#ZeroWasteBonds

Social impact bonds

New financing models for Zero Waste Solutions

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What are Social impact bonds ?

- A social impact bond (SIB) is a tripartite contract between a public sector (or governing authority), social providers and private investors where the financial risk is transferred to private investors.
- A social impact bond is not a bond, per se, since repayment and return on investment (ROI) are contingent upon the achievement of desired social outcomes.
- Investing in social impact bonds has risen in recent years as a way for investors to give back to the community, as well as a way for companies to expand their social responsibility.

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An impact bond offers a way to bring in private capital and foster innovation to create social impact

What is an impact bond?

An impact bond is an outcomes-based contract, where an investor invests into setting up and delivering a service and is only repaid if pre-determined, social outcomes are achieved.

What are the benefits of an impact bond?

An impact bond gives the opportunity to **bring an injection of private capital to fund innovation, and shift incentives away from continuous waste generation, landfilling, and incineration** – instead, rewarding models which progressively reduce waste

- **Drive better outcomes and cost efficiency:** Outcomes-based contracting focuses providers on meeting their targets and is a growing best practice for procurement in Europe
- **Foster flexibility and grow evidence for innovations:** Allows flexibility to innovate and adapt to meet targets, using rigorous monitoring, evaluation and learning (MEL) for continuous improvement of the solutions
- **Optimize risk allocation:** By transferring risk to investors who can manage uncertainty, funders receive certainty by paying exclusively for outcomes
- **Deliver benefits at scale:** Impact bonds can be used to scale up promising solutions and demonstrate their ability to scale further
- **Generate ecosystem benefits:** An impact bond can build a culture of MEL and outcomes focus beyond the partners engaged

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ZWE Business Case

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Business Case

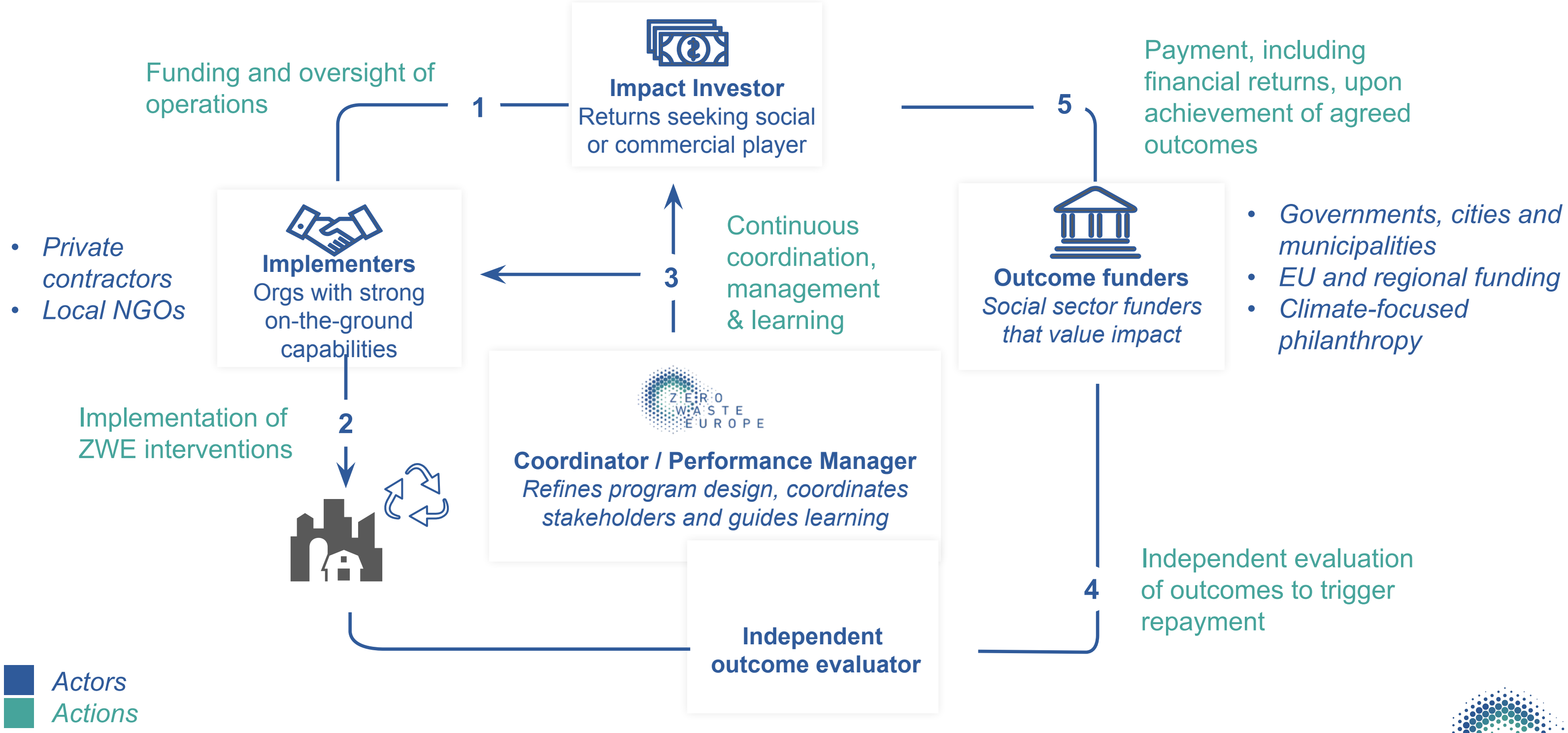
Our first business case was to identify key zero waste issues in order to bring solutions that could be implemented in a 3 years frame with the capacity to scale at a EU level.

The aim is to provide cities / municipalities looking to transition to ZW, the necessary fundings without the need to choose between different priorities and allow them to innovate with more flexibility and independence.

The Zero Waste Bond, as a tool, will

- Favor also a common narrative fueling fundings towards good and not false solutions;
- Allows to create financial archetypes for dedicated solutions (average);
- Close the gaps between the work that we are doing at an institutional and grassroot level;
- Pioneer in bringing the ZW topic further than a 'green' issue to a 'social' issue an measure Social Impact (KPI);
- Open the gate to other organisations;

Several parties will come together to deliver this impact bond



Traditional funding sources are unlikely to enable the scaling of these solutions to new markets

- Cities, facing budget constraints, often rely on public private partnerships (PPPs) for their waste management – however, the business models of private companies **are reliant on a continuous generation of waste to stay in business**

- Many cities **lack the upfront capital** needed to upgrade their waste prevention and waste management infrastructures and systems

- The combination of lack of fiscal space and political risk to local governments also means **little room for experimentation, innovation, and evidence generation**
  - Several new methods in waste prevention and management **remain unproven at scale**, and require new sources of financing to demonstrate their impact
  - **Performance across different settings is uncertain** – individual cities typically fund their waste management in silos, limiting cross-city and cross-country learning and knowledge transfer

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Range of other innovative, sustainable financing options for ZW infrastructure

Name	How it works	How it could be applied to waste	Differences to impact bond
Sustainability-linked loans *(aka SDG-linked bond)*	A borrower receives a loan for a project. If the project results in predetermined social outcomes, the borrower benefits from a lower rate of interest. The loan must follow the LMA sustainability linked loan principles.	A municipality could take a sustainability-linked loan from an impact conscious lender, with the interest rate conditional on meeting certain waste target. The municipality would be free to spend the loan more widely than on waste management, if it chose to. A sustainability-linked loan could also be awarded to a private company.	• The proceeds can be for used for general purposes of the borrower, beyond waste management • The loan holder will always have to pay back the full value of the loan (plus base interest), regardless of outcomes • The loan holder would be chiefly responsible for creating outcomes
Themed use of proceed bonds *(aka social bond, green bond, sustainability bond, environmental municipal bond)*	A borrower issues a bond that adheres to the ICMA Green Bond or Sustainability Bond Principles – showing its use of proceeds will explicitly work towards the SDGs. Investors buy the bond.	A municipality could issue a municipal bond under the theme of "Zero Waste". This stipulates that the use of proceeds be environmentally and / or socially beneficial projects (working towards SDGs with can be impacted by waste – e.g., 6, 7, 9, 11, 12, 13, 14, 15, and 17 – as appropriate)	• This requires the municipality to set up and issue a bond (whereas an impact bond is a contract between parties) • There is no repayment or incentives which are conditional on outcomes • The instrument can be used in projects where impact is harder to measure, but there is strong belief that positive outcomes will be achieved
Performance based contracts *(aka pay-for-performance contracts, outcomes-based contracts)*	Relevant partners set-up a contract which stipulates that the amount of payment for a service is conditional on certain performance targets.	A municipality can set up a PPP where payment for waste services to a private company where either/and : (i) payment is conditional on targets being met; (ii) certain targets trigger bonuses; (iii) failure to meet targets results in fines / penalties.	• No loan or investment involved

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Thank you!

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