

Impact-Linked Fund for Water, Sanitation and Hygiene ILF for WASH Frequently Asked Questions (FAQs)

For more information on the Impact-Linked Fund for Water, Sanitation and Hygiene (ILF for WASH), please refer to the [leaflet](#) and the [application form](#). This is a complementary document focused on FAQs only.

This document is divided into two sections. The first part tackles general questions on Impact-Linked Finance and the second part focuses on SIINC-specific explanations, given that Social Impact Incentives (SIINC) will be the primary instrument used in ILF for WASH.

GENERAL IMPACT-LINKED FINANCE Q&A

1. What is Impact Linked Finance?

Impact-Linked Finance refers to financial solutions targeting market-based organisations, with financial rewards directly linked to the achievement of positive outcomes. By providing “better terms for better impact”, Impact-Linked Finance aims to enable and incentivise enterprises to deepen and / or accelerate their positive social and environmental impact, while continuing growing their businesses. Impact-Linked Finance is highly tailorable, can take different forms and can be applied to various financial instruments – from equity to debt to guarantees. Impact-Linked Finance is a powerful way to “bake” impact into the core of finance. It aligns positive impact with economic viability and lies at the intersection between blended finance, impact investing and results-based financing. More information on Impact-Linked Finance can be found [here](#).

2. Which Impact-Linked Finance instruments exist?

There are a variety of Impact-Linked Finance instruments, including:

- **Social Impact Incentives (SIINC)** is a funding instrument that rewards impact enterprises with time-limited payments for achieving additional positive outcomes. Such financial rewards are non-repayable and can be utilised as the enterprise deems fit. By representing an additional revenue stream, SIINC enables impact enterprises to improve their profitability and attract (more) investment to scale. To receive SIINC, enterprises need to successfully close a (repayable) investment round in parallel. More information on SIINC can be found [here](#).
- An **Impact-Ready Matching Fund (IRMF)** is a hybrid Impact-Linked Finance instrument that features matching funds that are conditional to the enterprise establishing an impact management and measurement (IMM) system. IRMF is typically provided to impact enterprises in seed stage. The disbursements are linked to milestones depending on the implementation of an IMM system, while also matching 1:1 an investment round (with a potential cap, e.g., up to EUR 100K) that the enterprise needs to raise in parallel.
- In an **Impact-Linked Revenue or Profit Share Agreement**, periodic repayments to the investor are based on an agreed upon percentage of either revenues or profits. The exact reimbursable amount

(typically defined as the “multiple” on the initial investment) is linked to impact. The higher the impact achieved, the lower the repayment obligations.

- An **Impact-Linked Loan** is similar to a traditional loan, yet the main difference is that the interest rates are tied to the borrowers’ achievement of pre-defined impact milestones. The enterprises receive “better terms for better impact”: The higher the impact achieved, the lower the interest rates to be paid. Impact-Linked Loans are particularly suited for enterprises, whose growth stage, profits and losses, as well as balance sheets allow to take on debt. As opposed to SIINC, there are generally no co-investment or leverage requirements for Impact-Linked Loans.

3. Which kind of impact is rewarded, and how is it incentivised?

In Impact-Linked Finance, impact is generally understood as either (1) verifiable, measurable outcomes or as (2) proxy-outputs with strong evidence of their linkage to specific outcomes. In general, incentives are identified on a case-by-case basis and in close collaboration with the entrepreneurs, so to ensure that the metrics and targets are both desirable and attainable. Incentives are often aimed at increasing the breadth (quantity) and / or depth (quality) of impact. For example, performance-based rewards may be provided if the enterprise reaches more customers from low(er)-income or remote communities (breadth) or if their living situation (e.g., income, health) is further improved (depth).

4. What level of impact is being rewarded?

Impact-Linked Finance instruments do not build their reward system on the attainment of one single, absolute target. Instead, they focus on relative impact performance, with baseline and target identified in coordination and collaboration with the enterprise. In Impact-Linked Finance, each metric generally has an incentive bracket, which allows to reward different levels of impact. This is in line with the concept of “better terms for better impact”, where every additional level of impact along the incentive bracket is considered. If the enterprise does not reach the minimum outcome level though, they will not receive any payments for that specific period (or interest rate/principle/multiple reduction, respectively, depending on the relevant Impact-Linked Finance instruments).

5. How does ILF for WASH differ from the SIINC for WASH programme?

[SIINC for WASH](#) is the first Impact-Linked Finance pilot programme launched by Aqua for All and Roots of Impact back in 2020. Within this framework, three enterprises – [aQysta](#), [ATEC*](#), and [KWSH](#) – were selected to receive Social Impact Incentives (SIINC). Following the promising results of this programme, 2022 marks the launch of the Impact-Linked Fund for WASH (ILF for WASH). It builds on the findings and learnings of the previous programme, and expands its focus to include other types of support such as targeted technical assistance and potentially other Impact-Linked Finance instruments.

SIINC SPECIFIC Q&A

6. Does the impact enterprise have to close the investment round before applying for SIINC?

No. Ideally the impact enterprise should be in the process of engaging with potential investors when applying for SIINC. If selected, the impact enterprise could (and should) use the SIINC memorandum of terms or contract to get (more) investors on board, as SIINC payments can boost their financial forecasts. Bear in mind that the

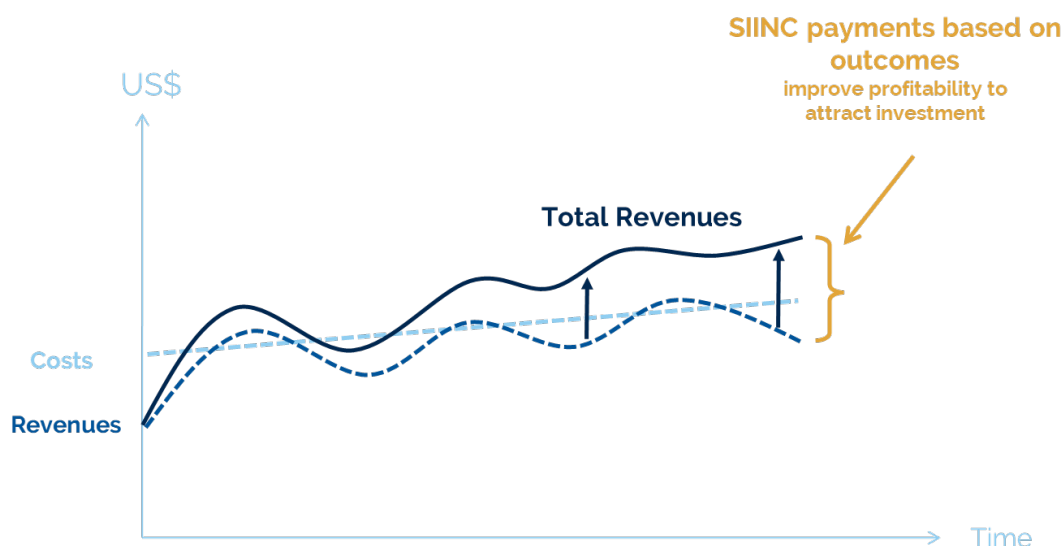
SIINC payments are conditional to the achievement of predefined social outcomes. Closing an investment round is a necessary condition for receiving SIINC.

7. Can the impact enterprise raise grants to qualify for SIINC, instead of investment(s)?

No. SIINC is provided to selected enterprises under the condition that they raise repayable investment (i.e. equity, debt, or mezzanine). Non-repayable investment such as grants can also be taken into consideration in the final financial leverage count.

8. How can the impact enterprise use a SIINC contract to attract more commercial capital?

The enterprise can integrate the support that Impact-Linked Finance offers to boost their income statement and make their operations more attractive. SIINC can be seen as an additional revenue stream (see figure below), which encourages enterprises to adapt their future projections accordingly. If required, the transaction manager (i.e. Roots of Impact) and the outcome funder (i.e. Aqua for All) can a) provide proof (in the form of official documentation) that the enterprise was selected to receive SIINC or b) directly engage with (potential) investors.



9. Do impact enterprises have to pay SIINC payments back?

No. The time-limited payments provided by SIINC are non-repayable.

10. Are there any restrictions on how impact enterprises should use SIINC rewards/payments?

No. Enterprises have the freedom to decide how to achieve such pre-determined outcomes. Bear in mind that payments are not provided upfront, but rather upon validation (by an independent verifier) of the outcomes achieved in any given measurement period. This means that the enterprise should be able to pre-finance the achievement of targets as defined in the metrics jointly designed.

11. What metrics are used for the SIINC payments?

There are no fixed / standardised indicators for SIINC. Provided that the enterprise is selected for the

programme, the metrics for the payments will be co-developed, based on the baseline data available and the additional outcomes that can be achieved. The enterprise will need to provide data around the indicators they are already measuring.

12. Are there any examples?

Below are two illustrative examples of possible SIINC transactions. [Real-life case studies can be found here.](#)

Enterprise description	SIINC's intervention
<p>Tap&Drink has designed an innovative water treatment system that provides drinking water via local entrepreneurs-led water kiosks.</p>	<p><i>Prior to SIINC, Tap&Drink focused mostly on (semi-) urban households. SIINC outcomes payments are linked to the increase of (semi-) rural households reached as well as high retention rates as a proxy for customer satisfaction.</i></p>
<p>Ploop builds affordable sanitation facilities for urban slums and franchise them to community members to serve all residents. Waste is collected and converted into valuable end-products such as organic fertilisers.</p>	<p><i>Ongoing payments are based on the increase in the amount of waste collected and converted as a proxy for increased utilisation. Bonus payments are provided for entering urban slums with little or no prior sanitation facilities.</i></p>

13. Who is paying for the social outcomes?

Aqua for All will be the main outcome funder behind the ILF for WASH programme. For more information, please visit: <https://aquaforall.org/>

14. How can I apply to the ILF for WASH programme?

Via the application form available [here](#). The deadline to apply is **July 10th, 2022**, at 6.00pm Central European Standard Time (CEST). Please note only applications submitted through the online application form will be considered. For further information, please contact ilfforwash@roots-of-impact.org.