



USAID INVEST CLOSE-UP: CATALYZING PRIVATE INVESTMENT FOR WOMEN'S ECONOMIC EMPOWERMENT

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CLOSE-UP: CATALYZING PRIVATE INVESTMENT FOR WOMEN'S ECONOMIC EMPOWERMENT

EXECUTIVE SUMMARY

When women are economically empowered, they invest in their businesses, families, and communities, producing a multiplier effect that spurs economic growth. Unfortunately, pervasive gender gaps and lack of access to financial services often block women from the tools and resources that they need for their families and businesses to thrive.

The U.S. Agency for International Development (USAID) leads the U.S. Government's international development and humanitarian assistance efforts. USAID's Office of Gender Equality and Women's Empowerment aims to harness the potential of blended finance to catalyze commercial investment to empower low-income women. However, because USAID cannot act as a traditional investor and hold equity, it needs innovative approaches.

USAID INVEST, an initiative that collaborates with the global investment community to mobilize investment for development, designed one such innovative approach by structuring the first contract-based, first-loss tranche transaction in the Agency's history. Through INVEST, USAID will provide \$500,000 in first-loss capital to Women's World Banking Capital Partners Fund II (WWBCP II) upon successful completion of its capital raise. This first-loss contribution becomes "catalytic" because it provides a risk cushion for other investors and mobilizes additional private capital. USAID will couple this financial support with \$100,000 in technical assistance.

The WWBCP II fund will invest in emerging market financial service providers that serve low-income female clients, ensure gender diversity within their staff and management teams, and use innovative solutions to increase customer reach and engagement. As a result, more women will be able to access loans, develop a credit history,

build their savings, and purchase insurance, all of which are critical components to breaking the poverty cycle and promoting self-reliance. The fund will primarily focus on sub-Saharan Africa and South Asia, with some investments in Latin America and the Middle East.

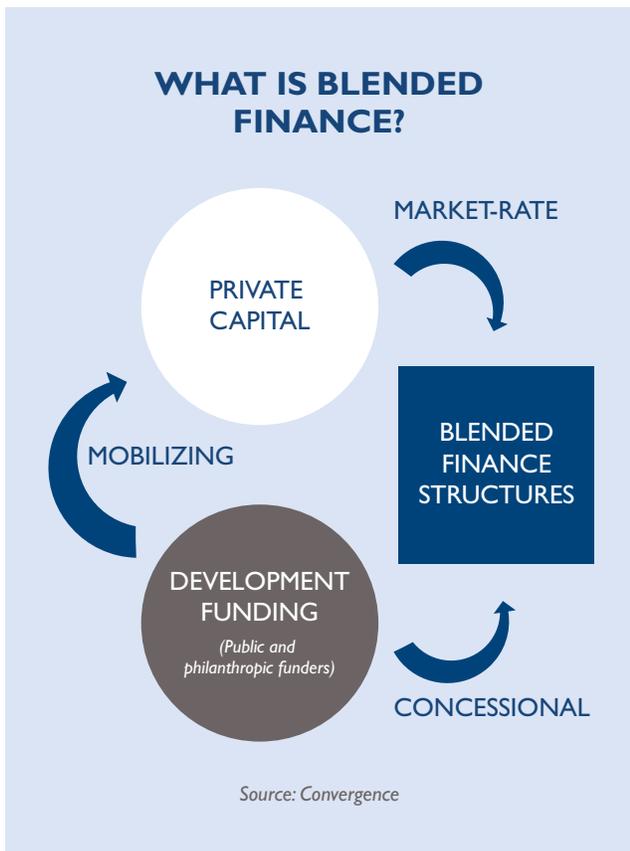
In addition to USAID's catalytic contribution, the Overseas Private Investment Corporation (OPIC) announced its intent to provide \$25 million in financing. This collaboration is a preview of how USAID will work with OPIC when it transforms into the U.S. International Development Finance Corporation (USDFC).

USAID's support of the fund is also aligned with the mission of the Women's Global Development and Prosperity (W-GDP) Initiative, a U.S. Government-wide effort to reach 50 million women in the developing world by 2025.

This close-up provides background on the innovative partnership between USAID and Women's World Banking and the creation of WWBCP II. It explores the potential of using blended finance to expand economic empowerment for low-income women, with a focus on the role of digital financial inclusion. It also details the process of an international development institution piloting a new way to engage with the private sector and, lastly, discusses the implications of the success of that pilot for the development road ahead.

INTRODUCTION

Blended finance is the strategic use of public or philanthropic sources to mobilize private sector investment in developing countries, resulting in the achievement of development objectives alongside financial returns. This approach creates new opportunities for international development institutions to attain better results and reflects a growing consensus among development agencies



like USAID that private investment is critical to closing the international development financing gaps and advancing countries on their journeys to self-reliance.

As a laboratory for procurement reform and technical innovation, INVEST has streamlined the subcontracting process and developed a rapid procurement procedure, which makes working with USAID an effective and efficient option for the private sector. It aims to address the longstanding operational and technical challenges that USAID has faced in working with the investment community by operating with the speed and flexibility that it demands. INVEST tests new approaches to blended finance and private sector engagement in different contexts and shares the lessons learned with USAID, the investment community, and the international development community.

USAID's partnership with Women's World Banking demonstrates how an international development agency can serve as a catalyst, providing risk capital that can attract larger

amounts of commercial investment to an opportunity that they might otherwise deem too risky. By using a blended finance approach, USAID can help align the incentives of private capital with development actors and channel private resources into areas where they can have positive development results while simultaneously generating solid returns. Engaging private capital also deepens local financial markets and builds local commitment and capacity to finance and implement solutions to development challenges—an important part of a country's journey to self-reliance.

INVEST found a like-minded collaborator in Women's World Banking (WWB). For over 40 years, WWB has been a global leader in women's financial inclusion. Through creating and scaling financial solutions, strengthening institutional gender diversity, and investing capital in women-focused institutions, the nonprofit has played a critical role in the economic advancement of women around the globe.

WWB recognized the potential of gender-lens investing to mobilize commercial capital for women's economic empowerment, so it established a for-profit asset management company, Women's World Banking Asset Management (WAM). WAM is a wholly-owned subsidiary of WWB. It is designed to raise commercial capital and make investments into financial institutions that promote women's economic empowerment.

Acting as WWB's investment arm, WAM raises, manages, and deploys private capital alongside its own, using a gender-lens investing strategy. WAM also plays a critical role in structuring the upfront design of its funds.

In 2012, WAM launched its first fund, WWB Capital Partners (WWBCP I). A \$50 million, traditional private equity fund, WWBCP I invests exclusively in women-focused financial services providers, and it is the only women-managed and woman-focused inclusive equity fund in the market today.

As the Fund's general partner, WWB earns a share of its profits (carried interest). The other investors are limited partners, and the Limited Partnership

Agreement outlines the amount of risk each party takes. WAM is responsible for managing the Fund’s investments and earns a small management fee in return for these services. WWBCP I has 27 investors and a portfolio of 10 investments.

Building upon the success of WWBCP I, WAM chose to pursue a blended finance structure for its second fund to raise more capital and invest in more low-income and fragile countries. WWBCP II, which launched in 2017, will reach more women in more countries with more diverse products and services.

WAM chose a blended finance structure because risk mitigation, like first-loss capital from donors, insulates commercial capital from the higher risks associated with emerging and frontier markets. It allows the Fund to pursue a more impact-oriented strategy with earlier stage companies. WWBCP II is expected to help companies reach marginalized women with a comprehensive set of products and services, while providing an attractive risk-return profile to a broader spectrum of commercial investors.

DEVELOPMENT CHALLENGE

An established body of evidence points to the positive relationship between women’s economic empowerment and a country’s economic growth and stability. While many developing countries have acknowledged this correlation, progress towards women’s economic empowerment has been slow and much work remains to be done.

Gender gaps are especially imbalanced in four key areas: workforce participation, career advancement, wages, and digital financial services. These gender gaps, and others, are the result of multiple underlying, systemic issues, spanning social norms, legal barriers, lack of political representation, poor educational opportunities, and lack of access to financial, digital, and property assets.

Female entrepreneurship is another important marker for women’s economic empowerment. Women have proven to be strong professional leaders, who tend to invest wisely, cultivate the

GENDER GAPS ACROSS KEY AREAS

Key Area	Gender Gap
Workforce Participation	<p>Women’s global employment is 45.3% compared to 71.4% for men.</p> <p>In 2018, 2 billion men were employed globally, compared to 1.3 billion women.</p> <p>Over 27 years the global gender employment gap has decreased by only 2 percentage points.</p>
Career Advancement	<p>Economic and opportunity gap stands at 41.9% .</p> <p>On average, 34% of managerial positions are held by women; as low as 7% in some countries.</p>
Wages	<p>Earnings for women on average are about half of what they are for men</p> <p>Women undertake roughly three times more unpaid work than men.</p>
Digital Financial Services	<p>In developing economies, 67% of men have a mobile money account compared to 59% of women.</p> <p>This gap reaches 30 percentage points in some low-performing countries.</p>

Sources: UN, 2016; World Bank, 2017; WEF, 2018; ILO, 2019; IMF, 2018

WOMEN'S WORLD BANKING CAPITAL PARTNERS FUND II (WWBCP II)

- \$100 million blended finance fund
- Global focus (sub-Saharan Africa and South Asia main focal regions)
- Invests in women-focused inclusive finance companies offering savings, loans, and insurance solutions
- Strong digital financial services component
- Seeks 15-18 percent net return for commercial investors

professional competencies of their employees, and reinvest earnings in their families and communities, thereby supporting broader international development goals. Unfortunately, according to the United Nations, only 20 percent of firms in low-income countries had female owners in 2016. Often, these businesses are small and based in the home. They lack access to credit, resources, and assets, which prevents them from expanding their businesses and contributing more broadly to economic growth.

Digital financial services are especially important to these businesses and female micro-entrepreneurs. With these services, clients can use mobile phones and other technologies to access financial services such as payments, transfers, savings, credit, and insurance. Digital financial services drive financial inclusion for underserved populations that were previously restricted to cash-based transactions; however, within these populations there is still a gender gap in the users of digital financial services.

Lack of gender parity across these areas is exacerbated by the perception that women-owned enterprises, especially those based in developing and emerging markets, are too high-risk for commercial investment and do not offer market-rate returns.

OBSTACLES TO PRIVATE SECTOR ENGAGEMENT

USAID faces several challenges to successful collaboration with the investment community. Its participation in blended finance structures is limited because it cannot hold equity. In addition, complex federal regulations and long timelines for project development, implementation, and completion can inhibit collaboration with the private sector.

USAID recognizes the need to use its resources to leverage additional participation and commitment from the private sector. To do so, it must navigate these challenges and find solutions that are both attractive to the private sector and compliant with the laws and rules USAID must follow.

USAID's recent Private Sector Engagement Policy has served as a helpful call to action for development agencies. It is an Agency-wide mandate for USAID staff to work with the private sector in finding development solutions that are appropriate and mutually beneficial and contribute positively to humanitarian outcomes.

OBJECTIVES

USAID's partnership with Women's World Banking (WWB) was designed to increase financial inclusion for women, with a focus on digital financial inclusion. By injecting catalytic capital into a blended finance fund, USAID could help WAM scale up the Fund's commercial participation.

USAID was confident that the partnership would meet its objective, given WWB's track record in accelerating economic opportunity for low-income women. WWB's holistic approach accounts for women's financial behavior and needs, what it takes for institutions to effectively serve them, and how the cultural and policy environment influences women's financial inclusion.

WAM designed the Capital Partners Fund II to identify, invest in, and provide technical assistance to financial services providers that focus on women, both as customers and employees. WWB uses a market opportunity assessment to evaluate the extent to which a financial institution reaches and effectively serves women. Additionally, it uses an organizational gender assessment methodology to evaluate the gender diversity of staff within the financial institution itself, examining its ability to attract, retain, advance, and reward female staff.

WWBCP II portfolio companies will provide products and services of particular importance to women's financial inclusion, including: micro-enterprise finance, small business finance, microinsurance, savings, payments and remittance services, and specialty finance, such as products focused on housing, agriculture, or education.

Additionally, with USAID's technical assistance support, WAM will add a digital lens to its due diligence approach. By applying a digital lens to its investments, WAM can expand its capabilities around digital financial services and enable better

assessments of financial institutions' digital strategies. USAID's technical assistance support will allow WAM's team to better understand the opportunity to leverage digital tools within portfolio companies to reach greater numbers of women.

USAID and WAM are working collaboratively to develop this digital lens, coupling WWB's strength and experience in carrying out due diligence with USAID's deep knowledge in digital inclusion. Here, USAID brings unique expertise, having applied this digital lens globally in many of the countries where it works. The inclusion of technical assistance deepens the partnership and will result in a new tool that will strengthen WAM, its portfolio companies, and, ultimately, the women who those companies serve.

In addition to advancing specific development goals for women's empowerment, INVEST's team saw WWBCP II as an opportunity to pilot a new and innovative way for USAID to mobilize private capital with the speed and simplicity that the private sector demands. WWBCP II's alignment with USAID's interests in strategically engaging the private sector and supporting women's economic empowerment made the Fund a natural choice for such a pilot, and the blended finance structure let USAID inject funding and credibility into the Fund at a critical time, thereby allowing WAM to leverage this catalytic contribution to raise additional commercial investment.

OUTCOMES

USAID's contribution to WWBCP II proved a successful pilot. INVEST was able to navigate federal legal and procurement requirements so that USAID could ultimately make the contribution using a simple and familiar tool: the deliverables-based contract. This streamlined approach enabled USAID to deploy capital quickly to mobilize commercial investment without acting as traditional equity investor in the fund—something it cannot do.

In addition, USAID-funded technical assistance will strengthen the fund's due diligence capabilities and transparency around digital financial services—like loans, savings, and insurance—

which are critical to reaching low-income women in developing markets.

Finally, WWBCP II provided an opportunity for USAID and OPIC to test their complementary roles in mobilizing private capital for development, with the former providing high risk capital and the later reinforcing this with senior debt.

ADAPTING A FAMILIAR TOOL

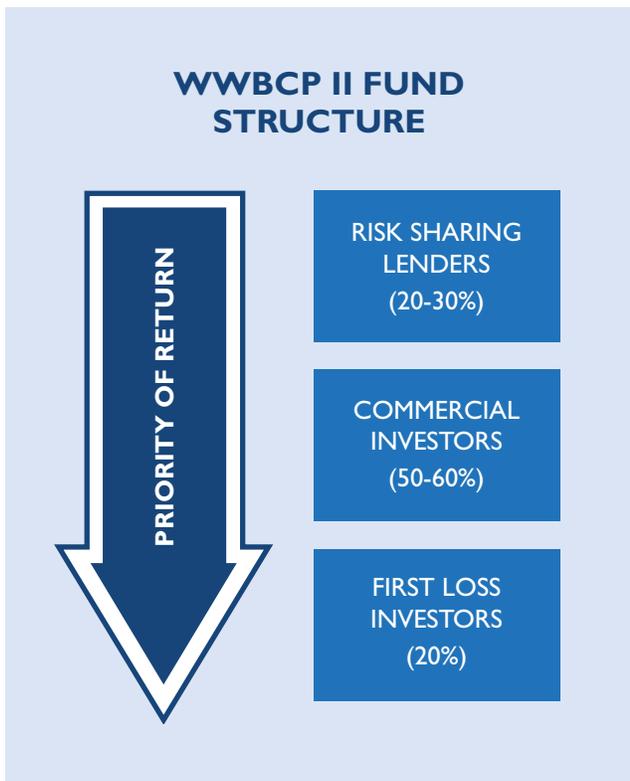
Blended finance structures take many forms, some more complicated than others. For WWBCP II, INVEST took an existing tool and repurposed it in a new way. Deliverables-based contracts are frequently used across USAID. By identifying the fund raise as the deliverable, USAID transformed a familiar tool into an avenue for deploying catalytic capital in the critical early phases of the fundraising process. This approach provides timely support during the fund's start-up and active investing years. At the same time, it eliminates the need for USAID to take on a long-term management burden. While a traditional limited partner in a fund might expect to remain engaged for five to 10 years, the subcontract with WAM only lasts two years.

Using the deliverables-based contract in this new way required some internal navigation, and INVEST's staff had to work closely with USAID'S procurement and legal teams. However, it did not require the creation of new legal structures or authorities. It now sets a precedent, providing a roadmap for USAID to support blended finance vehicles which have the potential to mobilize private capital for better development results.

FUND STRUCTURE: INCENTIVIZING COMMERCIAL INVESTMENT

WWBCP II brings together commercial investors seeking market-rate returns with international development agencies and others who are willing to play a catalytic role by accepting a lower rate of return or providing "first-loss protection."

WWBCP II is a \$100 million blended finance vehicle with a three-tiered capital structure in which international development agencies, risk-sharing lenders, and commercial investors pool their resources and agree upon a scheme for priority of return.



WWBCP II is structured as a blended finance fund, with a Class B tranche (concessional capital from international development agencies) offering first loss protection to Class A limited partners (e.g. commercial investors), in addition to leverage from a risk-sharing lender (OPIC). Risk-sharing lenders have first priority of return, but their returns are capped well below market rate. Class A limited partners have second priority of return but no limits on their rate of returns.

CATALYTIC CAPITAL

USAID’s catalytic capital contribution is being distributed in two phases. USAID paid the first \$250,000 to WAM at the close of the Fund’s first round of fundraising, and it will contribute another \$250,000 when WAM closes the second round.

WWBCP II leverages catalytic contributions and concessional financing to crowd in commercial investors that would otherwise perceive investment in women-focused emerging-market financial institutions as too risky. Furthermore, the risk-tolerant concessional equity tranche from donors

will enable the Fund to invest in more low-income and fragile countries, as well as riskier early-stage companies. Both segments are still heavily under-invested but provide significant opportunities to reach underserved women.

USAID’s contribution to WWBCP II has added a powerful tool to USAID’s toolbox, demonstrating that it can support blended finance vehicles through paired catalytic capital and strategic technical assistance. With the pilot demonstrating the success of a proven USAID mechanism’s participation in a blended finance fund, the partnership with WAM has forged a pathway for USAID to test new ways to engage with asset managers.

STRATEGIC TECHNICAL ASSISTANCE

Because USAID sought to prioritize digital financial inclusion as a key criterion for their participation, INVEST combined \$100,000 in technical assistance with the catalytic contribution, strengthening the fund’s due diligence around digital financial services.

With this technical assistance, WAM can assess the digital potential of its portfolio companies and provide guidance to those in need of assistance, ultimately expanding the reach of their products and services to low-income women.

PRELUDE TO USAID, OPIC, AND USDFC

As USAID and the Overseas Private Investment Corporation (OPIC) approach the launch of the U.S. International Development Finance Corporation (USDFC), the institutions have been exploring and testing complementary ways of working together. OPIC does not currently provide first-loss capital, nor does it traditionally offer technical assistance, and USAID does not hold equity. Yet they can join forces to provide different flavors of financial support that together encompass a more comprehensive solution for private sector intermediaries seeking to align private capital with development objectives. With OPIC’s longstanding history of vetting opportunities and making investments and USAID’s deep technical expertise and ability to bring catalytic funding, the two institutions make a powerful team capable of achieving social and financial returns.

DEVELOPMENT RESULTS

EXPANDING WOMEN'S ECONOMIC EMPOWERMENT THROUGH FINANCIAL INCLUSION

WWBCP II was especially attractive to INVEST because it expanded upon the success of WWB's first fund. WWBCP I made 10 investments in eight countries, totaling \$39 million. Returns for WWBCP I compared favorably with the Cambridge Associates Benchmark for Impact Investing for the peer group vintage year, where it achieved above average returns.

Beyond achieving favorable returns for investors, WWBCP I portfolio companies reached more than 4.5 million women in 2017. These women gained access to a variety of financial products and services, such as group and individual micro-loans, SME loans, agriculture loans, adult and youth savings accounts, and insurance products.

WWBCP II expands upon the success of the inaugural WAM fund in its commitment to enhance women's access to the financial services they need for their families and businesses to be successful.

Investing in emerging market financial service providers that prioritize reaching low-income women, expanding gender diversity within their staff and management teams, and utilizing innovative solutions to enhance customer reach and engagement will provide high returns on investment and promote women's economic empowerment.

THE PROMISE OF DIGITAL FINANCIAL SERVICES

With the technical assistance provided by USAID, WAM can expand the ability of the fund to support portfolio companies in leveraging digital tools to serve women, while also building its internal capacity.

Digital strategies are essential for expanding the reach of financial products and services to low-income women in developing countries. There are one billion unbanked women throughout the world. Two-thirds of unbanked adults have access to a mobile phone, which means that mobile saving

accounts can create tremendous opportunity for women in developing countries where self-employment is the norm.

When these self-employed women keep money in their home, the men in their family may take control of it, or societal pressures may dictate that the women share it with their relatives. As a result, many female micro entrepreneurs cannot invest the money in their businesses or long-term savings. For women who do not have the ability to open a bank account locally, mobile savings accounts provide them with an alternative to keeping cash in the home.

Studies have also shown that self-employed women who have mobile savings accounts report greater household decision-making power than those who do not have them. Mobile savings accounts not only empower women economically but also have the potential to alter the societal norms that keep millions of women in subordinate positions in their families.

KEY INSIGHTS

Through this partnership with WWB, INVEST gained new insights into how development agencies like USAID can support blended finance funds and align and mobilize private capital for better development results.

KEEP IT SIMPLE

- **Using familiar tools in new ways can make it easier for international development agencies** to work with the private sector. Mobilizing private capital can be simplified. In this case, a deliverables-based subcontracting mechanism proved to be a simple, innovative approach that enabled USAID to move money into a fund with the speed and flexibility that the private sector demands.

TIMING AND COLLABORATION ARE KEY

- **Participating early in the capital raise provides support at a critical point** for engaging commercial investors. Early participation enabled USAID's contribution to be catalytic. Even a small amount of funding,

combined with a seal of approval from a respected development agency, can help attract private investment.

- **Combine forces.** The combination of a catalytic contribution and technical assistance from USAID and a debt investment from OPIC provides an example of how different organizations can combine their strengths, navigate their individual constraints, and achieve better results together. Through such collaboration, international development agencies can also help private sector investors test emerging markets and reassess their perceptions of risk.

RETHINK RISK

- **Blended finance funds offer an opportunity for investors to contribute** to better development results and find attractive returns on their investments. The early contribution of catalytic capital, whether in the form of a first-loss commitment, risk-sharing debt, or another mechanism, can make a fund significantly more attractive to private sector investors. In turn, the appeal of market-rate returns encourages a more diverse range of investment to respond to pressing global development challenges.
- In this case, the more risk-tolerant concessional equity tranche will enable the Fund to make investments in more low-income and fragile countries, as well as early stage companies, creating the opportunity to reach more women. Using development resources to “crowd in” commercial capital increases the investment reach and the potential development impact of the blended finance structure. This structure offers a smart and efficient way to make donor dollars go further in achieving development goals.

PAIRING INVESTMENT AND TECHNICAL ASSISTANCE IS A POWERFUL TOOL

- **Technical assistance ensures that support not only leads to increased commercial investment** but also to better development outcomes. The combination of

catalytic funding and technical assistance will have a greater impact than either component on its own. It deepens the effect that the fund will have on the most vulnerable populations that it aims to serve.

FIND THE RIGHT PARTNER

- **Collaboration is not always easy, so find** a partner with a solutions mindset that will understand the strengths and constraints each organization brings. Partners need to be flexible where possible and work collaboratively toward creative solutions. WWB and USAID developed such a partnership, which provided an essential foundation as the two entities navigated complexities on both sides and ultimately emerged with a new blueprint for working with the private sector to achieve better development results.

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