



## When Philanthropy Meets Innovative Finance: *Opportunities for Foundations in Gender Lens Investing*

---

**Abstract:** *Innovative finance is emerging as a powerful tool for harnessing private sector capital to advance gender equality and women’s empowerment but remains limited in its scale to date due to challenges inherent in innovation. Philanthropic actors can help overcome these barriers and play a catalytic role in enabling innovative finance to reach its true potential in creating gendered impact. Using three case studies of innovative financial mechanisms that are applying a gender lens across Asia, Impact Investment Exchange (IIX) illustrates how innovative finance can create gendered impact and how philanthropic actors can use their resources to support the development of such funding mechanisms.*

---

In recognition of the critical role that women play in sustainable development and the need to address biases that have hindered the fair allocation of resources towards women and girls, philanthropic actors like foundations and donor agencies have increasingly begun to employ a gender lens in their selection of grant recipients. Investors are also embracing this trend, with rising interest in utilizing innovative finance – defined as financial mechanisms that harness private sector capital to address the world’s most pressing social and environmental problems – to advance gender equality and women’s empowerment. Known as ‘gender lens investing’, or GLI, such approaches allocate capital to drive gender equality while also generating financial returns. Directing even a small share of the enormous amounts of available private sector capital in the global capital markets (estimated at [US\\$ 69.1 trillion in 2016](#)) to innovative finance solutions with a GLI focus could have an enormous positive impact on society. How can philanthropic funders, who control a significantly smaller pool of assets, leverage their resources most effectively to ensure this impact is realized?

As any innovator or entrepreneur will attest, innovation is hard, hard work – it demands experimentation and patience, is often costly, and offers no guarantee of success. Gaps in funding for research and development, in the availability of risk-tolerant capital to pilot new structures, and in stakeholder knowledge (e.g., by investors that may be risk-averse and wary of investing in women) continue to limit the number and scale of innovative financial mechanisms that aim to create gendered impact. While [the GLI market is estimated to have reached US\\$ 2 billion](#) in 2017, this pales in comparison to the financing gaps for achieving the ambitious Sustainable Development Goal 5, “Gender Equality”. For instance, [in East Asia and the Pacific alone, the financing gap for women-owned SMEs runs up to US\\$ 68 billion](#). For innovative finance and GLI to reach their true potential and scale, philanthropic capital will be required as a catalyst to break down the barriers to successful innovation. Opportunities abound for philanthropic actors to play a catalytic role in advancing women’s empowerment via innovative finance – both through traditional grants and investments.

To highlight examples of innovative financial instruments that have been successfully developed to advance gendered impact, Impact Investment Exchange (IIX), with funding support from the Sasakawa Peace Foundation (SPF), recently conducted an in-depth analysis of



three innovative financial mechanisms that were designed to create positive impact on women in Asia. The three case studies are:

- **[IIX Accelerator for Customized Technical Assistance Services \(IIX ACTS\)](#)**: IIX ACTS is a customized accelerator, run by IIX, that scales up and raises investment capital for impact enterprises (IEs) that create a demonstrable, positive impact on low-income women beneficiaries. Grant funding was provided by a corporate foundation to support three IEs through the ACTS program with the aim to positively impact ~6 million women in China, India, Singapore and the Philippines.
- **[The SEAF Women's Opportunity Fund \(SWOF\)](#)**: The SWOF is a closed-ended equity fund run by Small Enterprise Assistance Funds (SEAF) with the objective to invest in women-owned small and medium-sized enterprises (SMEs) in Indonesia, the Philippines and Vietnam. The Australian Government's Department of Foreign Affairs and Trade (DFAT) through their Investing in Women (IW) initiative provided funding that will be used by SWOF to source, provide technical assistance to and ultimately invest in approximately 5 women-owned SMEs.
- **[The Utkrisht Impact Bond \(UIB\)](#)**: The UIB is an US\$ 8 million Development Impact Bond (DIB) developed and managed by the Palladium Group with a mission to support private healthcare facilities in the State of Rajasthan in India with the aim to reduce maternal and infant mortality, saving an estimated 10,000 lives and serving ~600,000 women by 2021. Grant or concessionary funding was provided by Convergence, United States Agency for International Development (USAID), Merck for Mothers and the UBS Optimus Foundation (UBSOF).

IIX's case studies outlined (i) the key success factors that enabled the mechanisms to be effectively used for a GLI strategy, and (ii) the roles that philanthropic actors played in supporting the development of these innovative finance mechanisms.

### ***Innovative Finance: Key Success Factors for a GLI strategy***

Across the three mechanisms, IIX identified two main factors that enabled them to be effectively used for a GLI strategy: (i) Prioritization of a Gender Lens in the Program Design, and (ii) Prioritization of a Gender Lens at the Intermediary Level.

#### **Factor I: Prioritization of a Gender Lens in the Program Design**

The three cases each demonstrate different methods of incorporating a gender lens at the program design, as described below:

**IIX ACTS**: the IIX ACTS program embeds a gender lens by specifically selecting investee companies that create a demonstrable, positive impact on low-income women beneficiaries. Particularly, all three entities selected to participate in the ACTS program aim to improve the ability of women to increase their income, improve their productivity and thereby shift to more sustainable livelihoods that allow them to better respond to economic and environmental stresses and shocks. Customized accelerators



like ACTS can be suitable for GLI if the selection criteria specifically pre-screens entities that have a mission to impact women. An example of an IE that is being supported through the ACTS program is Kennemer, a Philippines-based cacao IE with a mission to develop rural communities by promoting market transparency, providing fair value pricing for produce, boosting farmer productivity through training, and implementing sustainable farming practices. The IE specializes in growing, sourcing, and trading cacao beans sourced from smallholder farmers and integrates agricultural technology to bring products to market. Given that a large portion of the informal labor force in the Filipino agricultural supply chains that Kennemer works in comprise of women, the IE's primary impact outcomes are (i) improving the productivity of female farmers, leading to higher annual income per farmer, and (ii) sustainable land usage in line with low-carbon and climate-adaptive practices to empower these women to be recognized as solutions to climate action instead of victims of climate change.

- **SWOF:** Through the SWOF, SEAF aims to expand access to capital for women-owned or women-led SMEs who typically lack access to capital from traditional sources of funding such as banks. Within its investment universe of women-owned SMEs, SWOF prioritizes investing in SMEs that employ or otherwise directly benefit women where possible, though it does not mandate this. For instance, in Q1 2018 SWOF made its first investment in a women-owned obstetrics and gynecology healthcare facility in South Vietnam. The majority of the employees in the business are women, and SWOF's investment will be used to expand the facility's impact on (i) providing skilled job opportunities for women, (ii) providing access to high-quality healthcare to middle-income or upper-income women in an area where they would otherwise need to travel long distances to receive comparable care, and (iii) relieving capacity pressure from public hospitals, thus allowing for more low-income and poor women to be served. Impact Funds can be a suitable mechanism for GLI if the selection criteria specifically pre-screens entities that are owned or led by women. Additionally, Impact Funds can also mandate or prioritize the selection of entities that benefit women who are currently excluded from the financial system, lack access to stable income sources or are otherwise economically disadvantaged.
- **UIB:** The UIB embeds a gender lens by specifically mandating that the use of funding goes to improving the quality of private health providers focused on maternal health. The beneficiaries are pregnant women in Rajasthan, India (there is no specific focus on a specific socio-economic class). Pay-for-success mechanisms like the UIB that link the successful achievement of gender outcomes – i.e., improved maternal health in the case of the UIB – to the financial returns provided to investors and service providers, can help align incentives to ensure the continued gender lens focus of the mechanism.

#### Factor II: Prioritization of a Gender Lens at the Intermediary Level

IIX's research also highlighted that the embrace of gender lens practices by the lead intermediary that designed and managed each mechanism both played a critical role in ensuring each mechanism would be an effective GLI vehicle and established the foundation for a long-term GLI strategy by the intermediary:



- **IIX ACTS:** At the organization level, IIX is a women-led company (founded by Professor Durreen Shahnaz) and embeds women empowerment across all of its investment platforms. This has several relevant benefits: (i) past experience with measuring gender lens outcomes helps to benchmark performance and control the cost of measurement and evaluation; and (ii) opportunities for the IEs supported by the IIX ACTS program to receive further funding and support from other IIX programs as they reach the next level of growth if they continue to demonstrate an impact on women. IEs that have successfully raised capital through the ACTS program can subsequently raise further rounds of equity or debt capital through IIX's other gender lens investment platforms. These include the [IIX Growth Fund](#) (a US\$ 50 million women- and climate- focused private equity fund) and the [IIX Women's Livelihood Bond series](#) (debt securities focused on advancing sustainable livelihoods for women).
- **SWOF:** The SWOF is SEAF's first fund targeting women-owned or women-led SMEs. Upon successful proof-of-concept with the SWOF, SEAF plans to launch larger GLI funds in Asia in the future. To build the SEAF team's expertise and knowledge in GLI, DFAT (as funder) provided GLI training and technical support to SEAF. With funding support for the SWOF aligned with GLI from the onset, SEAF has thus been both equipped and incentivized to employ a gender lens in the SWOF as well as for future successor funds.
- **UIB:** At the organizational level, Palladium does not have a specific mandate focused on women empowerment. However, in the case of the UIB, Palladium worked closely with the local government of Rajasthan and has the option of partnering again with them to replicate the mechanism on a larger scale in the future, thereby further expanding their impact on women's health in India. The UIB has also helped Palladium build up their internal expertise in GLI and positions them to develop similar financing mechanisms in other parts of the world.

### ***Scaling up Innovative Finance with a Gender Lens: Opportunities for Philanthropic Actors***

Innovative financial mechanisms that are effectively designed to create positive impact with a gender lens can thus serve as a powerful tool for closing the gender gap for the world's underserved women. However, a number of challenges continue to limit the number and scale of innovative financial mechanisms with a gender lens. Such challenges include a lack of upfront funding available to develop and implement such instruments, a lack of risk-tolerant capital to pilot new innovative approaches, a weak pipeline of investment-ready organizations that can absorb and deploy investment capital mobilized from such innovative financial mechanisms to create scalable impact, and a knowledge gap among investors that makes them wary of investing in innovative financial instruments with a gender lens.

To address these challenges and bring innovative financial instruments – particularly those with a gender lens – to scale in order to move the needle on gender equality, philanthropic actors can provide critical support in a variety of ways:

- **Providing grants to cover upfront development costs and/or ongoing operational costs:** In all three case studies, grant funding provided by foundations or donor



agencies was instrumental in defraying development or operational costs to make the mechanisms financially viable. In the case of IIX ACTS, grant capital from a corporate foundation was used to subsidize the upfront technical assistance and impact assessment services required to attract private sector investment capital by providing transparency and reducing the risk of mission drift once investment capital was deployed. In the case of SWOF, grant capital from DFAT was used to fund GLI training for the SWOF team and to fund the cost of applying a gender lens to sourcing and conducting due diligence on investment opportunities for the fund. For the UIB, grant capital from Convergence was used to cover the instrument's upfront design and structuring costs, while grants from USAID and Merck for Mothers were used to cover the outcome verification costs.

- **Providing grants to build a strong pipeline of investment-ready companies that can absorb and deploy capital to create sustainable impact on women:** In the cases of IIX ACTS and SWOF, grant funding from a corporate foundation and from DFAT, respectively, were instrumental in either fully funding or subsidizing the costs of investment readiness and technical assistance services (which the investee companies would not be able to otherwise afford), to ensure that the investments made into these companies would be effectively used to scale their operations and their impact on women.
- **Providing capital to be used to make impact investments:** Donor agencies and foundations (through program-related investments (PRIs) or grants) can also provide capital to innovative financial mechanisms to be used to make investments that are in alignment with their investment goals, philanthropic goals, target geographies, and beneficiaries. The SWOF case study is an example in which DFAT provided grant capital to be used by SWOF to make investments utilizing a gender lens. Such funding could take the form of either a grant (refundable or non-refundable) or an investment from the foundation's or developments agency's capital.
- **Providing de-risking mechanisms (such as first loss capital or guarantees) to compensate for the knowledge gap among investors that prevents participation:** Although innovative finance has grown in popularity, many investors remain highly risk averse and wary of investing in such instruments. This mandates leadership from philanthropic actors to provide de-risking mechanisms (e.g., first loss capital or guarantees) that will make the risk-return profile of such instruments more attractive to private sector investors and thus catalyze investments from a broader pool of investors. Although none of the three cases we studied used grant funding for this purpose, other mechanisms like IIX's Women's Livelihood Bond have benefitted from de-risking mechanisms – in that case, a 50% credit guarantee from USAID as well as US\$ 500,000 in first loss investment capital from IIX.

Although philanthropic capital is smaller in quantum than its commercial counterparts, the ability of philanthropic actors to provide upfront grant capital to develop innovative financial mechanisms and unlock larger investment amounts from the private sector (a concept known as leverage), is critical for the innovative finance space to meet its full potential. GLI has tremendous potential to create a world where women are seen as equals – but the right innovative financial mechanisms must be developed by a supportive ecosystem in order to move the needle on GLI and truly close the gender gap for women.



## References

1. *The Innovator's Advantage*. BCG Global Asset Management. July 2017. Last accessed on 16<sup>th</sup> July, 2018. [http://image-src.bcg.com/Images/BCG-The-Innovators-Advantage-July-2017\\_tcm9-163905.pdf](http://image-src.bcg.com/Images/BCG-The-Innovators-Advantage-July-2017_tcm9-163905.pdf)
2. *Investment Assets That Put Women First Surge Past \$2.2 Billion*. Bloomberg, C. Emily. 16<sup>th</sup> November, 2017. Last accessed on 16<sup>th</sup> July, 2018. <https://www.bloomberg.com/news/articles/2017-11-16/investment-assets-that-put-women-first-surge-past-2-2-billion>
3. *Investing in Women: Closing the Gender Capital Gap in Southeast Asia*. Impact Alpha. 31<sup>st</sup> August, 2017. Last accessed on 16<sup>th</sup> July, 2018. <https://impactalpha.com/investing-in-women-closing-the-gender-credit-gap-in-southeast-asia-800997d8f9c6/>
4. *IIX Assistance for Capacity Building and Technical Services (ACTS)*. Impact Investment Exchange (IIX). Last accessed on 16<sup>th</sup> July, 2018. <http://www.acts.iixfoundation.org>
5. *SEAF's Women's Opportunity Fund*. Small Enterprise Assistance Funds (SEAF). Last accessed on 16<sup>th</sup> July, 2018. <http://seaf.com/what-we-do/our-locations-investment-vehicles/asia/seaf-womens-opportunity-fund/>
6. *The Utkrisht Impact Bond (UIB): Improving Maternal and Newborn Health Care in Rajasthan, India*. USAID. November, 2017. Last accessed on 16<sup>th</sup> July, 2018. <https://www.usaid.gov/sites/default/files/documents/1864/Utkrish-Impact-Bond-Brochure-November-2017.pdf>
7. *IIX Growth Fund (IGF)*. Impact Investment Exchange (IIX). Last accessed on 16<sup>th</sup> July, 2018. <https://iixglobal.com/iix-growth-fund/>
8. *The Women's Livelihood Bond (WLB)*. Impact Investment Exchange (IIX). Last accessed on 16<sup>th</sup> July, 2018. <https://iixglobal.com/womens-livelihood-bond/>