BONDS, LOANS AND OTHER MONEY: TACKLING ENERGY POVERTY AND ILL-HEALTH WITH THE RIGHT FINANCIAL SCHEME

"Social Impact Bonds- New Instruments to Finance Energy Poverty Interventions?"

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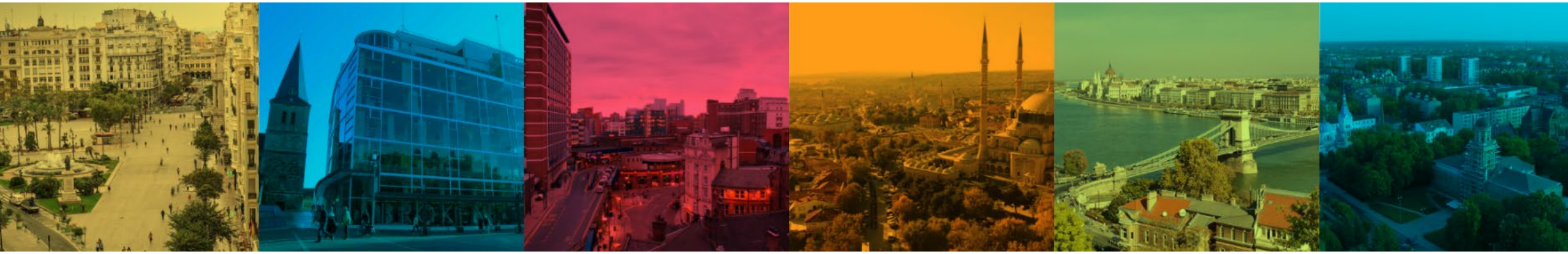

3rd WELLBASED Capacity-building Webinar for cities caring energy justice

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SOCIAL IMPACT BONDS

New instruments to finance energy poverty interventions?

Interventions to fight energy poverty are **necessary & urgent**

Current situation characterized by **high demand vs low/scarce supply**

WHY?

- Governments worldwide are facing fiscal constraints which imply the reduction of social programmes
- "Pilot" interventions (small/sporadic interventions targeting few people)

KEY QUESTIONS:

- ✓ How can EP interventions be financed? Is there a role for private investment? Public-private collaboration?
- ✓ Can we move from small/sporadic interventions to bigger ones? Can interventions to fight EP be scaled up? How?

THE ANSWER: Emerging financing mechanisms like SIBs may be a possibility of increased investment in social programs through private financing

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SOCIAL IMPACT BONDS

What are SIBs?

Alternative & 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.

SIBs are NOT bonds in the conventional sense (debt instruments) but "pay-for-success" contracts

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SOCIAL IMPACT BONDS

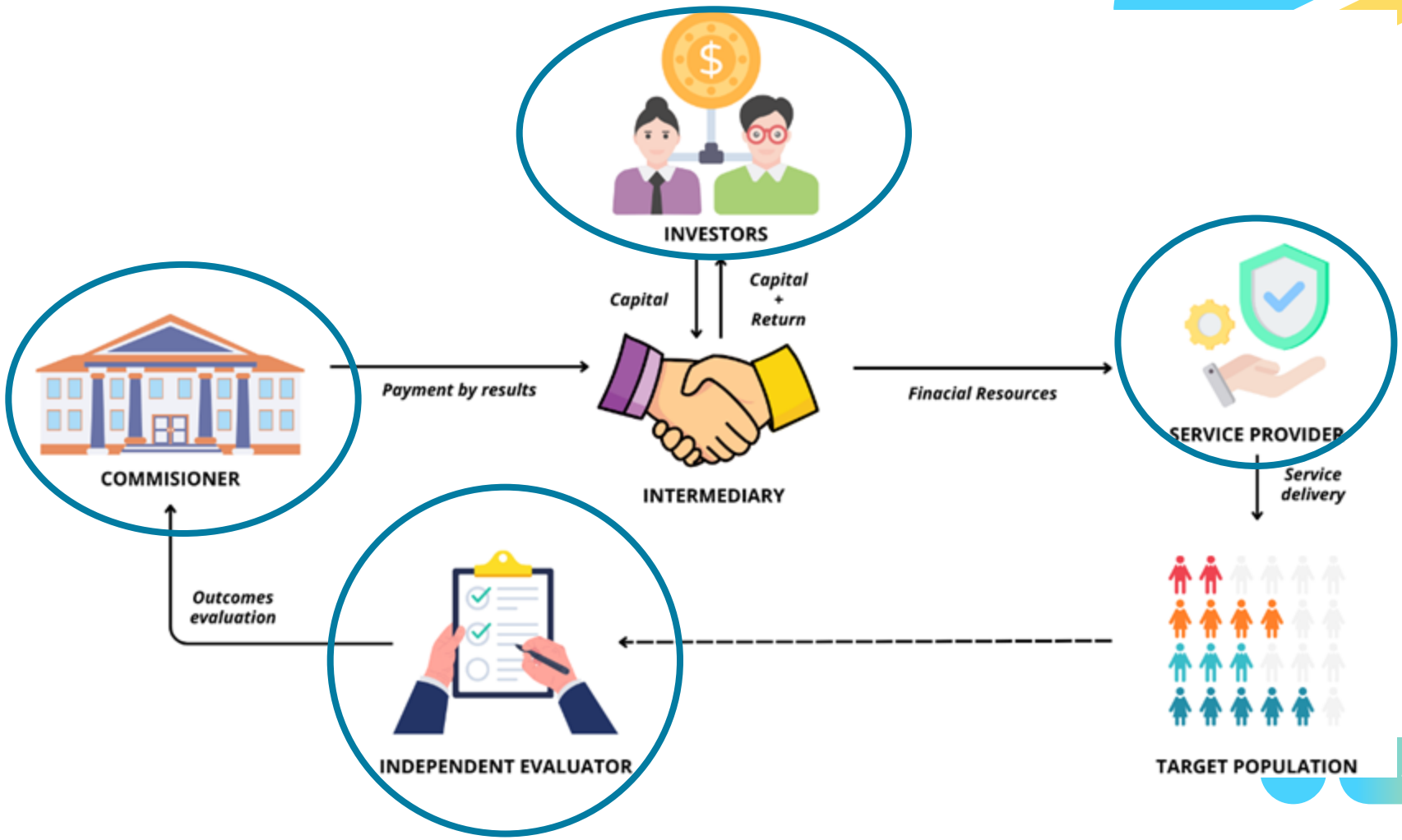
Main actors in a SIBs

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)



Source: Adapted from: Carè, R.; Rania, F.; De Lisa, R. Critical Success Factors, Motivations, and Risks in Social Impact Bonds. Sustainability 2020, 12, 7291.

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SOCIAL IMPACT BONDS

SIB´s Pros & Cons

Advantages

- ✓ Disposal of up-front capital to fund social programmes
- ✓ Transfer the risk to the investor
- ✓ 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 P.A.

Disadvantages

- ○ Still new / unknown instruments
- ○ Require collaboration of different actors: P.A., investors, service providers
- ○ Management costs of the SIB instrument
- ○ RoI may create "perplexities"

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SOCIAL IMPACT BONDS

SIBs worldwide

1st SIB in the UK in 2010 in the area of criminal justice to reduce reoffending rates of short-sentenced prisoners.

Since 2010, rapid expansion

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

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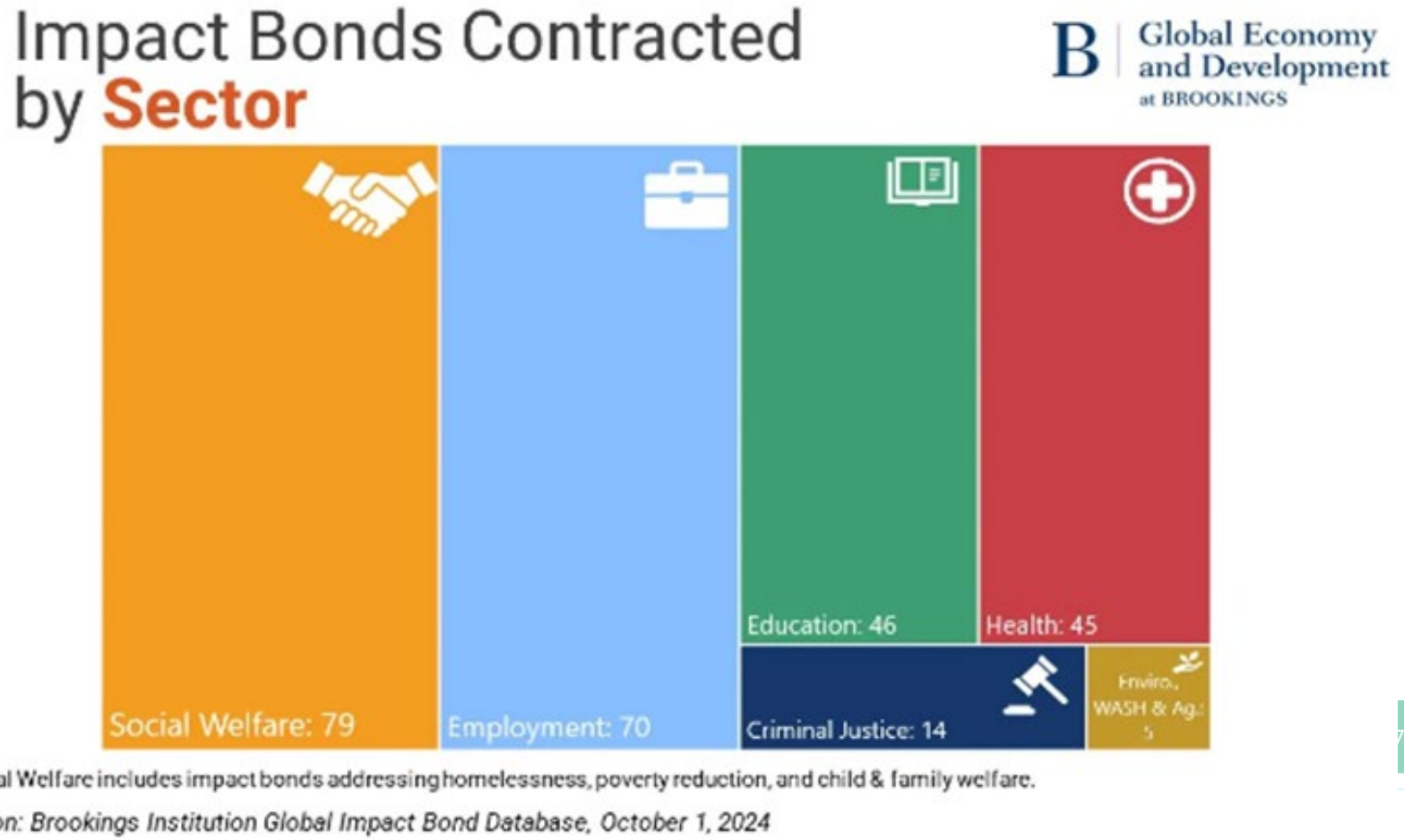
SOCIAL IMPACT BONDS

Areas of intervention

- ✓ Criminal justice
- ✓ Social welfare
- ✓ Employment/job training
- ✓ Education
- ✓ Health care
- ✓ Homelessness

Never used in the field of energy poverty

NEW



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SIBS & ENERGY POVERTY

Can SIBs be used to finance & scale-up interventions to reduce EP?

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.

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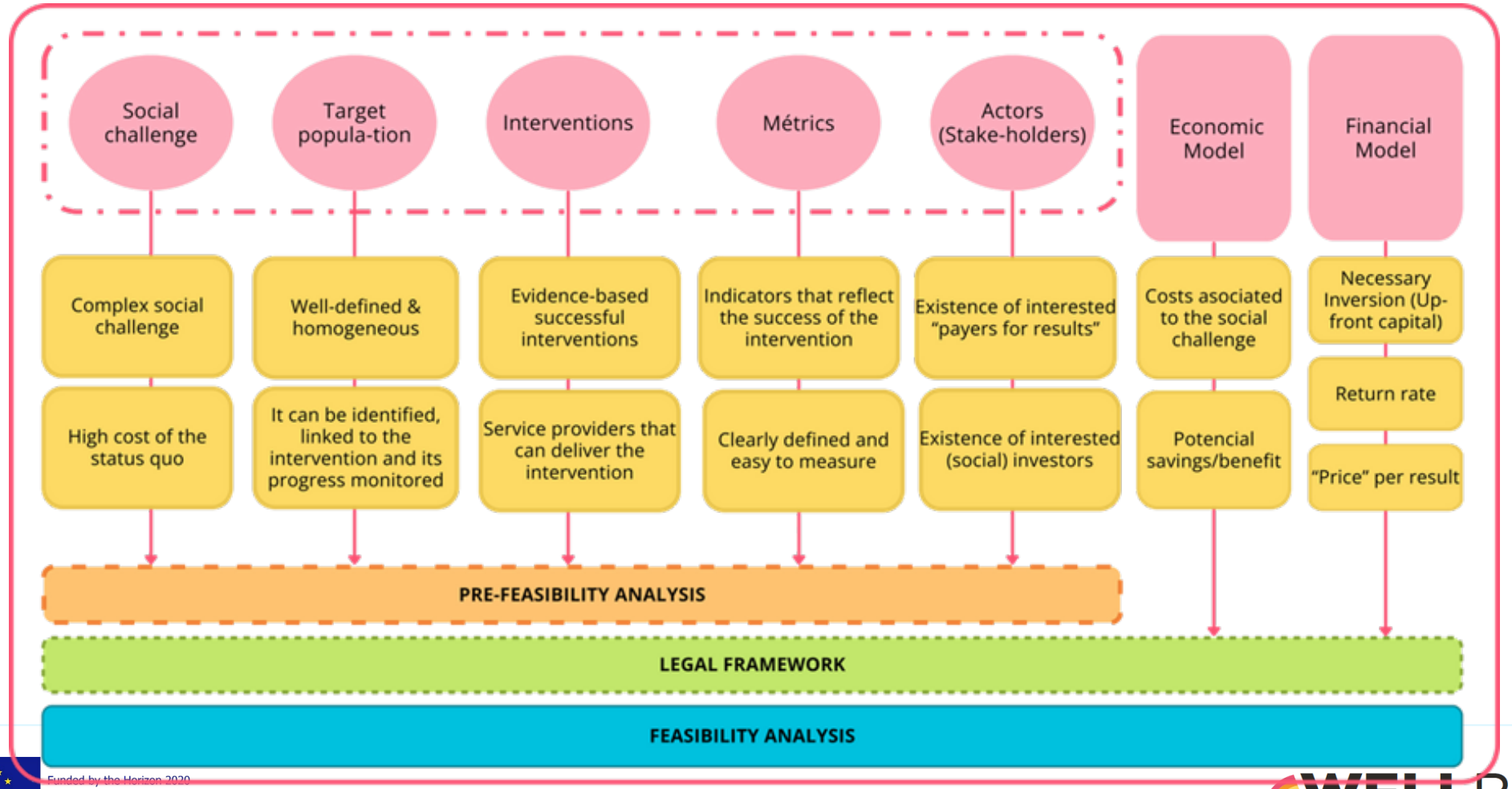
SIBS IN WELLBASED

The Valencia pilot

Pre-feasibility analysis: Compliance check & Business case



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Source: Kveloce inspired by Codespa y Social Finance UK

SIBS IN WELLBASED

The Valencia pilot

VLC´s intervention: energy audits, energy efficiency kits, bill optimization advice & coaching

Compliance check:

- The problem of EP is well-defined
- Its resolution is a priority for the P.A.
- The costs currently incurred by the P.A. due to EP can be quantified
- The costs that will be avoided/the future savings for the P.A. if the EP problem is solved can be quantified
- The beneficiaries can be identified and delimited
- There is empirical evidence on the impact of the intervention*
- The results of the intervention can be validated and are measurable
- There is an ecosystem of agents that could carry out the implementation of a SIB

* *E.g. REACH Project, GreenDoctors, ESP Nuremberg, Ni un hogar sin energia, Atlas of Energy Poverty Initiatives in Europe (ACHIEVE, REACH-Slovenia, Run4energy, CAF ACCIO). Also past actions in VLC city and the municipalities of Alzira, Torrent and Lliria.*
Data from WELLBASED in VLC pilot finds empirical evidence on the reduction of electricity bills one year after the intervention. However, results are non-significative when compared with a (non-randomised) control group.

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The Valencia pilot

Costs and savings of the application of SIBs (Business case N=1.000)

Costs of the EP problem (incurred by the P.A. (SSD)

In 2022, in VLC, the SSD spent €348.000 in payments for electricity bills to people in EP (320€/beneficiary)

Costs /payments for electricity bills by SSD (€)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total
Cost for the SSD	320.000	320.000	320.000	320.000	320.000	320.000	1.920.000

Savings in electricity bills

Data from the WELLBASED intervention in VLC pilot shows average savings in the electricity bill of 38,5€/month

Average savings in electricity bills (€/year)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total savings
Average savings	462.000	438.900	430.122	421.520	413.089	404.827	2.570.458

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Costs and savings of the application of SIBs (Business case N=1.000)

Costs of the intervention

The cost of the WELLBASED intervention in the VLC pilot =1.155€/beneficiary

Cost of the intervention with SIB (in €)	Total
Average cost of the WELLBASED intervention	1.154.973
Costs of the SIB structure (20% of the cost of the intervention)	230.995
Monitoring & evaluation costs	10.000
SUB- TOTAL	1.395.968
Return on Investment	335.032
TOTAL	1.731.000

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SIBS IN WELLBASED

The Valencia pilot

Costs and savings of the application of SIBs (Business case N=1.000)

Cost of the WELLBASED intervention in VLC with SIB

In Year 1: (a) cost of the intervention financed via SIB (€1.731.000); (b) cost for the SSD in payments for electricity bills (what the SSD would have to pay without the intervention (€320.000) minus the savings in electricity bills thanks to the intervention (€462.000).

Since the savings in electricity bills **>** the amount paid by the SSD, this amount is "negative" for SSD. The cost for the SSD is zero while the remaining amount is the real saving for the families (€142.000).

Costs for electricity bills made by the Social Services Department (SSD)							
NO SIB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total
Cost for the SSD	320.000	320.000	320.000	320.000	320.000	320.000	1.920.000
SIB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total
SIB Cost	1.731.000	0	0	0	0	0	1.731.000
Actual cost for the SSD	0	0	0	0	0	0	
TOTAL COSTS	1.731.000	0	0	0	0	0	1.731.000
Savings for the SSD							189.000

Actual costs & savings	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**Total**
Cost for SSD	320.000	320.000	320.000	320.000	320.000	320.000	1.920.000
Average savings	462.000	438.900	430.122	421.520	413.089	404.827	2.570.458
Difference	-142.000	-118.900	-110.122	-101.520	-93.089	-84.827	-650.458
Actual cost for the SSD	0	0	0	0	0	0	0
Actual savings for families	142.000	118.900	110.122	101.520	93.089	84.827	650.458

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The Valencia pilot

Costs and savings of the application of SIBs (Business case N=1.000)

Thus, considering the cost of the intervention with SIB in year 1 and the “0” costs for the SSD since families can now pay for their own bills, after 6 years, the intervention with SIB is paid and there is a remaining saving for the SSD of €189.000 (€1.920.000-1.731.000)

Costs for electricity bills made by the Social Services Department (SSD)							
NO SIB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total
Cost for the SSD	320.000	320.000	320.000	320.000	320.000	320.000	1.920.000
SIB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	Total
SIB Cost	1.731.000	0	0	0	0	0	1.731.000
Actual cost for the SSD	0	0	0	0	0	0	
TOTAL COSTS	1.731.000	0	0	0	0	0	1.731.000
Savings for the SSD							189.000

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SIBS IN WELLBASED

Summing up:

The intervention could be scaled-up using a SIB, obtaining:

(a) savings for families (reduced electricity bills thanks to the intervention (EE kit, optimizing bills, good EE habits)

(b) savings for the SSD (for citizens' bills payments)

(c) the total cost of the intervention via SIB could be covered after 6 years

SIBs could be considered as alternative new instruments at disposal of local authorities to scale-up & finance interventions that combat energy poverty and increase the wellbeing of citizens

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Thank you

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