

# SOCIAL IMPACT BONDS

## New instruments to finance energy poverty interventions



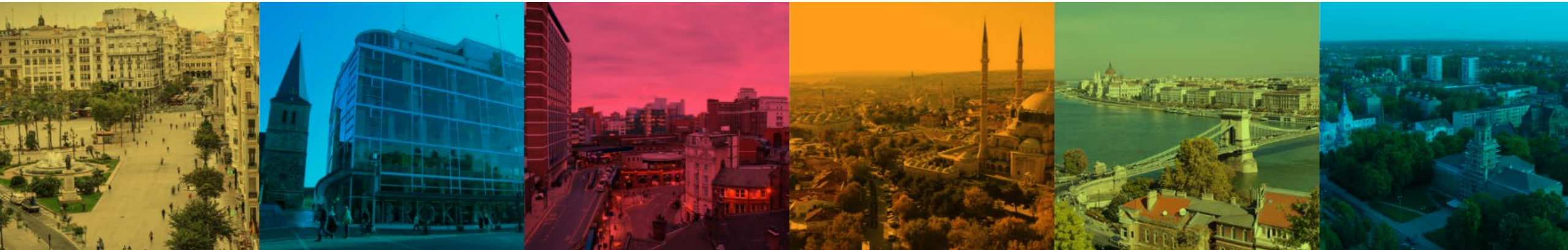
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Funded by the Horizon 2020 Framework Programme of the European Union



End Energy Poverty Forum  
24 April 2024

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## SOCIAL IMPACT BONDS

### New instruments to finance energy poverty interventions?

- Energy poverty is a major challenge in the EU.
- Since the 2007 economic crisis the number of families living in energy poverty has increased.
- The impact of the COVID-19 + the increase in energy prices started in 2021 and worsened with Russia's invasion of Ukraine in Feb. 2022 have made more households vulnerable to energy poverty.
- 9.3% of the EU population unable to keep their homes adequately warm in 2022 (source Eurostat, June 2023)

**WORRYING FIGURES...**

**THERE IS A NEED FOR URGENT INTERVENTION!**

## SOCIAL IMPACT BONDS

### New instruments to finance energy poverty interventions?

Local governments must act quickly with interventions that reduce energy poverty and promote citizens' health and wellbeing.

Local actions/interventions targeted to combat energy poverty like those in **WELLBASED** are of crucial importance.

In practice, interventions to fight energy poverty:

- ✓are difficult to implement, due to **limited public resources**
- ✓when implemented, they are **implemented at limited scale** (small interventions targeting few people)

Can interventions to fight energy poverty be scaled up? How?  
Can we move from pilot/small interventions to bigger ones?

How can these interventions be financed?  
Is there a role for private investment? Public-private collaboration?

**Alternative & innovative financing models like SIBs might be an answer...**

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# SOCIAL IMPACT BONDS

## What are SIBs?

Innovative instruments to finance interventions that address serious social challenges in a context of public-private collaboration.

- ❑ In a SIB, **social investors** provide **up-front capital** to finance social programs (usually carried out by NGOs).
- ❑ If the program is “**successful**”, meaning that certain **pre-determined outcomes are achieved**, the public administration pays the social investors the initial capital plus a financial return.
- ❑ Since the public administration pays only if the intervention is successful, **SIBs transfer the risk to the investors** and guarantee a more efficient use of public funds.

A SIB is not a bond, but a contract (a “*pay-for-success*” contract).

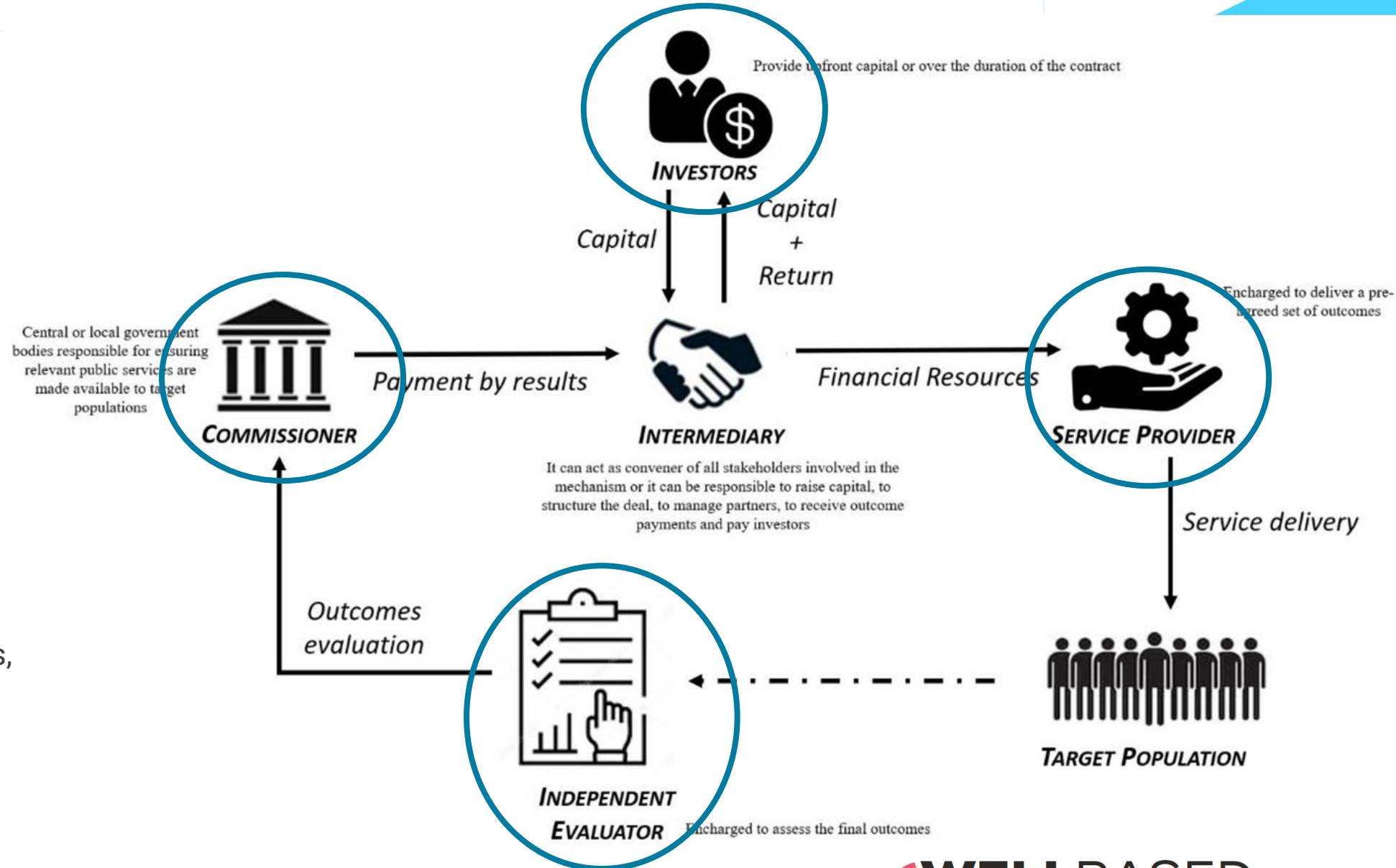
# SOCIAL IMPACT BONDS

SIBs imply a new form of cooperation between:

**Public sector** (central government or local authorities)

**Social service providers** (NGOs, social businesses, private companies)

**Financial actors** (investors, investment funds, banks, charities)



# SOCIAL IMPACT BONDS

## Advantages

- ✓ Disposal of up-front capital/funding to programmes that are designed to be responsive to the needs of vulnerable groups to improve their lives.
- ✓ Transfer of risk to the investor (allows “testing” programs, paying only if they are successful)
- ✓ Scaling-up of pilot projects
- ✓ Efficiency in the management of public funds
- ✓ Promotion of social innovation
- ✓ Rigor in the provision of services and the measurement of their impact (fostering an evaluation culture within the public administration)

## Disadvantages

- Still new / unknown instruments
- Require the collaboration of the different actors (Public Admin, social investors, service providers (NGOs))
- Management costs of the SIB instrument
- The return on investment may create "perplexities"

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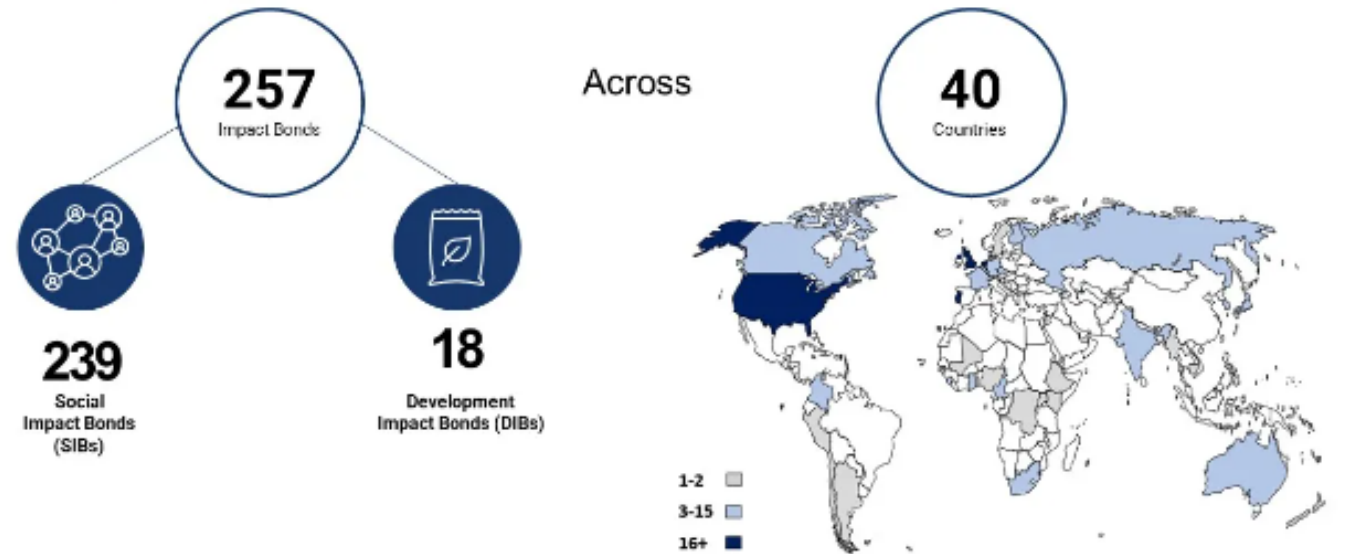
## SIBs worldwide

1<sup>st</sup> SIB implemented in the UK in 2010 in the area of criminal justice

Aim: To reduce reoffending rates of short-sentenced prisoners (Peterborough prison)

Since then, rapid expansion: nowadays **257** SIBs contracted worldwide

## Impact Bonds Contracted Globally



B | Global Economy and Development at BROOKINGS

Citation: Brookings Institution Global Impact Bond Database, April 1, 2024

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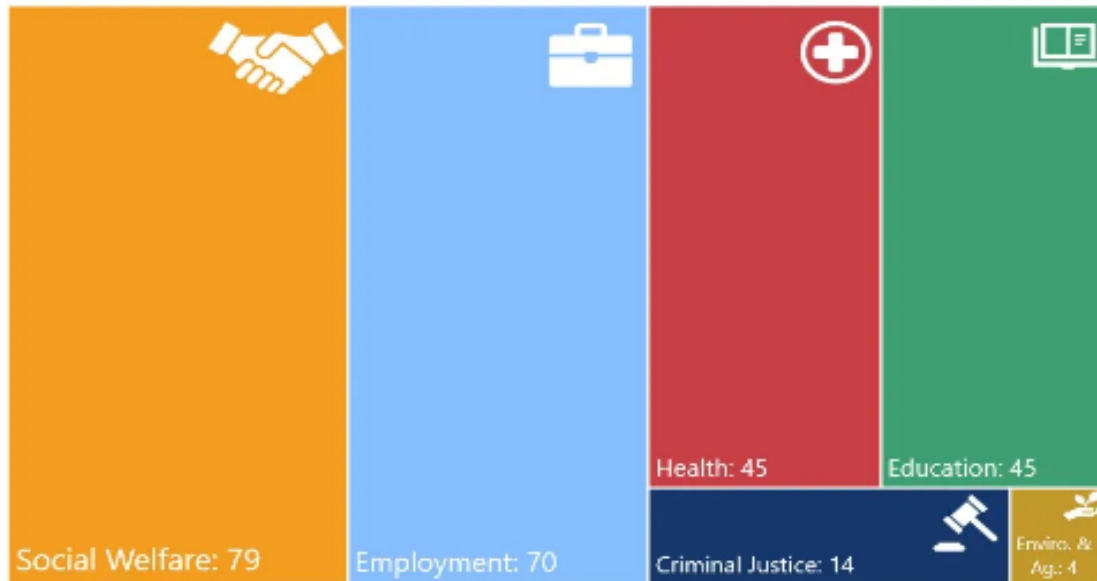
## Areas of intervention

- ✓ social welfare
- ✓ employment/job training
- ✓ education
- ✓ health care
- ✓ criminal justice
- ✓ homelessness

**Never used in the field of energy poverty**

### Impact Bonds Contracted by Sector

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\* Social Welfare includes impact bonds addressing homelessness, poverty reduction, and child & family welfare.

Citation: Brookings Institution Global Impact Bond Database, April 1, 2024





## SIBS & ENERGY POVERTY

### Can SIBs be used to finance interventions aimed at reducing energy poverty ?

#### SIBS OFFER AN OPPORTUNITY TO:

- Invest in **prevention**, avoiding energy poverty from becoming a more serious and chronic problem.
- Have “**up front**” **capital** to finance the intervention (which would be **returned only if the intervention is successful**, and the predefined **targets have been achieved** and evidenced).
- Tap into private sector funds at a time when **public resources are scarce** and face competing demands
- **Transfer the risk** of the intervention to the investor.
- Move **from pilot projects to larger projects**, involving a greater number of households/families and therefore increasing the **impact** of an intervention (the risk of escalation is transferred to the investor).
- Close follow-up/monitoring of the intervention, allowing for adjustments if necessary and encouraging transparency and accountability through objective data collection, measurement, and reporting.

## SIBS IN WELLBASED

### Can SIBs be used to finance interventions aimed at reducing energy poverty like the ones implemented in the WELLBASED pilots?

We aim to carry out a **pre-feasibility analysis** for the application of SIBs to finance the interventions to reduce energy poverty in the WELLBASED pilots.

In each pilot:

- ✓ “Compliance” check (SIBs are not suitable for all types of interventions. Certain conditions need to be met)
- ✓ Check if the WELLBASED intervention has been “successful” (the indicator that reflects the success of the intervention: “Reduction of household income spent on energy bills”)
- ✓ Business case and simulation exercise on costs and savings of an intervention financed through SIB

SIBs should result in **benefits for families and for the public administration**.

- **Savings for families** (reduced energy bills thanks to the intervention (optimizing bills, good energy efficiency habits))
- **Savings for the public administration** (social services) (public money spent on paying citizens’ energy bills)



# Thank you

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