicated freight railway infrastructure. Eligible expenditures include those related to upgrading trajectories for higher-frequency passenger rail travel, railway capacity management, bicycle parking space at rail stations, and linkages to other modes of public transportation (Central Budget Art.13, 2019<sup>[4]</sup>). The expected indicator is annual passenger train kilometres.

*Energy efficiency:* Subsidies to housing corporations and property owners for the improvement of energy efficiency of residential homes in the rental sector via wall or floor insulation, high-efficiency glazing, more efficient central heating or other measures (Central Budget Art. 4, 2019<sup>[5]</sup>). Expected indicators are annual energy savings in MWh, annual GHG reduction.

## 11.3. Objectives and scope of sustainable finance definitions in the Netherlands

### 11.3.1. The Green Funds Scheme

The “Green Funds Scheme” (Ministry of Housing, 2010<sup>[6]</sup>) has been in operation since 1995. It allows retail investors investing in qualifying green investments to benefit from tax relief, and allows eligible green projects to benefit from lower rates on bank loans. It also allows banks to establish green funds to finance those loans (see below). This scheme has channelled substantial amounts of retail savings to the financing of green projects in the Netherlands. The Green Funds Scheme is operated by four Ministries working closely together: Housing/Spatial Planning/Environment, which coordinates the whole scheme, Agriculture/Nature/Food Quality, Transport, Public Works/Water Management, and Finance. The Scheme comprises a Green Project Scheme (which sets the conditions for a project to be considered green) and a Green Institution Scheme (which regulates the role played by financial institutions), plus a tax incentive for individual investors.

#### *Green Projects*

Green projects should provide a significant and immediate environmental benefit. The seven categories are defined by law with the latest revision dating from March 30 2016<sup>3</sup>. They are:

- *Nature, forest and landscape* – protected zones including green zones in cities, wildlife tunnels, nest protection;
- *Agriculture* - organic farming, environmentally friendly horticultural greenhouses;
- *Energy* – wind turbines, solar cells, hydropower, heat pumps, LED lamps, waste heat;
- *Sustainable construction* – energy and water efficiency, construction from environmentally friendly materials;
- *Sustainable mobility* – cycle paths and parks, green public transport, cleaner inland ships.

#### *Green Institutions*

Several financial institutions have been recognised under the scheme as green banks<sup>4</sup>, after indicating their willingness and ability to participate in the scheme. They are: ABN Amro, BNP Paribas Fortis, ING,

Rabobank, Triodos, ASN, National Groenfonds, and Stichting NOTS Re Investment. Banks offer low-cost loans to eligible companies/projects, and provide below average returns to retail consumers, but those below average returns are offset by a capital tax exemption. The banks issue fixed term bonds, or shares in a green investment fund. The cost paid to the market is lower than the standard market rate, which in turn allows the bank to fund projects at a cheaper rate.

#### *Tax incentive for individual investors*

Capital invested in an eligible green investment by an individual is tax exempt up to about 55 000 euros per person, instead of being subject to a regular 1,2% capital gains tax in the Netherlands. In addition, income from such investments receives a tax reduction of 1,3%. Individuals may invest either in a green fund or in a green savings account. The bank must invest at least 70% of the money in green projects. The bank provides a lower interest rate than the market rate, but this is compensated by the tax savings.

#### *Procedure and control*

The bank carries out an economic assessment of projects and applies to the Government for a Green Certificate if the project is a promising candidate under the Green Funds Scheme. The government checks the criteria and issues a certificate valid for 10 years if the project meets the criteria.

#### *Outcomes of the Green Funds Scheme*

According to the data in the brochure from the Ministry of Housing, Spatial Planning and the Environment (see note 8), over 14 years from 1995 to 2009, a cumulative total of € 7.4 billion euros was collected by the scheme, from 250 000 individual investors. One out of seven individual investors in the Netherlands holds a green bond or a share in a green fund. The average investor has invested € 30,000. Some 6000 projects were financed, with an average amount of 4 million euros per project. The most popular projects in terms of number of green certificates received have been organic farming, Green Label Greenhouses, and renewable energy. More than 800 million euros have been invested in organic farming, more than 1700 square kilometres of wood and nature conservation areas have been created in a decade, and one third of all greenhouses in the Netherlands have been brought up to the Green Label Greenhouse standard, which gets tighter every year.

A 2013 study by a Dutch consultancy (CE DELFT, 2013<sup>[71]</sup>) provided a cost-benefit assessment of the Green Funds Scheme. It concluded that the scheme was successful in improving the business case for innovative sustainable projects, and at channelling capital to those projects, in a cost effective manner.

### **11.3.2. The Green Mortgage Scheme**

#### *Residential building energy performance standards: The National Energy Act (2013) and the Energy Agenda (2016)*

Energy performance standards for residential buildings have been in effect since 1995 in the Netherlands (RVO, 2016<sup>[81]</sup>). Following the implementation of the European Directive 201/31/EU on the Energy Performance of Buildings, owners of residential buildings are required to obtain an Energy Performance Certificate or Label ranking from A (best) to G (worst). In 2013, the National Energy Act was established, with three objectives:

- by 2020, achieve an upgrade (equivalent to two levels in the Energy Label rankings) for 300 000 residences
- renovate the social housing building stock to an average of energy class B
- improve 80% of the private rented houses to a minimum of energy class C.

In 2016, an “Energy Agenda” was signed, establishing objectives to 2050, including phasing out offices and rented houses with an energy label worse than C, and gradually reducing the use of natural gas in the built environment. In addition, according to the European Directive, all newly built houses after 2020 need to reach NZEB - Nearly Zero Energy Buildings.

### *The Energy Performance Coefficient*

The main requirement for the energy performance of new buildings is the Energy Performance Coefficient (EPC). The EPC is the quotient obtained by dividing a building’s calculated primary energy needs by the allowed primary energy performance, measured in  $\text{mJ}/\text{m}^2$ , or milliJoules per square meter. The coefficient is therefore unitless. Primary energy needs and performance are estimated based on a series of indicators, e.g. heating, ventilation and lighting, adjusted according to the useful floor area and the renewable energy produced by the building. There are also legal requirements for the thermal quality of the building envelope for new buildings and major renovations (i.e. concerning more than 25% of the envelope), measured in R-value for walls, roof and floor ( $\text{m}^2 \cdot \text{K}/\text{W}$ ), or U value for windows and doors ( $\text{W}/\text{m}^2 \cdot \text{K}$ ).

### *Gradual decrease of the EPC*

The calculation of the EPC is mandatory for all new buildings and for large renovations in houses and offices. Municipalities have the legal power to halt construction projects if there is no compliance with the legal requirements for EPC. EPC requirements are set by building type (e.g. 1.8 for a hospital and 0.4 for a residential building in 2016). The latter figure is roughly equivalent to 50 to 65  $\text{kWh}/\text{m}^2$  a year), and is gradually lowered for new buildings so as to reach NZEB in 2020.

### *Cheaper “green” mortgages*

Purchases of new houses or renovations by owner-occupiers are eligible for green certificates if energy-saving measures are implemented and lead to an improvement of the energy index by:

- At least 0.6 to a maximum of 1.4 (category 9d.1)
- At least 1.3 to a maximum of 1.4 (category 9d.2)
- At least 1.5 to a maximum of 1.2 (category 9d.3)
- To energy index 0 (category 9d.4)

Based on home renovation plans and documents demonstrating the requisite energy performance improvement, a bank can offer a green loan or mortgage with an interest rate that is below the normal interest rate. The maximum amount of the reduced rate mortgage is set from € 25 k to € 100k based on the categories above. The interest rate reduction is in the range of 25% below the normal interest rate and depends on a complex formula.

### *Outcomes of the Green Mortgage Scheme*

The total amount of mortgages outstanding in the Netherlands was € 600 billion as of end 2018<sup>5</sup>. Based on a poll of 1588 respondents organised by DNB (DNB, 2017<sup>[9]</sup>) homeowners mainly use their savings to finance investments to green their homes. In the period 1997-2017, 45% of homeowners invested in making their home more energy efficient (via insulation or sustainable energy). Only 4% financed these investments by means of bank loans. Of the households not making investments to green their homes, only 1.4% said this was due to their not being able to get a bank loan. More frequently stated reasons include a lack of savings and aversion to run up debt. High installation costs, and difficulties in comparing costs and benefits were also cited.

## 11.4. Metrics and thresholds Sovereign Green Bond

The Sovereign Bond framework explicitly refers to CBI criteria for renewable energy.

### 11.4.1. Green Funds Scheme

There are no other metrics and thresholds than the ones presented above in legislation. Projects are assessed and approved by the relevant Ministries, upon submission by the banks (see graph above). This is consistent with the retail nature of projects.

### 11.4.2. Green Mortgage Scheme

The metrics and thresholds in terms of energy performance coefficient and energy index are consistent with the European NZEB Directive.

## 11.5. Outlook and next steps

There is no specific initiative in the Netherlands on sustainable finance definitions and taxonomies at the time of writing.

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## Notes

<sup>1</sup> France's initial sovereign green bond issuance (€ 7 billion) in 2017 had a similar level of over-subscription; <http://www.climateaction.org/news/record-7.5-billion-in-green-bonds-issued-by-france> .

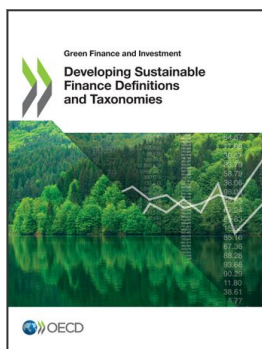
<sup>2</sup> Eligibility is limited to technologies for which Climate Bonds Initiative sector criteria are available, currently solar energy and onshore and offshore wind energy.

<sup>3</sup> See Staatscourant Nr 15 992 31 March 2016, Regeling GroenProjecten 2016, legislation number IENM/BSK 2015/ 209791.

<sup>4</sup> Green banks in this context are distinct from (public) green investment banks, which are publicly capitalised entity established specifically to facilitate private investment into domestic low-carbon, climate-resilient infrastructure and other green sectors such as water and waste management Paris (OECD, 2016<sub>[10]</sub>) .

<sup>5</sup> Source: DNB Dashboard





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