Natural finance – the importance of

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The Dutch tax incentive for investments in environmental and nature development projects – 'green investments' – was introduced in 1995. Capital gains on green investments by private citizens are no longer taxed. With Dutch income tax rates at about 50%, private investors are able to accept much lower rates of return on green investments, reducing finance costs for 'green initiatives' by 1.5% to 2.5%. Nevertheless, traditional funding such as subsidies will remain essential for nature conservation.

In 1995 the Dutch Parliament introduced a new tax incentive for investments in environmental and nature development projects – 'green investments'. It was an instant success. All commercial banks operating in the Netherlands immediately offered this new financial service to their clients. Private investors indeed put part of their money into green saving accounts or green investment funds. In the years that followed, banks competed aggressively to find and finance 'green projects' that met the terms set by the authorities. Why were banks so eager to invest in a field normally only of interest to 'environmental freaks'? And has the nature conservation community, one of the green categories under the tax incentive scheme, been able to make good use of this cheap money?

MR. VERMEEND, STATE SECRETARY OF FINANCE GIVES THE FIRST GREEN APPROVAL CERTIFICATE TO MR. PIETER VAN VOLLENHOVEN, CHAIRMAN OF THE NATIONAL GREEN FUND, THE NETHERLANDS (SOURCE - NATIONAL GREEN FUND)

Economically motivated

The Dutch 'green taxation' regulation applies not only to nature development, but also to renewable energy, organic agriculture and sustainable building. From the late seventies, these environmentally friendly economic activities slowly but surely progressed from obscurity to maturity. They could even be called 'emerging markets' within the Dutch economy, driven by the public's increasing awareness of the environmental impacts of economic growth and production. Private banks wanting to get a position in these increasingly important markets simply had to join the green taxation regulation to be able to offer finance at competitive rates at all. The eagerness of private banks to move into green finance, therefore, is simply economically motivated.

Green finance for nature conservation

Although the green taxation regulation is a great success, the potential benefits for nature conservation would be limited if the regulation were not supported by other means of (public) financial support. The incentive has limitations. First, the regulation applies to nature development. Only investments that clearly increase ecological or biodiversity values in a given area are considered 'green' by the authorities. Measures necessary to protect already existing areas, however meaningful, do not pass the test.
Second, and most importantly, nature development is rarely economically profitable, not even at the low rates of return required to meet the (soft) debt service of the 'green loans'. The rare exceptions are some projects involving water abstraction or gravel extraction in combination with nature development.

green investment funds

National Green Fund: loans for nature development

Apart from these 'golden opportunities for green finance', a nature development project will usually have a negative financial balance. Realizing this, the Dutch authorities allowed for subsidies to increase revenues at any stage of the project. This was where the Dutch National Green Fund for nature development (NGF) came into picture. The NGF is a cash manager, treasurer and finance institution for most of the government budgets for nature development. Within well defined boundaries, the NGF is able to provide pre-financing on future budgets or forthcoming subsidies.

On the basis of this expertise, the NGF is able to make special financial arrangements for nature development projects for both private landowners and government initiatives. These financial arrangements (see Box 1) include low interest rate money from the commercial green investment funds. The NGF offers officially approved and financially fully defined projects in packages to the green investment funds of commercial banks. By using straightforward tendering techniques for the actual funding whenever possible, the NGF successfully operates as a 'market maker' for green finance for nature development projects. By the end of 2001, EUR 150 million of 'green money' will have been invested in nature development in the Netherlands. In 2001 alone, about EUR 10 million has been invested in nature projects by private land owners and EUR 35 million in government nature projects.

BOX 1:
Example

A private landowner or farmer is willing to ecologically upgrade his estate. Some agricultural land will be returned to nature, causing a loss of agricultural production. On the basis of an ecological development plan, out-of-pocket costs for land restoration, landscaping, planting, etc. are fully subsidized. The government provides 90% compensation to the landowner for the loss of agricultural land, to be paid in annual instalments over a period of 30 years.

In this case, the NGF would offer a 30-year loan for the full amount of the loss of agricultural value. The debt is serviced for 90% from the compensatory subsidies over 30 years; the remaining 10% will be paid by the land owner in the form of a mortgage taken out on the property.

Green finance: useful – but not enough

'Green finance' has clearly developed into a useful financing tool for nature development in the Netherlands. For private projects, green finance can make the difference between an unviable and an attractive, or at least financially acceptable, investment. For public projects, green finance is a useful means to speed up the execution of nature development programmes if budgets are not yet available.

However, green finance by itself is not a sufficient basis for financing nature development. Traditional financial support – support not requiring any financial return on investments, such as subsidies – is still (and most probably always will be) essential in almost all practical cases. A 'green taxation regulation' such as the Dutch example will by no means release public or private partners from the responsibility of providing sufficient funds (without charge) for nature conservation.

The views expressed in this article are those of the author and do not necessary reflect those of the Dutch National Green Fund

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