Incentivizing Gender Outcomes through Innovative Investment Structures

June 7, 2023
Meet The Speakers

This session moderated by CGAP highlights the experience of a DFI, an advisory firm, and a manager of catalytic capital to integrate gender outcomes into investment structures to advance financial inclusion.

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To ensure your question is seen by the moderator, select “All Participants” from the drop-down menu when sending your question.

The webinar recording will be emailed to all attendees and registrants.
Learning Objectives

01 What approaches to structuring investments can create incentives to achieve gender outcomes?
Setting the stage

02 What is the experience with these approaches to advance women’s financial inclusion?
Experiences from Roots of Impact, IDB Invest and Athena Global

03 What are the opportunities and gaps for investors to deploy these approaches?
Discussion
What approaches to structuring investments can create incentives to achieve gender outcomes?

Setting the stage
Financial inclusion investments are strongly positioned as enablers of WEE and gender equality.

Among impact funds that apply GLI in emerging markets, financial inclusion is the most attended sector.

Among DFIs that apply GLI (2X Challenge) financial services is the main focus, including at least 15% of commitments for financial inclusion.

Source: Tameo, PAIF 2022
Opportunities to meet women’s financial needs

1. Women’s micro and small enterprises
2. Rural women’s livelihoods
3. Women working in the platform economy
4. Women as consumers of basic services

Leveraging gender lens investments
Impact-linked approaches can help investors seize on these opportunities and accelerate WFI progress

- Aim to align financial incentives with specific gender goals in WFI, promoting measurable and accountable impact.
- Encourage accountability and transparency.
- Can contribute to addressing externalities by internalizing costs and shifting market incentives.
- Foster collaboration among different stakeholders to work together towards shared impact objectives.
- Stimulate the development of innovative financial instruments that address gender-related challenges.

Strategies and frameworks that link financial outcomes or compensation directly to the achievement of predefined gender outcome metrics in women’s financial inclusion.
There are 2 broad and complementary approaches to incentivize and reward impact

- Ties financial instruments’ performance and potential returns to the achievement of measurable gender outcomes.
- Introduces results-driven incentives to encourage gender impact (e.g., reduced interest rates for borrowers)
- Emphasizes accountability and transparency
- Can take different forms (e.g., social impact incentives, impact-linked loans)

- Links investor and fund compensation with achievement of gender outcomes
- Encompasses various forms of remuneration or incentives structures (e.g., bonus incentives, impact carry, or profit-sharing arrangements)
- Rewards portfolio level performance or individual investment level performance
- Emphasizes accountability and transparency

Sources: Roots of Impact, ImpactAlpha
What is the experience with these approaches to advance women’s financial inclusion?

Experiences from Roots of Impact, IDB Invest and Athena Global
CATALYZING GENDER IMPACT WITH IMPACT-LINKED FINANCE

Introducing the Impact-Linked Fund for Gender Inclusive Fintech
What is Impact-Linked Finance?

When enterprises create social value, this impact is not compensated or rewarded in any way.

Impact-Linked Finance addresses this market failure by pricing and rewarding positive impact.

Simply put, enterprises benefit from better terms for better impact.
The ILF for GIF provides Impact-Linked Finance and technical assistance to fintechs to incentivize a stronger focus on gender transformative outcomes for financial inclusion.
How the ILF for GIF works

ILF for GIF → Financial incentives for gender outcomes → Technical Assistance → Fintechs → Investment

Investment Partners → Repayment → Investment Fund Partners

Ecosystem Enablers

The effects of Impact-Linked Finance on fintechs

Targeted financial rewards (re-) orient fintech’s products and services towards the needs of women... ...while also improving commercial viability and attracting (further) investment.
ILF for GIF Fact Sheet

Target geographies
Sub-Saharan Africa, MENA, and Asia

Target transaction size
$500k-$5m (provided by Investment Fund partners)

Incentives per transaction
$200k-$1m per transaction (provided by the ILF for GIF)

Target enterprises
• Investment-ready fintechs
• Early- to growth-stage
• Meeting at least one of the 2X Criteria
• High (additional) impact potential
• Willing and able to measure impact metrics (with support)
• Preference for fintechs serving vulnerable women, such as migrants
Selecting gender outcomes

- Income increase or cost savings for female customers
- Increase in economic activity or asset ownership for female customers
- Improved financial health of female clients
- Products/services provide quality and value to female customers

- Vulnerable women (such as migrants) served as a proportion of total client base
- First time access to women customers
- Improved/more affordable products and services for vulnerable women

- Livelihood improvements for female clients
  - Increase in the proportion of female staff, board members, or executives
  - Better job satisfaction, career projection, and retention of female staff

Each transaction benefits from a bespoke incentive structure, designed in partnership with the fintech
ILF for GIF Transaction Process

Step 1: Pipeline Identification
Step 2: Screening
Step 3: Selection
Step 4: Structuring
Step 5: Impact Management And Monitoring

Technical Assistance
- IMM
- Gender
What have we learned?

- Strategic partnerships streamline potential for impact
- Enterprise’s buy-in to gender transformation is one of the biggest determinants of success
- The most effective approach is to unlock the enterprise’s untapped potential and enable it to achieve its own objectives sustainably
- An appropriate impact/data measurement system is crucial
- The incentive design needs to consider sustainability after the “exit”
Passionate about innovative ways to achieve gender-transformative financial inclusion? Join us!

www.ilf-fund.org
ilfgif@roots-of-impact.org
Using Blended Finance Instruments to Catalyze Finance for WSMEs

IDB Invest Experience with We-Fi

June 7th, 2023
**Objective**

Promote the growth of Women-owned/led SMEs (WSMEs) by improving access to finance and markets

**Fund’s achievements**

- **Over US$ 4 million committed** to 8 blended finance transactions in 6 countries combined with Advisory Services
- **Blended Finance and Advisory Services** expected to benefit over 63,500 WSMEs
- **Mobilization of more than US$379 million in additional resources** towards promoting access to finance and markets for WSMEs

**Projects highlights**

- Supporting Ecuador’s first gender bond issuance to finance the growth of women-owned/led MSMEs\(^1\) portfolios (*Pichincha Gender Bond*)
- Improving access to finance for under-served women-owned/led SMEs in Mexico through Fintech (*Kubo Financiero*)
- Expanding access to finance and agricultural inputs for women-owned/led SMEs in Ecuador (*Agripac*)

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1: Micro, Small and Medium-sized enterprises.
Combining Three Areas of Interventions with We-Fi Support

IDB Invest financing (loans and social bonds)

Capacity building, market-level studies and dialogues, inform the design of blended finance incentives

Performance based-incentives (qualitative and quantitative milestones)

Financing
Advisory
Blended Finance
IDB Invest Seeks Outcomes both at Client and Ultimate Beneficiaries

Changes in organizational behavior that transform Financial Institutions and Corporate anchors (through their value chains) into drivers of growth and opportunity for WSMEs

We-Fi Advisory – Capacity Building
- GDQ market studies & assessments
- Development of multi-sector value proposition for WSMEs
- Identification of unconscious biases in lending or procurement processes
- Strengthening of client databases and systems

We-Fi PBIs – Execution and Ambition
- Clear picture of goals and expected actions
- Motivates application of new capacities leading to behavior change
- Tailored to align with each client’s unique circumstances and objectives
- Economic benefit dimensioned to operational or financial metrics

Increased access to finance and to markets drive growth in sales, profits and job creation for WSMEs
PBIs Design Considerations

- Regional and national context of WSMEs access to finance and markets
- Client size and portfolio baseline
- Client systems capabilities to produce portfolio and/or market level data
- Transaction benchmarking
<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Description</th>
<th>Total Financing</th>
<th>Blended Finance Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC El Salvador</td>
<td>El Salvador</td>
<td>Accelerating the expansion of access to financing for women-owned SMEs through performance-based rebates in El Salvador</td>
<td>US$60.4 million</td>
<td>US$450.0 thousand performance-based rebate</td>
</tr>
<tr>
<td>Davivienda Gender Bond</td>
<td>Colombia</td>
<td>Supporting world’s first gender-linked bond based on achieving outcomes</td>
<td>US$100.3 million</td>
<td>US$300.0 thousand coupon rebate</td>
</tr>
<tr>
<td>Grupo Elcatex</td>
<td>Honduras</td>
<td>Promoting the participation of women-owned SMEs in corporate value chains through performance-based incentives</td>
<td>US$96.2 million</td>
<td>US$210.0 thousand performance-based incentive</td>
</tr>
<tr>
<td>Pichincha Gender Bond</td>
<td>Ecuador</td>
<td>Supporting Ecuador’s first gender bond issuance</td>
<td>US$100.4 million</td>
<td>US$200.0 thousand performance-based incentives</td>
</tr>
<tr>
<td>Banco Multiple Promerica</td>
<td>Dominican Republic</td>
<td>Scaling financing for women-owned/led SMEs</td>
<td>US$10.1 million</td>
<td>US$100.0 thousand performance-based incentives</td>
</tr>
<tr>
<td>Agripac S.A.</td>
<td>Ecuador</td>
<td>Expanding access to finance and agricultural inputs for women-owned/led SMEs in the agriculture sector</td>
<td>US$16.4 million</td>
<td>US$400.0 thousand performance-based incentives</td>
</tr>
<tr>
<td>Kubo Financiero</td>
<td>Mexico</td>
<td>Improving access to finance for women-owned/led SMEs through FinTech</td>
<td>US$10.5 million</td>
<td>US$500.0 thousand performance-based incentives</td>
</tr>
<tr>
<td>Banco Agricola Subordinated Debt</td>
<td>El Salvador</td>
<td>Scaling financing for women-owned/led SMEs</td>
<td>US$70.1 million</td>
<td>US$100 thousand performance grant</td>
</tr>
</tbody>
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### Expected Results for Highlighted Transactions

<table>
<thead>
<tr>
<th>Client</th>
<th>Country</th>
<th>Challenge</th>
<th>Strategy</th>
<th>Expected Results by 2026</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>kubo.</strong></td>
<td>Mexico</td>
<td>Only 12% of WSMEs report having access to credit through a financial institution</td>
<td>IDB Invest quasi-equity Grow platform to expand SME access to credit We-Fi PBIs, advisory Grow WSME loan portfolio</td>
<td>9000 WSME client benefit from platform’s financing products WSMEs = 50% of SME Portfolio</td>
</tr>
<tr>
<td><strong>Agripac</strong></td>
<td>Ecuador</td>
<td>Only 29% rural WSMEs use bank financing for working capital needs</td>
<td>IDB Invest senior loan Grow production capacity We-Fi PBIs, advisory Expand agri-WSME access to finance and agricultural inputs</td>
<td>1400 agri-WSME clients receive working capital financing to purchase agricultural inputs More than double current WSME customers with access to credit</td>
</tr>
<tr>
<td><strong>Banco Pichincha</strong></td>
<td>Ecuador</td>
<td>WSMEs that have a bank loan or a line of credit trail male owned SMEs by 20+ percentage points</td>
<td>IDB Invest subscription first gender bond We-Fi PBIs, advisory Grow client’s WSME and agri-WSME loan portfolio</td>
<td>48,000+ new loans to WSMEs 16%+ WSMES total SME portfolio; agri-WSME share to 44%</td>
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Anecdotal Early Learning and Outcomes

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<th>Program</th>
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| • We-Fi Program is still new  
• First year of PBI for most of first cohort of transactions was 2022, reported to IDB Invest just this year Q1/Q2 2023 |

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<tr>
<th>Client Outcomes</th>
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| • Clients take PBIs seriously and are learning.  
• Successes are celebrated with management.  
• Misses precipitate internal review  
• Clients analyzing data carefully, discussing internally and with IDB Invest  
• PBI owner during structuring (often CFO) may be different than PBI owner/champion in supervision  
  • Positive for some clients, operational delay for others  
• First WSME targeted lending product appearing  
• First gender bonds in LAC, attracting institutional capital for WSME financing |

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<th>MSME Outcomes</th>
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<tbody>
<tr>
<td>• MSME outcomes not available yet, will be captured through tailored client level datasets and surveys through IDBI/We-Fi technical assistance</td>
</tr>
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Revolutionizing Financing for Small and Medium Enterprises in Emerging Markets
Athena Global Background

• **Athena Global** is an impact finance company.

• We offer venture debt and advisory services to promote access to finance and economic resilience through entrepreneurship.

• Our impact foci are **gender equity and climate**.

• Athena is working to ensure that every viable early-stage business owner has no constraints to capital.

• Athena applies **private-sector financing** approaches to solve traditional development challenge.

• We are designing financial solutions that meet the specific needs of SMEs, helping them get to their next stage of growth.

• We intentionally incorporate gender and climate lenses into our investment practices and decision-making process.

• Beyond the carrot and the stick, we utilize a third strategy for motivating clients to repay - **Glue**
We’re not looking for the next unicorn. We focus on “slow and steady” or Main Street businesses. These are drivers of resilient economies and great stable jobs.

We’re industry agnostic. We want to build a stable, healthy and resilient middle class by funding SMEs across a variety of industries.

We’re not a fund. As an impact finance company, we’re not limited to prohibitive fund structures and financial instruments. We have the flexibility to provide the financing and support solutions that early-stage SMEs need and value.

OUR LOANS:

- Are non-dilutive enabling owners to maintain control and strategic flexibility. No need to give up ownership or a board seat in an early round; Doesn’t force a premature valuation; Faster and more efficient

- Support stronger financials with less cash flow volatility. Builds resilience by injecting cash for short term use. Are specifically intended to fuel productive growth.

- Build a healthy capital stack by providing working capital loans that instill discipline and healthy growth that can complement other early-stage investments.
Overview
Athena Global provided advisory support to a Southeast Asian Gender-Leading, early-stage, tech-focused Impact Fund focused on women's economic empowerment to develop and implement an impact-linked carry model.

Key considerations included:
- percent of the carry pool linked to impact
- frequency and methodology for impact measurement
- minimum and maximum thresholds for impact carry
- reward (punishment) of out-performance (non-achievement)
- how data is audited and captured

**TRACK AND ALIGN IMPACT** - GP wanted to build the evidence base for "de-risking" gender by showing that gender-equitable businesses provide sufficient financial returns worthy of commercial investment beyond grant funding.

**VALUING GENDER IMPACT** – Capture the gender impact outcomes of each portfolio company, not just the outputs.

**IMPACT MONITORING** – Balancing measurement of impact and financial returns during the lifetime of the fund

**MONEY BACK GUARANTEE** - Willing to provide additional compensation to the LPs rather than keeping it to themselves.
FUNDRAISING TOOL - This Small fund was very committed to gender equity, operating in an environment with skepticism around gender equity and gender equality, especially about Women being viable investment clients.

Risk mitigation strategy: De-risk the perceived risk for aligned investors

PROVIDING CARROT TO LPs—Acknowledging data integrity and self-collecting issues.
Impact Performance of a Portfolio

Impact Score = $X\% \times \text{Breadth Score} + Y\% \times \text{Depth Score}$

Pillars of ILC

- Breadth Score
- Depth Score

Number of Lives Affected
Change in Quality of lives
Impact Metrics

**Number of Lives Affected**
- # of Clients and Suppliers Transactions or Subscriptions
- # of Customers

**Change in Quality of Life**
- NPS - on likelihood of recommending product/service to peers
- 2X Challenge
Lessons and discussion

• **Corporate governance** to provide a framework for ensuring that the ILC can or won’t be used for adverse gain, to manipulate carry pool bonus, or to otherwise “game” the limitations of the ILC economic model.

  • **Impact Unicorns (?)**

  • As some of the early Impact Funds make exits, what are the tools and metrics to align incentives to ensure that the impact achieved under the fund’s life continues beyond sale?
What are the opportunities and gaps for investors to deploy these approaches?

Discussion
Thank you

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