

## Frequently asked questions on Impact-Linked Loans (FAQs)

### 1. What is an Impact-Linked Loan and how can it support me as an enterprise?

Impact-Linked Loans are similar to traditional loans, except for one key difference: Their interest rate and possible principal repayment are linked to the borrower's achievement of pre-defined, independently verified impact. This allows impact enterprises to receive "better terms for better impact." The more impact a borrower generates, the lower the interest rate they will pay. Additionally, if certain pre-agreed impact goals are met during the loan period, a portion of the loan may be forgiven.

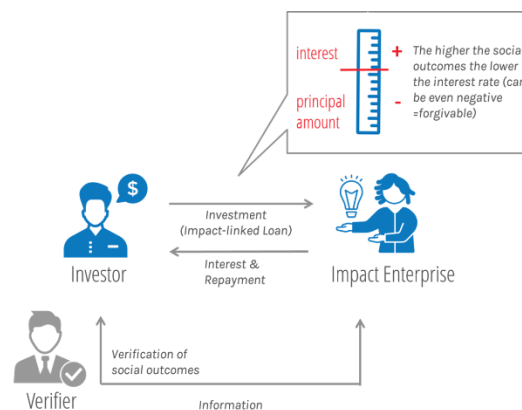


Figure – "Impact-Linked Loan" (Source: Roots of Impact)

In other words, as an impact enterprise you are encouraged to maximise your impact, with financial rewards ranging from discounted interest payments to partial forgiveness of the loan repayment.

### 2. Do you have an example of an Impact-Linked Loan?

This fictional example illustrates how an Impact-Linked Loan could be used in the WASH sector:

WaterInc. offers a water filtering solution that can be either diesel-fuelled or solar-powered. So far, its market focus has been on middle- and higher-income customers. The company is confident about their ability to serve more lower-income populations (including in rural areas) but moving into these markets requires specific investments.

The organisation is granted a € 200,000 Impact-Linked Loan through the ILF for WASH, aimed at expanding its services to the lower-income population. The loan term is 4 years. The interest rate is set at 5%, with the possibility of decreasing it to 0% if impact targets are met. The interest rate reduction is linked to the increased number of new low-income customers during the loan period. Depending on the proportion of solar-powered filters sold, a principal reduction is possible. The interest rate is adjusted every 12 months, upon verification of the outcomes. The principal reduction is calculated after 3 years.

### 3. What are the application requirements for the Impact-Linked Loan?

Key selection criteria	
<b>Target sector</b>	Impact enterprises/businesses focused on water, sanitation and hygiene (WASH)
<b>Geography</b>	Eastern or Southern Africa
<b>Legal form</b>	There are no constraints on the legal form (social enterprises, SMEs, etc....) as long as the enterprises generate revenue
<b>Enterprise stage</b>	At least at growth stage (defined product/service offering & a base of paying customers) with 3+ years of business track record
<b>Financial sustainability</b>	Enterprises must have either already achieved break-even/profitability or have a clear plan to do so in the short-term. There should be clear plans and signs of the ability to repay the loan
<b>Impact focus</b>	WASH-focus, with a particular emphasis on low-income communities, gender and/or climate
<b>Impact evidence</b>	Track record on impact delivered and established impact measurement system

### 4. What is an impact enterprise?

Impact enterprises develop and operate business with the purpose of delivering positive impacts for people, planet and places. The term 'impact enterprise' reflects a way of 'doing' business more than a specific type or form of organisation. As a result, organisations that 'do' impact can have very different motivations, and operate with a range of identities, perspectives, business models, and legal structures.

### 5. Are there any restrictions on how an enterprise can use the loan?

The loans are not earmarked for specific purposes. All stakeholders agree on carefully thought-through impact metrics, while granting the enterprise the freedom to determine how to achieve the agreed impacts. This approach allows the enterprise flexibility on how to use the funds while remaining accountable for achieving the agreed impact objectives and repayment schedule.

### 6. Which metrics are used for the interest rate discount and the principal reduction?

There are no predefined metrics for Impact-Linked Loans. Provided that you are selected, we would co-develop the metrics for the potential interest rate discount and/or the principal reduction with you. We would use available data to identify impact baseline and target, as to create an incentive scheme that would reward you with better terms for better impact.

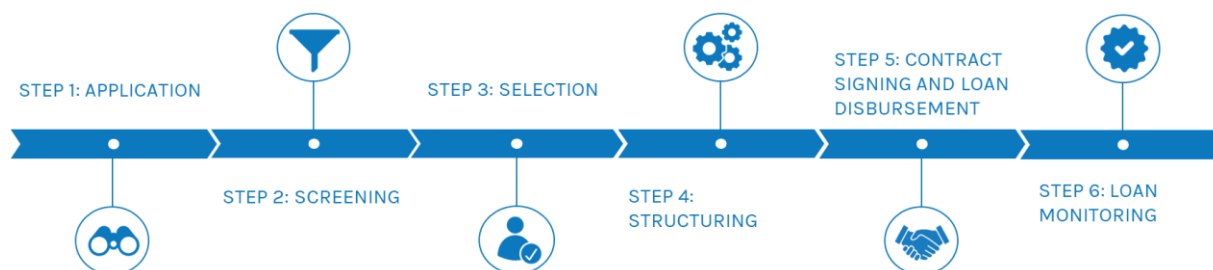
### 7. How is the impact verified?

As part of the verification process, we will include external impact verification, to guarantee impartial assessment of the impact delivered.

## 8. What happens if the enterprise does not achieve the impact outcomes agreed upon?

The exact interest discount and/or principal reduction to be received, depend on the level of outcomes the enterprise achieves in any given measurement period. In the case the enterprise does not reach the minimum outcome indicator, it will not receive an interest discount or principal reduction for that specific period.

## 9. What are the process and timeline for the Impact-Linked Loan application?



The application deadline is 10 September 2023. Aqua for All and Roots of Impact will screen the applications and hold interviews with pre-selected candidates. The final selection will be made in Q4 2023. This is followed by the structuring phase, during which the mechanism for rewarding impact will be defined together with the impact enterprise. Impact data, growth potential and costs, will be taken into account, among others. Structuring, signing of the documentation and the loan disbursement are planned to happen in the first half of 2024.

## 10. Who is financing the Impact-Linked Loans?

[Aqua for All](#) is financing the Impact-Linked Loans. The loans will be hosted by the [Impact-Linked Finance Fund \(ILFF\)](#), a Dutch foundation pooling know-how and activities for implementing scalable Impact-Linked Finance programmes and facilities.