



Dutch State Treasury Agency
Ministry of Finance

State of the Netherlands Green Bond Framework

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1 Introduction

The Netherlands is fully committed to the United Nations 2030 agenda for Sustainable Development and the Paris Agreement on Climate Change. With regard to climate change, the Netherlands is doing its utmost to achieve the ‘well below 2 degree target’. Whilst the European Union gave a firm undertaking that greenhouse gas emissions will be reduced by at least 40% by 2030 compared to 1990 levels, the Netherlands acknowledges that a greater effort is required to achieve the ‘well below 2 degree target’ and is setting the bar higher by introducing measures to prepare the Netherlands for a reduction of greenhouse gas emissions of 49% by 2030. Furthermore, the Netherlands calls for a 55% reduction of greenhouse gas emission at EU level by 2030. Should such an ambitious target for the EU as a whole prove infeasible, the Netherlands will strive to make agreements with like-minded countries in north-west Europe on pursuing more ambitious targets than required under EU country allocations. This ambition has been embedded in the 2017 political coalition agreement ‘[Confidence in the future](#)’.¹

Obviously, to achieve these ambitions, large investments will need to be mobilized. A green capital market will play a key role in mobilizing these investments. Whilst the Dutch green capital market has already unfolded over the last years with more than a dozen Dutch financial institutions and corporates issuing green bonds for almost EUR 20 billion, the Dutch State aims to support the further development of this market with the issuance of a sovereign green bond, thus introducing a solid asset class to this market as well as adding critical mass to the market.

1.1 Dutch vision on global climate action

The central aim of the Paris Agreement is to strengthen the global response to the threat of climate change by keeping the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

With respect to climate mitigation, the Dutch government aims for a high ambition for the Netherlands, the EU and aligned countries to reduce the level of greenhouse gas emissions. Furthermore, the Netherlands pursues a clear and robust framework for the implementation of the Paris Agreement. Further to the Agreement on Energy for Sustainable Growth that was concluded in 2013², a Climate and Energy Agreement based on the target of a 49% lower greenhouse gas emission by 2030 is being negotiated on the national level. All stakeholders (public authorities, the business community and civil society) have been participating in these negotiations. To achieve the 49% target, a further 56Mt CO₂ reduction on top of the current policy scenario is required. Moreover, a proposal for a Climate Act (‘Klimaatwet’) containing

¹ www.kabinetsformatie2017.nl/documenten/verslagen/2017/10/10/coalition-agreement-confidence-in-the-future

² www.energieakkoordser.nl/doen/engels.aspx

the target of 49% reduction in 2030 and 95% reduction in 2050 has been approved by the House of Representatives in December 2018 and is now subject to approval by the Senate.

As the Netherlands is vulnerable for climate change, due to its geographical location, climate adaptation is a second pillar of the policy on climate change. On the national level, the Delta Act provides the legal base for the Delta Programme that ensures that flood risk management, freshwater supply, and spatial planning will be climate-proof and water-resilient by 2050. As part of the Delta Programme, the national Flood Protection Programme sets out the measures that are required to ensure that the primary flood defence systems meet the statutory safety standards, now and in the future. Furthermore, a national agreement on climate adaptation committing all levels of government has been signed, ensuring funding for projects to protect residential areas against extreme weather conditions. Without such measures, the damage by extreme rainfall and drought could amount up to EUR 71 billion by 2050³. On the international level, the Netherlands has taken the initiative with the UN and other countries to establish the Global Centre of Excellence on Climate Adaptation, which is located in the Netherlands. The Netherlands also lives up to the commitment of the Paris Agreement to provide financial resources to assist developing countries with respect to both mitigation and adaptation through the Dutch Fund for Climate and Development.

1.2 Sustainable finance as a driver of climate action

Sustainable finance, and a green capital market in particular, is considered key to reach the targets of the Paris agreement. This is also voiced in the European Commission action plan 'Financing Sustainable Growth', which aims to reorient capital flows towards sustainable investment, manage financial risk stemming from climate change and promote transparency and long-termism in financial and economic activity. According to the action plan, Europe has to close a yearly investment gap of almost EUR 180 billion to achieve EU climate and energy targets by 2030.

1.3 Background of State of the Netherlands' Green Bond Framework

A feasibility study was carried out by the Ministry of Finance of the Netherlands in 2018 on the possible issuance of a sovereign green bond. In his letter to Parliament, the Minister of Finance concluded that the issuance of a green bond by the Netherlands was feasible and desirable. With the issuance of a green bond, the Ministry of Finance underpins the importance of the further development of a robust green capital market. To support this market, the Dutch State aims to lead by example and contribute to the further development of a green financial market, provide the market with highly safe (AAA-rated) and liquid green bond and inspire others to issue green bonds.

³ Deltares (2012), research study: 'Schades door watertekorten en-overschotten in stedelijk gebied'.

The Green Bond issued by the DSTA enables the Dutch State to attract dedicated funding for government expenditures that contribute to greenhouse gas emission reduction targets and climate change adaptation, provide investors an opportunity to diversify their investment portfolios towards sustainable assets, and will further promote and develop the domestic and international Green Bond market.

The Green Bond issued by the Dutch State will be in line with regular debt issuance by the DSTA. Within a few years after the initial issuance, the outstanding volume will be increased to a benchmark size of approximately EUR 10 billion, as is regular practice for longer-dated DSLs.

2 Green Bond Framework

The Green Bond Framework of the Dutch State (the 'Framework') is set-up in line with the voluntary guidelines of the Green Bond Principles (2018), with expenditures that seek to align with the criteria of the Climate Bond Initiative and includes a commitment to external review. The framework will be presented along the following components:

- 1 Use of Proceeds
- 2 Process for Expenditure Evaluation and Selection
- 3 Management of Proceeds
- 4 Reporting
- 5 External review

2.1 Use of Proceeds








The Green Bond issued by the Dutch State intend to exclusively finance or refinance, in whole or in part, expenditures which are part of the Central Government Budget and contribute to greenhouse gas emission reduction targets and climate change adaptation ('Eligible Green Expenditures').

Eligible Green Expenditures can include government expenditures in the form of direct investment expenditures, subsidies, fiscal measures (tax credits) and selected operational expenditures. The expenditures are limited to Central Government Budget expenditures in the budget year preceding the issuance, the budget year of issuance, and future budget years.

The Dutch State intends that Eligible Green Expenditures do not include expenditures towards government agencies and other public sector entities which themselves issue Green Bonds related to these expenditures, as this may limit the ability to issue Green Bonds for these entities. Furthermore, Central Government Expenditures which already obtain dedicated funding are excluded from the Eligible Green Expenditures (e.g. subsidies for renewable energy production which are pre-funded through a tax surcharge on energy bills of Dutch companies and households).

Table 1 below provides an overview of the categories of Eligible Green Expenditures, a definition of the Eligible Green Expenditures within these categories and a non-exhaustive list of the main eligible budget articles in the Central Government Budget. The Eligible Green Expenditures are also mapped in accordance with the relevant UN Sustainable Development Goals:

Table 1 – Eligible Green Expenditures

Green Bond Principles category & SDG mapping	Definition of Eligible Green Expenditures and main budget articles
<p>Renewable Energy</p> 	<p>Expenditures to support the development of renewable energy generation capacity.</p> <p>Main eligible Central Government Budget articles:</p> <ul style="list-style-type: none"> Economic Affairs and Climate Policy, Article 4: <u>Stimulation of Sustainable Energy Production (SDE) (excluding the pre-funded SDE+)</u> <p><i>Subsidies for the development of renewable energy generation projects in the Netherlands. These project solely compose of techniques for which Climate Bonds Initiative sector criteria are available. Currently this encompasses solar energy and onshore and offshore wind energy.</i></p>
<p>Energy Efficiency</p>  	<p>Expenditures for the improvement of energy efficiency in the built environment, the public-, commercial- and industrial sector.</p> <p>Main eligible Central Government Budget articles:</p> <ul style="list-style-type: none"> Interior and Kingdom Relations, Art. 4.1: <u>Energy savings in the rental housing sector</u> <p><i>Subsidy towards 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.</i></p>
<p>Clean Transportation</p>  	<p>Expenditures for the development, maintenance and management of railway infrastructure, excluding dedicated freight railway infrastructure.</p> <p>Main eligible Central Government Budget articles:</p> <ul style="list-style-type: none"> Infrastructure Fund, Article 13: <u>Maintenance and management of railway infrastructure, development of railway infrastructure for passenger rail</u> <p><i>Expenditures 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.</i></p>
<p>Climate Change Adaptation & Sustainable Water Management</p>  	<p>Expenditures under the Dutch Delta Programme to ensure flood risk management, freshwater supply, and spatial planning will be climate-proof and water-resilient.</p> <p>Main eligible Central Government Budget articles:</p> <ul style="list-style-type: none"> Deltafund, Article 1: <u>Flood risk management investments</u> Deltafund, Article 2: <u>Freshwater supply investments</u> Deltafund, Article 3: <u>Management, maintenance, and replacement</u> Deltafund, Article 4: <u>Experimentation</u> Deltafund, Article 5: <u>Network-related costs and other expenditures</u> Deltafund, Article 7: <u>Water quality investments</u> <p><i>Expenditures include reinforcing flood defences, monitoring and management of water levels, water distribution and related measures to anticipate on higher (fresh) water levels.</i></p>

In addition to the main eligible Central Government Budget articles included in Table 1, new or existing Central Government Budget expenditures which fall within the scope of the definition of Eligible Green Expenditures can be considered as Eligible Green Expenditures under this Framework, provided that these expenditures meet the sector criteria of the Climate Bonds Standard.⁴ Expenditures directly related to fossil fuel production, fossil fuel power generation, nuclear energy and the defence sector are excluded from the Eligible Green Expenditures.

2.2 Process for Expenditure Evaluation and Selection

The evaluation and selection of Eligible Green Expenditures is the responsibility of the inter-departmental Green Bond Working Group and will be performed on an annual basis.

The DSTA coordinates this process and prepares an initial list of potential Eligible Green Expenditures by identifying expenditures in the Central Government Budget that contribute to greenhouse gas reduction targets and climate change adaptation and meet the criteria and definition of the Eligible Green Expenditures (paragraph 2.1). The list of potential Eligible Green Expenditures is subsequently evaluated by the Green Bond Working Group, which reviews the feasibility of including the expenditures, verifies whether the expenditures comply with the criteria and definition of Eligible Green Expenditures in this Framework, and approves the selected expenditures as Eligible Green Expenditures.

Green Bond Working Group

The Ministry of Finance has established an inter-departmental Green Bond Working Group, comprising of representatives from the:

- Dutch State Treasury Agency (Chair)
- Ministry of Finance
- Ministry of Economic Affairs and Climate Policy
- Ministry of Infrastructure and Water Management

The Green Bond Working Group is responsible for:

- The implementation and maintenance of the Green Bond Framework
- Evaluation and selection of Eligible Green Expenditures
- Allocation and management of Green Bond Proceeds
- Green Bond investor reporting

⁴ Sector Criteria under the Climate Bonds Standard, developed and maintained by the Climate Bonds Initiative (CBI)

2.3 Management of Proceeds

The DSTA will manage the proceeds of the issued Green Bond. On an annual basis, the DSTA will monitor the expenditure level of Eligible Green Expenditures via the National Financial Annual Report which outlines the realized expenditure levels of the Eligible Green Expenditures. Based on the realized expenditure levels, the DSTA will decide upon the allocation of the net proceeds of the issued Green Bond towards Eligible Green Expenditures.

As the Eligible Green Expenditures include expenditures from the entire budget year preceding the issuance, the budget year of issuance and future budget years, the DSTA intends to allocate at least 50% of the net proceeds of the issued Green Bond to expenditures in the budget year of issuance or future budget years.

Pending the full allocation of the proceeds of the issued Green Bond to Eligible Green Expenditures, the DSTA will manage the unallocated proceeds in line with the treasury policy of DSTA.

The allocation of the proceeds of the issued Green Bond to Eligible Green Expenditures will be reviewed and approved by the Green Bond Working Group on an annual basis, until full allocation.

2.4 Reporting

For all issuance under this Framework, the Dutch State is committed to provide investors with transparent reporting on the allocation of proceeds towards Eligible Green Expenditures as well as to report on the results and positive environmental impact of those expenditures.

2.4.1 Allocation of proceeds reporting

Within three months following the publication of the National Financial Annual Report of the year of issuance of the inaugural Green Bond, the DSTA will publish an allocation report outlining:

- An overview of the allocation of the issued Green Bond to the main categories of Eligible Green Expenditures (Renewable Energy, Energy Efficiency, Clean Transportation and Climate Change Adaptation & Sustainable Water Management)
- A breakdown of allocated proceeds per main category of Eligible Green Expenditures on Central Government Budget Article level
- A breakdown of allocated proceeds per type of expenditures (direct investment expenditures, subsidies, fiscal measures (tax credits) and selected operational expenditures)
- The amount of unallocated proceeds

The allocation report will be updated annually, until full allocation of the proceeds of the issued Green Bond.

2.4.2 **Impact reporting**

Starting in the year following the issuance of the inaugural Green Bond, the DSTA will publish an impact report addressing the positive environmental impact of Eligible Green Expenditures. The impact report will be based on existing publicly available reporting of the results and impact of Eligible Green Expenditures and will provide information on:

- Where feasible and available, specific results (e.g. total number of projects) and environmental impact indicators (e.g. avoided CO₂ emission) related to the Eligible Green Expenditures to which green bonds proceeds have been allocated
- Climate change related impact indicators for the Netherlands, for example:
 - Percentage of renewable energy production (2017: 6.6%)
 - Total Greenhouse Gas Emissions (2017: 163 billion kilograms CO_{2e})

Where feasible, the impact report will be updated annually and until full allocation of the proceeds of the issued Green Bond. Where necessary, the DSTA may provide additional updates due to the time-lag in the publication of specific environmental impact indicators. The approach to impact reporting may be updated over time to align with emerging reporting standards and methodologies adopted by the Dutch State.

An overview of anticipated results- and environmental impact indicators per main category of Eligible Green Expenditures is included in Appendix I.

2.5 **External review**

DSTA aims to adhere to the highest standards in terms of external review of the Green Bond Framework. A two-step approach has been devised that incorporate the following steps:

- 1 Green Bond Framework Pre-issuance verification:
 - 1 Second Party Opinion by Sustainalytics
 - 2 Formal certification by the Climate Bonds Initiative
- 2 Post-Issuance Green Bond verification:
 - 1 Independent Verification by the Independent Internal Auditor of the Dutch State
 - 2 Verification of the conformity with the Climate Bonds Standard by Sustainalytics

2.5.1 **Second Party Opinion**

The DSTA has commissioned Sustainalytics to provide a Second Party Opinion on the Framework. Sustainalytics has reviewed Green Bond Framework and concluded that the Framework is credible and impactful and aligns with the Green Bond Principles (2018).

The Second Party Opinion is publicly available on the DSTA website.

2.5.2 Verification

Starting one year after issuance of the inaugural Green Bond, the DSTA will request the Independent Internal Auditor of the Dutch State (‘Auditdienst Rijk’) to provide an independent verification for the allocation of the proceeds of issued the Green Bond to Eligible Green Expenditures in line with the criteria of this Framework. The report will be provided annually until full allocation of the proceeds of the issued Green Bond. The verification report(s) will be made publicly available on the DSTA website.

2.5.3 Certification

The Dutch State has obtained external certification of its Green Bond in line with the recognised international standards of the Climate Bonds Initiative.

Appendix 1 – overview of anticipated impact indicators

Eligible Green Expenditures	Result indicators	Environmental impact indicators
Renewable Energy		
<ul style="list-style-type: none"> Stimulation of Sustainable Energy Production (SDE) 	<ul style="list-style-type: none"> Number of projects Number of projects split per renewable energy technology Total subsidized renewable energy capacity (in MW) 	<ul style="list-style-type: none"> Actual annual energy production (in MWh) Annual Greenhouse Gas emission avoidance (in CO₂ equivalent)
Energy Efficiency		
<ul style="list-style-type: none"> Energy savings in the rental housing sector 	<ul style="list-style-type: none"> Number of applications Number of houses upgraded for energy performance 	<ul style="list-style-type: none"> Annual energy savings (in MWh) Annual Greenhouse Gas emission reduction (in CO₂ equivalent)
Clean Transportation		
<ul style="list-style-type: none"> Maintenance and management of railway infrastructure Development of railway infrastructure for passenger rail 	<ul style="list-style-type: none"> Realised projects (case studies) KM of infrastructure maintained 	<ul style="list-style-type: none"> Annual passenger train kilometres
Climate Change Adaptation & Sustainable Water Management		
<ul style="list-style-type: none"> Deltafonds 	<ul style="list-style-type: none"> KM and percentage of dykes reinforced to a safe level Number and percentage of flood defences reinforced to a safe level 	<ul style="list-style-type: none"> Availability of flood defences (percentage) Reduction of flood risk / frequency

Disclaimer

Potential investors should be aware that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor clear market consensus as to what constitutes, a 'green' or 'sustainable' or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as 'green' or 'sustainable' or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Green Expenditures will meet any or all investor expectations regarding such 'green', 'sustainable' or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Expenditures.

Furthermore, no assurance can be given that the use of proceeds from the green bond for any Eligible Green Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any projects or uses, the subject of or related to, any Eligible Green Expenditures.

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