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CASE STUDY

GENDER SMART INVESTING

ADDRESSING THE GENDER GAP IN THE OFF-GRID ENERGY SECTOR IN SUB-SAHARAN AFRICA

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The World Economic Forum (WEF) estimates that it will take 257 years to close the global gender gap in economic participation and opportunity. Alongside the other gender gaps tracked by the WEF – which are health and survival, educational attainment, and political empowerment – the economic participation and opportunity gap is the only one that is widening.[1] This is not surprising when one looks to the growing off-grid energy sector in Africa. Women are disproportionately under-represented compared to men, especially in leadership and technical positions. Worldwide, women comprise only one third of the renewable energy workforce.[2]

Unless companies take immediate action to attract, develop, retain, and promote female talent – including through the adoption of gender inclusive workplace policies – the gender gap will prevail. Yet, it is not just a workplace issue. Women's economic participation and opportunity also depend on access to energy products and services. For example, access to electricity boosts entrepreneurship and increases income. However, women's energy access needs are often overlooked by off-grid businesses and consequently, women are underserved. This presents not only a lost opportunity for women, but also for off-grid companies and their investors.

Monya Bassingthwaighte, Senior Investment Officer in the climate finance team at responsAbility has worked in the male-dominated emerging market energy sector for over ten years. She has not only lived the gender gap in her professional life, but she also sees it in her investment deals.

"As I was working on a few potential deals for one of our climate funds…it did not surprise me that there were zero female representatives in any C-suite or board level position across many of the companies I was negotiating with. However, my breaking point came after I looked at the website of one of the potential portfolio companies. There were zero females in all of the 20 or so middle and senior management faces looking back at me."

- Monya Bassingthwaighte, Senior Investment Officer, responsAbility

Monya Bassingthwaighte immediately brought the gender gap to her supervisor's attention as a key risk in the investment proposal. She was subsequently instrumental in initiating and driving a pilot gender smart investing approach for one of responsAbility's climate funds, leveraging the firm's partnership with Power Africa for technical support.

What is gender smart investing?

Gender smart investing is a tool that can be used to address the gender gap in the off-grid energy sector.

The CDC Group, the United Kingdom's development finance institution (DFI), offers the following definition:[3]

Gender smart investing is an investment strategy that seeks to intentionally and measurably use capital to address gender disparities and better inform investment decisions. Gender as a factor of analysis can highlight opportunities and reveal risks that can strengthen investment decision-making to achieve greater financial and social outcomes. Fund managers can assess and invest in companies across different gender smart strategies, including companies that are:

- Owned by women and/or with women represented in leadership.
- Committed to a gender-diverse and equitable workforce.
- Committed to a gender-inclusive value chain.
- Committed to offering and designing products or services that consider the distinct needs of women as a consumer segment.
- Committed to ensuring their operations do no harm to women in the community.

Fund managers can also apply gender smart approaches to their own firms, by strengthening the gender diversity of their workforce and investment teams.

[1] World Economic Forum. Global Gender Gap Report. 2020. www3.weforum.org/docs/WEF_GGGR_2020.pdf
[2] International Renewable Energy Agency. Renewable Energy: A Gender Perspective. 2019. www.irena.org/publications/2019/Jan/Renewable-Energy-A-Gender-Perspective
[3] CDC Group. Gender Toolkit. https://gendertoolkit.cdcgroup.com/gender-smart-investing

Gender smart investing is growing in popularity amongst investors, especially as the case for improved business performance becomes inextricably linked with gender inclusion. Power Africa partner Calvert Impact Capital for example, analyzed data from more than 160 borrowers globally over 11 years. The analysis revealed a significant increase in financial performance where more than a third of leadership positions were filled by women.[4]

The International Labour Organization (ILO) provides additional compelling evidence for investors in *The Business Case for Change*. A survey of nearly 13,000 small- and medium enterprises in 70 countries globally revealed that enterprises with equal employment opportunity policies and gender-inclusive cultures are over 60 percent more likely to have improved profits and productivity. The findings also demonstrated that those same companies are almost 60 percent more likely to experience enhanced reputation, greater ease in attracting and retaining talent, and greater creativity and innovation.[5]

Investment firms such as responsAbility are not only motivated by the bottom line but also by their contribution to positive social impact. Their investments are aligned with the United Nations Sustainable Development Goals (SDGs) – including SDG 7, which ensures access to affordable, reliable, sustainable, and modern energy for all and SDG 5 on the elimination of all forms of discrimination against women. responsAbility is aware of the interconnectedness of the SDGs whereby gender equality is a necessary condition for universal energy access, and vice-versa. It appreciates the value of gender smart investing to increase investment returns and maximize impact in the markets they serve.

A journey to championing gender smart investing in climate finance

responsAbility has always been intentional about investing in women. Prior to collaboration with Power Africa, the company was already reporting on impact metrics such as the number of women on boards of directors and in leadership in their portfolio. However, for responsAbility to expand their approach and to leverage the benefits of gender smart investing for themselves and their counterparties, dedicated and tailored technical support offered by Power Africa was welcomed.

Increasing women's participation in the energy sector workforce and increasing women's access to energy products and services are key Power Africa objectives. Recognizing public and private investors as key partners to advance these objectives, Power Africa is supporting off-grid energy investors to include women entrepreneurs in their pipeline and to integrate key gender-related considerations into the due diligence process. Power Africa also provides technical assistance to investor counterparties towards adopting good gender inclusive business practices and better serving their female market. PEG, for example, is a responsAbility investment that has made significant progress to promote gender equality in its business with technical assistance from Power Africa.

Power Africa sourced, and relied on, gender smart investing leaders and experts, Sagana and Catalyst at Large to undertake several tailored and strategic activities in support of the responsAbility pilot. The Power Africa advisors assessed the existing investment process to identify key opportunities for gender integration. This exercise informed the development of a gender smart investing roadmap specific to responsAbility's climate fund. Subsequently, the advisors developed a range of tailored tools for use by responsAbility's investment officers, technical assistance team, and the sustainability team.

[4] Calvert Impact Capital. Just Good Investing. www.calvertimpactcapital.org/storage/documents/calvert-impact-capital-gender-report.pdf
[5] International Labour Organization. The Business Case for Change: Country Snapshots. www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_702188.pdf

The advisors compiled the tools into a proprietary toolkit with accompanying guidance on each, including:

- Counterparty assessment tool comprised of a due diligence questionnaire and a scoring sheet with gender smart metrics drawn from the 2X Challenge Criteria, Global Impact Investing Network (GIIN), and Small Enterprise Assistance Funds (SEAF).
- Counterparty portfolio benchmarking tool to measure the performance over time of all the counterparties against each other and certain industry-specific benchmarks.
- Gender action plan template to help investment officers to co-create an action plan with counterparties.
- Gender smart investing comprehensive metrics list.
- Human resource policy and practices tool to assess and supplement a counterparty's key human resource policies and practices impacting gender equity.

For investors interested in adopting similar solutions, the following resources – some of which informed those that were tailored for responsAbility – are publicly available:

- International Finance Corporation. 2020. Private Equity and Value Creation: A Fund Manager's Guide to Gender-Smart Investing
- CDC Group. Gender-Smart Investing Toolkit including specific guidance for the off-grid solar sector
- SEAF. Gender Equality Scorecard Manual
- 2X Challenge. 2020. Guide to the 2X Criteria
- 2X Challenge. 2020. How to Measure the Gender Impact of Investments Using the 2X Challenge Indicators in Alignment with IRIS+
- ICRW. Off -grid Energy Gender Scoring Tool
- Acumen. 2015. Women and Social Enterprises: How Gender Integration Can Boost Entrepreneurial Solutions to Poverty (Gender Diagnostic Tool on page 46)

Training for the responsAbility team included virtual, yet highly interactive, sessions on the benefits of gender smart investing, the integration of gender smart practices into the investment process, and the application of the tailored tools developed specifically for responsAbility's climate fund. As a result, the investment officers and supporting sustainability and technical advisory teams are equipped to apply gender smart tools and practices to help the rest of the counterparties gain the benefits of gender diversity.

"With stakeholders increasingly concerned by the need to implement gender smart investing practices, it is essential to find a way to integrate best practices in a way that goes beyond simply looking at a few outputs."

- Paul Hailey, Head of Impact, responsAbility

"Initially, concern was that applying gender equality metrics in the due diligence process could narrow the investment universe. The team from Power Africa used a pragmatic approach, incorporating the metrics in the due diligence process without complicating it. I was happy to see through a real transaction, that investee companies are committed to gender equality."

- Andrea Trejo, Investment Analyst, responsAbility

While still in the beginning stages, the responsAbility fund team has already deployed the counterparty assessment tool with several companies in its pipeline, creating a new lens to assess credit quality and risk of the climate fund.

Initial outcomes

While it is early to quantify the impact of the fund's gender smart investing approach on the portfolio companies, the communities they serve, and on fund performance overall, there have been some significant milestones for responsAbility itself, following the Power Africa supported gender smart investing initiative.

a. 2X Challenge

The 2X Challenge is a public commitment originally made by the G7 DFIs to mobilize three billion dollars in development financing towards gender equality in emerging markets. For a company to qualify as a 2X investment it must meet at least one of the criteria relating to women's entrepreneurship, women's leadership, women's employment, and products and services benefitting women. A fund qualifies if at least 30% of the portfolio meets one of the 2X criteria. responsAbility's climate fund qualified by meeting the employment criteria with at least 50% of its portfolio companies actively improving and providing quality employment for women. On this basis, the Dutch Entrepreneurial Bank (FMO) and the European Investment Bank (EIB), existing investors of the climate fund, signed a memorandum of understanding with responsAbility which qualified the Fund under the 2X Challenge.

The 2X Challenge qualification holds responsAbility accountable to furthering its commitment to gender equality through gender smart climate investments and establishes them as leaders and innovators in financing and gender equality. It also increases the potential to attract additional lending partners for new funds, as well as technical assistance funding, from investors with aligned priorities, including 2X Challenge participating DFIs.

In a public announcement Thomas Östros, EIB Vice-President said:

"Supporting gender smart investment is smart economics. It is vital to enhance business productivity and to catalyze economic growth, social cohesion, and social justice. As the EU bank, together with our partners, we are committed to ensure that our investment benefit all parts of our communities equally. I am very proud to be supporting responsAbility's climate fund with FMO, which qualified today for the 2X Challenge."

2X INVESTMENT CRITERIA (Full criteria on: www.2xchallenge.org/criteria)

Entrepreneurship	Leadership	Employment	Consumption	Investments through Financial Intermediaries

b. Internal strides

Not only is responsAbility committed to an inclusive workplace in its own firm but it understands that gender smart investors model the practices it expects from its portfolio. responsAbility has established a company-wide Gender and Diversity Advisory Group. The group consists of four elected members across regional offices and has a mandate to support the executive management team to develop a gender action plan and implement the identified activities towards strengthening gender and diversity in the firm.

According to responsAbility:

"Our dedication to diversity and inclusion, simply put, is crucial for our business, our clients, the type of company culture that we want to promote, and our vision of the world as a whole."

One of the good practices that responsAbility has already implemented is a pay gap analysis, conducted by an external auditor. It is also measuring the pay gap in its portfolio. In doing so, it strives to reduce the existing global pay gap whereby, women in formal employment make $ 0.77 for every dollar earned by men.[6]

[6] UN Women. Equal Pay for Work of Equal Value. www.unwomen.org/en/news/in-focus/csw61/equal-pay

c. **Gender integration in technical assistance facility**

ResponsAbility's climate fund is linked to a donor-funded technical assistance facility to help portfolio companies to enhance their operations by following best international practices, for instance in managing Economic, Social, and Governance (ESG) risks. One key outcome of responsAbility's gender smart investing roadmap is gender integration into the technical assistance facility. responsAbility has entered into an agreement with one of the Fund's counterparties to support the company to foster gender equality in the workplace in line with the key gender equality metrics that responsAbility is tracking. It is the facility's first gender smart technical assistance project and responsAbility intends to promote best practices and identify lessons learned in order to replicate the support with other companies. responsability has also audited the technical assistance consulting firms on its roster for gender equality with respect to the composition of the consulting teams, workplace practices, and pay gap.

Lessons learned

Following the ten-month journey with Power Africa and to date, lessons learned include:

- In addition to improving conditions for employees, customers, and suppliers, gender smart practices have a great deal to contribute to productivity, profit, and de-risking of investments.
- The extent to which investees apply gender smart practices can vary significantly, even within a relatively small portfolio. For example, one company may have an exemplary sexual harassment policy in place while another does not yet have such a policy.
- Frequent exchanges with both the internal investment and impact teams are essential to develop tools and metrics that can be integrated into investment processes.
- It is important to have a gender champion – ideally a member of senior management – driving the company's gender smart investing process. Buy-in from senior management is important for effectively cascading the approach to all members of the team.

Conclusion

Stefan Issler, Head Direct Investments - Climate Finance at responsAbility is proud of the gender smart investing initiative at responsAbility and looks forward to assisting counterparties to improve their awareness and gender balance going forward. He told Power Africa that he is *"convinced that gender-diversity correlates positively with the expected performance of a company and hence having a gender lens in your investment process is the smart thing to do. This pilot project has had a far reaching positive knock-on effect both from a corporate perspective and within other product initiatives at responsAbility."*

Power Africa hopes Stefan Issler's words, along with the commitment of his team to gender smart investing, may inspire other private sector investors to adopt a gender smart approach to their off-grid energy investments in sub-Saharan Africa.

Power Africa aims to achieve 30,000 megawatts of new generated power,
create 60 million new connections,
and reach 300 million Africans by 2030.