



ZERO
WASTE
EUROPE

A short story of Social Impact Bonds

Insights for NGOs from Zero Waste Europe's
experience

Report

November 2024

zerowasteeurope.eu



Contents

2 Introduction

2 Structure and significance of SIBs

3 Key findings

4 Investor interest and relations

4 The complexities of SIBs

4 Data and expected impact

5 A lack of capacity across the board

6 Recommendations and next steps

Introduction

This report has been prepared based on the work led by Zero Waste Europe (ZWE)'s former New Financing Models Manager Caroline Cullière. It documents our exploration of Social Impact Bonds (SIBs) as an alternative funding mechanism for environmental and social initiatives. The findings in this paper reflect over two years of research and practical experience in developing new financing models for zero waste solutions.

In 2021, we launched the New Financing Models (NFM) programme as part of our implementation work aimed at raising the profile of zero waste solutions to inform and influence the investment community, ultimately accelerating the uptake of zero waste models. As part of this work, we identified the Social Impact Bond (SIB) mechanism as a promising tool to help achieve our goals. Despite being a relatively young financial mechanism, SIBs stuck out to us as a potential ideal funding vehicle due to their characteristic of delivering funding based on the achievement of positive outcomes and ability to strengthen relationships between public actors and private investors for the better. Additionally, they highlight and structure the joint benefits that can be had when addressing waste and social issues, such as job creation.

This report examines our experience in exploring SIBs, including both our successes and setbacks, and explores how it can be used as an innovative tool to help foster new standards in Europe for the circular economy and social welfare.

Structure and significance of SIBs

SIBs fit within the [wider blended finance framework](#), a concept developed by the World Economic Forum and OECD in 2015. Social Impact Bonds differ from Social Bonds, which are debt instruments like [Green Bonds](#). As of 2023, an internal ZWE analysis found that SIBs have been implemented in approximately 23 countries, with 270+ projects in place and capital raised valued at nearly \$750 million.

SIBs all function as outcome-based contracts, meaning that a payment schedule is created between the parties and ongoing investment is only released upon the fulfilment of certain goals or objectives at predetermined moments in time. At the same time, SIBs also offer a unique funding model where repayment of investment is dependent on achieving predefined social outcomes. This shifts the focus from activities to results and encourages innovation. Therefore, they create a strong incentive to focus on impact rather than activities, as other funding mechanisms have been criticised for.

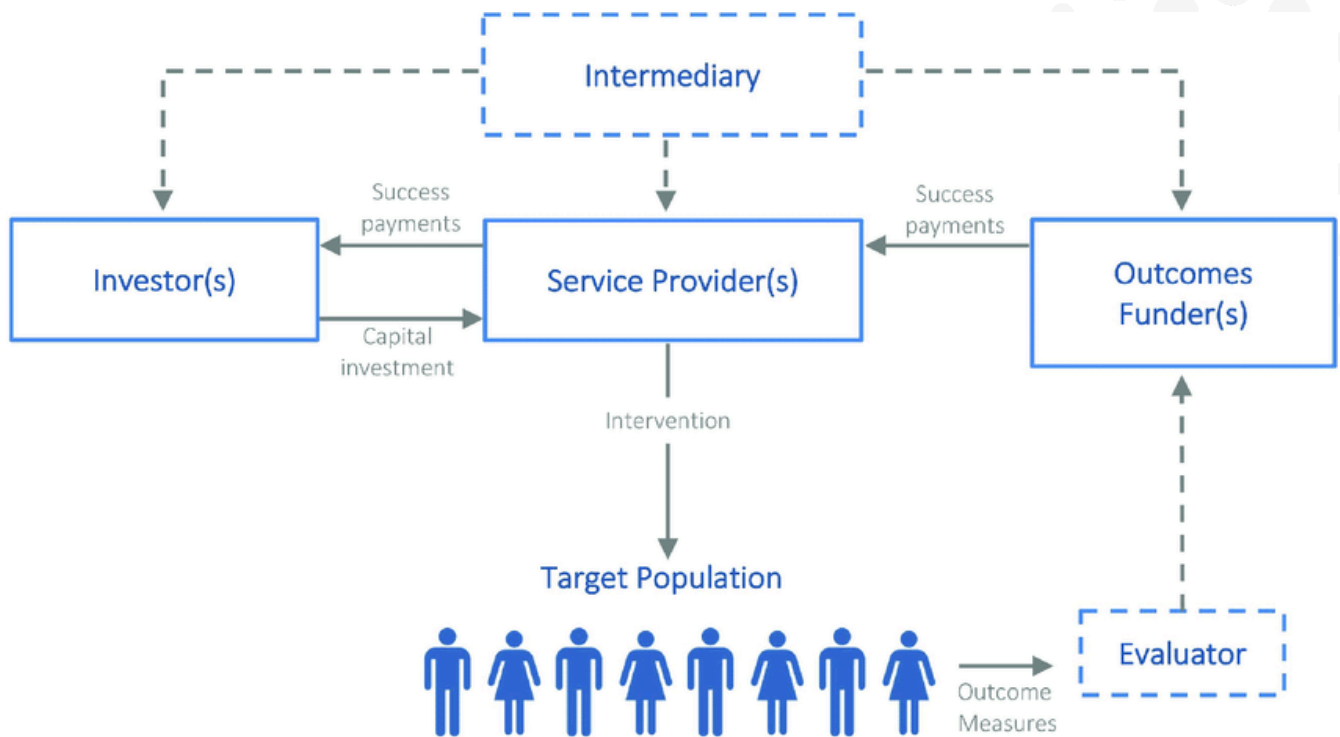


Figure 1: Building the case for a National Outcomes Fund, Doyle & McFee, 2017

Furthermore, SIBs require a strong theory of change framework to be in place, one that explains the necessary activities that will lead to the expected outcomes desired by the work, with an understanding of the assumptions made and risks anticipated along the way. Solution providers also should be able to clearly articulate what impact they expect to be achieved within a set time frame. With this, a SIB can become an important and helpful tool for organisations and municipalities when planning the implementation of zero waste solutions. Such a framework can then be used as a robust monitoring tool during the ongoing implementation phase. Building a strong theory of change and an impact measurement framework is crucial for the success of a Social Impact Bond, helping ensure all stakeholders understand the desired outcomes and how they will be measured.

A final feature and key strength of SIBs is that they require significant investment in capacity building and meaningful stakeholder engagement. If a SIB is to be successful, all the relevant community stakeholders need to be involved in the design phase as partners rather than groups to be informed. A benefit we saw from this was that the SIB process would help centralise the value of zero waste groups and businesses as key service providers while also ensuring that such stakeholders develop the skills and knowledge required to navigate the complexities of designing a robust monitoring framework.

Key findings

When we started this work in 2021, our aim was to raise the profile of zero waste solutions, inform and influence the investment community, and consequently increase the funding available for providers of zero waste models. While we were not able to identify an optimal solution, context, and stakeholders to establish an operational SIB, this process yielded valuable insights. Our aim is still the same, but today we are using these learnings to address the broader challenges we face with financing zero waste solutions and helping build a wider pool of informed and prepared stakeholders who can be ‘investment-ready’ when the appropriate moment arrives.

We have gained essential knowledge from our collaborations with experts from partners such as Dalberg and KOIS on the New Financing Models work. Hundreds of interviews were also conducted with organisations, universities, non-profits, impact investors, consultants, and financial experts, helping us understand the broader ecosystem of finance and the ability to apply it within the context of local zero waste solutions. The insights below are primarily aimed at fellow Non-Governmental Organisations (NGOs), who wish to engage in the world of SIBs and blended finance.

Investor interest and relations

SIBs represent a potential paradigm shift in funding social and environmental initiatives by aligning the interests of investors and NGOs —two groups with no real history of collaboration. The ZWE team and network found significant interest from impact investors in collaborating with non-profit organisations that had direct experience and expertise in recognising the need to include all value chain actors in decision-making processes. Throughout our work, we also found that investors were frequently seeking input and advice on investment opportunities related to climate change and sustainability—a role NGOs could easily play.

We believe that a lot more NGOs should be fostering relationships with investors and the wider investment community, even if there is a disagreement on how other portfolios, perhaps within the same investment company, are being spent. Greater NGOs and investors collaboration could ultimately result in more funding reaching grassroots and community actors who have the knowledge and skills to deliver real change.

The complexities of SIBs

Throughout the process, much of our focus was spent on getting municipalities involved as key service providers and outcome funders of a future SIB, given their central role in waste management delivery. However, we faced many challenges when trying to design a private-public finance tool in this field. Firstly, our primary contacts and relationships were with city officials working on the implementation of waste management and circular policies. When approaching the discussion on a SIB, we also needed to get finance

and senior officials in the room and supportive of this initiative, which often caused delays. Secondly, a major barrier was finding the right structure for cities dependent on their procurement and legal competencies. In many cases, to accept such a volume of funding would mean having to offer a public call for tender. There were many uncertainties about how to structure this and whether it was even acceptable. In particular cases, some cities considered private investment inherently incompatible with public administrations and their budgets.

In the future, to properly mitigate this, we would prioritise keeping the role of a local municipality separate from being a receiver of any funding. They should still be very much part of the project and can provide their own funding, or be the outcome funder for any SIB. However, to mitigate this challenge, we would recommend that private investment should look first at being potentially channelled primarily through the waste management company or through local businesses implementing zero waste models and solutions.

Data and expected impact

One of the biggest barriers preventing the creation of a SIB for zero waste was the continued lack of available and proper data from local stakeholders. Cities and young businesses we spoke with lacked the proper capacity and knowledge to meaningfully capture the correct data needed to summarise the potential impact of a project or to model potential impact based on their current experience. Such data is crucial for getting investors on board, and even more so for an outcome-based funding mechanism like a SIB.

The missing data included key indicators such as the number of beneficiaries of a solution, the jobs it would create, Capital Expenditures (CAPEX) costs for infrastructure and Operational Expenditures (OPEX) costs for maintaining the implementation of a solution. While this data does indeed exist at least partially, it sits with scattered players, private waste management companies and businesses, for example. Without a centralised framework behind each solution with clear Key Performance Indicators (KPIs) able to measure impact, SIBs would not be applicable for emerging zero waste models.

We would highly recommend that NGOs become more fluent in and qualified to develop clear impact frameworks for the solutions they would want to secure extra investment for. If NGOs can position themselves as a valued partner with the connections to bring stakeholders together, the expertise to drive forward the implementation of the right solutions, as well as the tools and knowledge to set up the necessary framework for a SIB, this would greatly help increase the likelihood of successful SIBs being developed whilst also embedding the role of NGOs as central partners in these blended finance-backed partnerships.

A lack of capacity across the board

When speaking with zero waste solution providers—whether municipalities, social enterprises or businesses—we consistently came up against the same challenge; a lack of capacity and knowledge to take on

this new innovative idea. In addition to the ongoing lack of capacity to understand what data is needed to collect and how to do it, many officials and partners also struggled with their current priorities and challenges of implementing innovative projects or initiatives—leaving them unable to fundraise or explore ideas like SIBs that could help address these capacity issues.

Our reflections are that SIBs are tools with great potential for funding innovative and emerging pilots, but they come with quite a bit of complexity that can be too much of a burden for emerging businesses and actors. The complex structure and operation of a SIB were often seen as off-putting for the stakeholders involved, as it required not only knowledge of the world of finance and investment but also a great deal of stakeholder engagement from the start. When the proposals for co-designing the monitoring impact framework were presented, officials and partners were generally more scared than excited by the nature of SIBs. While the stakeholder engagement aspect can be broken down into smaller steps and is a necessary part of any successful project design, exploring financial vehicles that were more accessible might have presented better results at this moment. However, putting continuous efforts into setting up systems to collect robust data to measure the impact of zero waste solutions is still a must, and is a high priority at ZWE.

Recommendations and next steps

For ZWE—and any other NGO wishing to explore the role of SIBs in creating more accessible finance—we believe that the foundations for success can be built on three key aspects:

- Exploring specific case studies of successful SIBs, focusing on the key factors contributing to their success and how they could be replicated elsewhere;
- Analysing the challenges and limitations of SIBs, including the potential risks for the actors involved and the limitations that working with public authorities brings;
- Investigating what positive roles local and regional governments, and their policy frameworks, can play in more proactively promoting the adoption and scaling up of SIBs.

We have gathered a vast amount of learning and experience from this work that this report only briefly touches upon. In general, we were extremely pleased to see the positive reaction from impact investors when approaching this topic and their interest in testing, learning and working with NGOs to help secure more funding for zero waste solution providers, be it municipalities or businesses.

We acknowledge that there is a wide range of financial vehicles and opportunities yet to be explored beyond SIBs. This report intentionally focuses only on our learnings from working with SIBs, as we believe that they,

despite their complexity and our inability to successfully launch one, still hold huge potential that could lead to positive impact if utilised in the right way and at the right moment.

We hope this report serves as a useful learning tool for others exploring similar initiatives, primarily for those entities and stakeholders seeking to better understand and implement SIBs. Our aim with this brief report is to help build the knowledge and ability of more organisations to be able to demonstrate the value and impact of their work in addressing social and environmental challenges, helping especially quantify in monetary terms the impact of their work. ZWE will continue to dedicate time and resources into this piece of work in the future, as unfortunately today the problem still exists that not enough finance is available or accessible for zero waste solutions to scale at the pace and size we need them to.

We hope to be able to work with more partners and stakeholders in the future to tackle this ongoing challenge, turning the flow of finance away from false solutions - instead into the hands of local communities and authorities who wish to reduce their waste, sustainably manage resources, reduce costs for the taxpayer, take steps to mitigate against harmful greenhouse gas emissions and to protect human health from dangerous exposure to toxic chemicals and pollutants, and into the hands of businesses which provide practical solutions to these challenges

We would like to thank all of the partners—ZWE members, municipalities, businesses—and funders who have supported us in this journey so far, especially The Robert H.N. Ho Family Foundation Hong Kong. The world is better for your dedication and commitment to improving the health of our planet and society.

*For further information, please contact Jack McQuibban, Head of Local Implementation,
jack@zerowasteurope.eu*



Zero Waste Europe (ZWE) is the European network of communities, local leaders, experts, and change agents working towards a better use of resources and the elimination of waste in our society. We advocate for sustainable systems; for the redesign of our relationship with resources; and for a global shift towards environmental justice, accelerating a just transition towards zero waste for the benefit of people and the planet. www.zerowasteurope.eu



Zero Waste Europe gratefully acknowledges financial assistance from the European Union. The sole responsibility for the content of this event/material lies with Zero Waste Europe. It does not necessarily reflect the opinion of the funder mentioned above. The funder cannot be held responsible for any use that may be made of the information contained therein.



The development and publication of this report was made possible thanks to the support of The Robert H. N. Ho Family Foundation Hong Kong. Their support has been instrumental in helping us explore innovative funding mechanisms for environmental and social initiatives across Europe.



Authors: Caroline Cullière, Jack McQuibban

Editors: Nanna Cornelsen

Date: November 2024

General information: hello@zerowasteeurope.eu

Media: news@zerowasteeurope.eu

Cities-related topics: cities@zerowasteeurope.eu

zerowasteeurope.eu

www.zerowastecities.eu

www.missionzeroacademy.eu

