Green Revolving Loan Funds

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Green revolving loan funds are mechanisms for financing sustainability projects. A loan provides the initial capital to support a project that mitigates greenhouse gas emissions or reduces resource use. The savings from that project are reinvested in the loan fund, where they can then be used to finance future projects. Typical projects that generate cost savings include energy efficiency, renewable energy, water conservation, waste reduction and recycling. The idea has gained traction in higher education institutions, but can be applied in any sector where sustainability projects save money.

A well-managed green revolving fund is a good investment. A 2012 study of 76 institutions of higher education in the US and Canada reported a median payback period of 3.5 years (Flynn, Orlowski and Weisbord 2012: 5) and an average payback period of 4.4 years (ibid.: 57) with a median annual return on investment (ROI) of 28 percent, reliably outperforming the average investment returns of endowment funds (Indvik, Foley, and Orlowski 2013a: 7). For example, the green revolving fund at Stanford University returned an average annual ROI of 22 percent from 2004 to 2012 (Flynn, Orlowski and Weisbord 2012: 25), and a similar fund at the University of Colorado, Boulder returned an average annual ROI of 37.8 percent from 2008 to 2012 (ibid.: 29).

A green revolving fund offers multiple benefits in addition to above-average investment performance. This approach advances sustainability goals by removing financial barriers, and visibly makes the business case for sustainability. It provides a unified system for tracking financial aspects of sustainability projects as part of an integrated whole. A green revolving fund offers potential funding to support student experiential learning, while also creating innovative fundraising opportunities that are attractive to donors. It creates opportunities to engage the community, bringing diverse stakeholders together to make decisions about sustainability and investments, and clearly communicates an institution’s commitment to sustainability goals.

Setting up a fund begins with research, both to learn how funds are structured in similar peer institutions and to understand thoroughly the accounting system, operations management, and sustainability project portfolio in the home institution. No two funds are alike, and each will need to be tailored to the characteristics of its institution. Successful planning efforts typically involve staff with expertise in finance, operations, and sustainability, and often include participation by multiple stakeholders as well.

A new fund needs seed capital to get started. Capital can come originally from an operating budget, an endowment fund, utility rebates, donations, or grants. Planners need to decide whether to start small, allowing them to pilot a project before scaling up once the pilot demonstrates success; or whether to start at a larger scale, which allows greater flexibility in choosing projects. Planning includes developing criteria for evaluating and selecting projects to be funded. Decisions need to be made about how the fund will be structured, how repayments will be made, by whom, and how often. The green revolving fund may be set up under a loan model, in which a project borrows money from the fund, or under an accounting model, in which both loans and repayments are handled by transferring funds between particular budgets. The system can be overseen by a single administrator; by staff from a relevant office such as finance, facilities, or sustainability; or by a management committee, which has the advantage of promoting broader stakeholder engagement and greater awareness.

The Billion Dollar Green Challenge is a program that encourages higher education institutions and non-profit organizations to invest in green revolving funds. It was launched in 2011 by the Sustainable Endowments Institute in connection with the annual conference of the Association for Advancement of Sustainability in Higher Education (AASHE), with a goal of investing a combined total of one billion dollars in self-managed funds to finance sustainability projects. The Billion Dollar Green Challenge suggests that each participating institution establish a fund equivalent to one percent of the endowment or one million dollars, whichever is less (Boyd 2013: 346). The Sustainable Endowments Institute offers a range of tools and resources to help institutions facilitate the planning and operation of green revolving funds.

Resources

Boyd, Stephanie. “Financing and Managing Energy Projects through Revolving Loan Funds.” *Sustainability: The Journal of Record,* vol. 6 no. 6 (December 2013): 345–52. doi: 10.1089/sus.2013.9826.

Flynn, Emily, Mark Orlowski, and Dano Weisbord. *Greening the Bottom Line 2012.* Cambridge, MA: Sustainable Endowments Institute, 2012.

Indvik, Joe, Rob Foley, and Mark Orlowski. *Green Revolving Funds: An Introductory Guide to Implementation & Management*. Sustainable Endowments Institute and Association for the Advancement of Sustainability in Higher Education, 2013.

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Putman, Andrea and Michael Philips. *The Business Case for Renewable Energy: A Guide for Colleges and Universities.* Washington, DC: National Association of College and University Business Officers (NACUBO), Leadership in Educational Facilities (APPA), and Society for College and University Planners (SCUP), 2006.

Sustainable Endowments Institute. “Billion Dollar Green Challenge.” http://GreenBillion.org Resources at http://GreenBillion.org/resources include implementation guides, an investment

primer for financial officers, an investment-tracking dashboard, sample documents, and case studies.