

CASE STUDY

JAPAN ASEAN WOMEN EMPOWERMENT FUND (JAWEF)

MARCH 2020

EXECUTIVE SUMMARY

Japan ASEAN Women Empowerment Fund (JAWEF) is a blended fund that provides loans to microfinance institutions (MFIs) that serve female entrepreneurs in the ASEAN region and beyond. Launched by BlueOrchard in 2016, with support from the Japanese government, JAWEF is a three-tiered fund that leverages first-loss and mezzanine tranches to mobilize institutional investors in the senior tranche.

JAWEF achieved its first close in 2016, raising \$120.5 million from Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA), as well as institutional investors. In 2019, JAWEF underwent a second fundraising round that increased its total size to \$241.0 million with repeat commitments from investors including JBIC, JICA, and Sumitomo Life Insurance Company, and a new partnership with The Sasakawa Peace Foundation.

To date, JAWEF has reached 250,000 microentrepreneurs, of which 91% of end borrowers are women. JAWEF presents several insights for creating or investing in blended funds focused on frontier markets or gender equality:

- An experienced fund manager can be a powerful partner for concessional capital providers looking to play a catalytic role
- Concessional capital providers do not need to take a first-loss position but rather a mezzanine position to attract the private sector
- Blended finance can be an effective tool for mobilizing institutional capital towards gender-lens investing
- Successive fundraising rounds may lead to more efficient mobilization
- Commercially-oriented blended finance vehicles can mobilize institutional investors, particularly when positioned for a specific target market

SYNOPSIS

Fund manager	BlueOrchard
Fund vintage	2016
Mandate	To empower women through increasing their access to financial services, by investing in microfinance institutions (MFIs) that serve female entrepreneurs in primarily ASEAN countries
Target borrowers	MFIs whose borrowers are majority female (60% of clients or more) and/or MFIs that have a product for women or clear intention to develop one
Priority countries	Association of Southeast Asian Nations (ASEAN) Countries (Cambodia, Myanmar, Philippines, Vietnam, Laos, Malaysia, and Indonesia) and India, Pakistan, and Sri Lanka
Size	\$241.0 million (as of second financial close)
Capital structure	Junior (first-loss) shares: ~\$1 million Mezzanine Shares: ~ \$120 million Class A Shares: ~ \$120 million
Investment instruments	Senior debt, subordinated debt (on a selective basis)
Sample impact metrics	# of microentrepreneurs reached, % of MFIs with a minimum of 60% female clients; % of MFIs that reach 75% female entrepreneurs
Impact-to-date (as of Q4 of 2019)	<ul style="list-style-type: none"> • 250,000 microentrepreneurs reached • 78% of end borrowers are rural clients • 91% of end borrowers are female

INTRODUCTION

The empowerment of women to participate fully across all sectors is essential to building stronger economies, improving quality of life for families and communities, and achieving the Sustainable Development Goals (SDGs). According to United Nations (UN) Women, the Asia-Pacific region alone would gain an additional \$89 billion annually if women were able to achieve their full economic potential. Despite clear benefits, women face significant obstacles to economic empowerment, with inadequate access to finance serving as a key barrier. Therefore, the private sector has an important role to play in closing the gender gap and advancing women's empowerment through the provision of financing, products, and services, to women and girls.

In 2016, the impact investment manager BlueOrchard established the Japan ASEAN Women Empowerment Fund (JAWEF) to address the significant financing gap faced by women in the ASEAN region and beyond. JAWEF is a three-tiered blended finance fund that uses first-loss and mezzanine tranches to mobilize institutional investors in the senior tranche. The Fund provides debt financing to microfinance institutions (MFIs) for on-lending to female entrepreneurs. JAWEF demonstrates the value of blended finance for channeling additional investment capital to critical and underserved markets, with the ability to right-size concessionality according to the context.

DESIGN AND FUNDRAISING

Over the past two decades, BlueOrchard has established an extensive track record in developing blended finance funds, managing nine blended finance funds to date. BlueOrchard has actively promoted gender-lens investment strategies across its portfolio; currently, more than 60% of its funds' end-clients are women. Building on this experience, BlueOrchard identified a sizeable gap for financial products aimed at women and sought to develop a product aimed at female entrepreneurs. BlueOrchard recognized an opportunity to i) expand into an underserved market, and ii) achieve measurable impact to advance gender equality. Against this backdrop, BlueOrchard launched JAWEF in 2016 as its first fund dedicated to women's empowerment.

BlueOrchard identified strong interest and support from the Japanese governmental institutions, namely the Japan Bank for International Cooperation (JBIC) and the Japan

International Cooperation Agency (JICA). JBIC and JICA were attracted to JAWEF given the Fund's focus on women's empowerment, and the opportunity to mobilize Japanese private sector to commit first-time investments with an impact mandate. Specifically, JICA's investment aligned with JAWEF's strategic objective to support women's empowerment. Meanwhile, through JAWEF, JBIC identified an opportunity to fulfil its own mandate to support the interests of the Japanese private sector. Following interest from JICA and JBIC, the Fund was set out to target the Association of Southeast Asian Nations (ASEAN) countries, with the requirement that all senior investors be domiciled in Japan.

To provide adequate risk coverage for the Fund's target senior shareholders – Japanese institutional investors – the Fund was structured with a moderate concessional first-loss tranche and a larger concessional mezzanine tranche. BlueOrchard and one of its business partners, Summit Financial, provided \$500,000 in first-loss capital to cover foreign exchange (FX) and credit risks on underlying investments. Further, JBIC and JICA each invested \$30 million in the mezzanine tranche to provide additional risk coverage for senior investors with JICA being subordinate to JBIC.

In 2016, Japanese institutional investors grew more interested in JAWEF and the opportunity it offered to enter the impact investment market. Specifically, JAWEF appealed to institutional investors looking to enter new sectors (i.e., microfinance), and new geographies (i.e., developing markets). Given institutional investors' limited exposure to these markets to date, the tiered structure of the fund – including the presence of both first-loss and mezzanine capital – provided the necessary risk mitigation to support their appetite to invest. Institutional investors were further attracted by the opportunity to work with BlueOrchard, known to generate strong financial returns alongside social and environmental impact.

JAWEF achieved first close in 2016, achieving its target size of \$120.5 million. JAWEF ramped-up the portfolio quickly, becoming fully invested within the first year after close. This was mainly due to BlueOrchard's coverage and knowledge of these markets, and because all investors had been lined up at fund inception across all tranches (with commitment in full at fund launch) and the Fund's) with an investment period was limited to eight years. Following the quick deployment of all committed funds, JAWEF underwent a second fundraising round doubling in size and reaching a final

close of \$241 million in 2019. Building on the fund’s strong financial performance, the majority of first-round investors increased their participation on a pro rata basis. In addition, The Sasakawa Peace Foundation (SPF) joined as a new investor, investing \$30 million in the senior tranche.

STRUCTURE AND GOVERNANCE

CAPITAL STRUCTURE

JAWEF is a three-tiered equity fund which leverages a first-loss tranche and additional layer of mezzanine capital, provided on varying concessional terms, to mobilize institutional investors to the senior tranche. JAWEF retains a minimum liquidity cushion at all times of approximately 5% of the fund’s total size. This structure has enabled BlueOrchard to mobilize Japanese institutional investors to the senior tranche, who receive higher returns and priority for repayment.

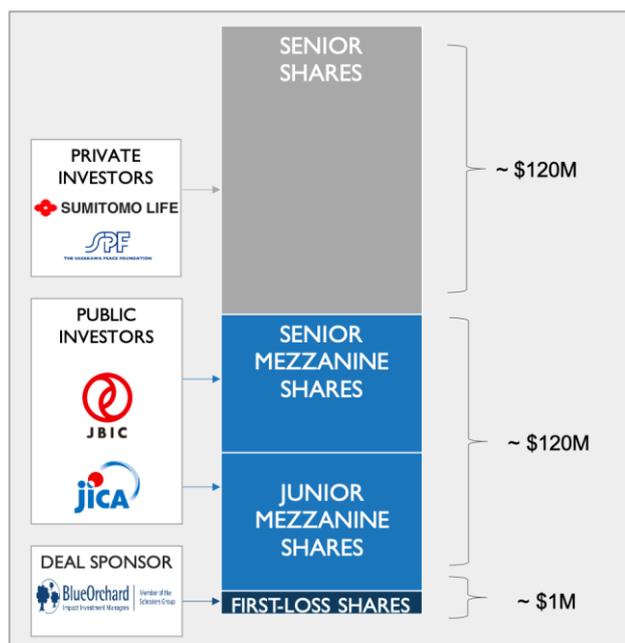


Figure 1: JAWEF Capital Structure

The three classes of shares are described as follows:

- Junior Shares: The most junior share class acts as a first-loss for the Fund, ranking subordinate to the mezzanine and senior tranches. The limited number of Class C1 and C2 shares are held by BlueOrchard and Summit Financial and represent just 0.5% of the aggregate value of the Fund. This tranche is intended to cover losses due to (i) deterioration in

credit quality, and ii) FX risks related to portfolio investments. To date, these funds have not been used thanks to the solid fund performance. The target dividend is 2.25% per annum. Junior investors also benefit from a share of the carry at the end of the fund life.

- Mezzanine Shares: There are two concessional mezzanine tranches, individually negotiated with JBIC and JICA. These tranches rank junior in repayment and receive lower returns than the senior tranche. JBIC and JICA are also eligible for a share of residual and retained earnings at the end of the fund term (i.e. carry). Following the Fund’s successful initial investment period, JBIC and JICA reinvested in the mezzanine tranche on less concessional terms, reflecting growing confidence from senior investors.
 - Junior Mezzanine: JICA has provided two types of subordinate mezzanine to the Fund upon first and second close of the Fund. These shares rank pari passu but differ in duration and target dividend. JICA 1 shares are issued for a duration of eight years and carry a semi-annual target dividend. JICA 2 shares have a duration ending at the maturity of the Fund, and shareholders are entitled to a higher semi-annual target dividend.
 - Senior Mezzanine: JBIC has also provided two types of senior mezzanine to the Fund. Depending on the closing, these also rank pari passu to each others but differ in duration and target dividends. JBIC 1 shares are issued for a duration of eight years and carry a semi-annual target dividend, while JBIC 2 shares have a duration ending at the maturity of the Fund, with a semi-annual target dividend.
- Senior Shares: Class A shares rank most senior in the capital structure, and target institutional investors. There are three types of Class A shares, which rank pari passu but differ in duration depending on the closings and target dividends: Class A1 shares are issued for a duration of six years, further extendible for up to two years with a target semi-annual dividend, Class A2 shares have the same return as Class A1 and duration from issuance until 30 June 2024, and Class A3 shares have the same duration as Class A2 shares and are entitled to a similar semi-annual target dividend.

LEGAL STRUCTURE AND GOVERNANCE

JAWEF is a Luxembourg specialized investment fund, formed as a company. It is governed by a Board of Directors and an Advisory Committee. The Board of Directors is comprised of three members. The Fund's Advisory Committee is appointed by the Board of Directors and is comprised of mezzanine and senior investors, including representatives of JBIC and JICA, and senior staff from BlueOrchard. Key responsibilities of the Advisory Committee are to guard the mandate of the Fund, review conflicts of interest and eligibility issues, and advise on key investment policies.

INVESTMENT CRITERIA

JAWEF invests in women-centric MFIs across the following ASEAN and South Asian countries: Cambodia, Myanmar, Philippines, Vietnam, Laos, Malaysia, and Indonesia, as well as India, Pakistan, and Sri Lanka. The MFIs must either disproportionately target female borrowers (at least 60%), or have or intend to develop a specific product for women's empowerment. Eligible products include credit and leasing, savings, insurance, payments and remittances, pensions services, or mobile banking for the purposes of income-generation, housing, education (including the education of family members), health, water and sanitation, or energy efficiency.

JAWEF can invest in Tier 1, Tier 2, or Tier 3 MFIs, as per BlueOrchard's classification scheme (*outlined below*). BlueOrchard's classification system has wider ranges than other systems used in the market (e.g., MicroRate).

	Tier 1	Tier 2	Tier 3
Total assets	> \$75 million	> \$30 million	< \$30 million
Years of operation	> 5 years	> 2 years	< 2 years

Table 1: MFI classification used by BlueOrchard for JAWEF

JAWEF is eligible to provide senior and subordinated debt, and can provide local currency financing selectively. The Fund follows a pre-defined schedule: senior debt with a maximum maturity of five years, and subordinated debt with a maximum maturity of eight years. The Fund complies with the following concentration limits:

- No more than 35% of total assets of the Fund will be invested in one single country

- No more than 15% of the total assets of the Fund will be invested in one single MFI
- No more than 25% of total aggregate exposure will be to equity and subordinated debt
- Aggregate unhedged local currency investments will not exceed 30% of the fund

INVESTMENT PROCESS

BlueOrchard leverages a regional investment team to identify its pipeline of investees, and the JAWEF portfolio manager evaluates these investment opportunities. In the first year of investments, JAWEF primarily invested in existing clients of BlueOrchard. Following year one, JAWEF diversified its portfolio, identifying up to 27 new MFIs in a range of new countries (e.g., Myanmar).

JAWEF evaluates investee risk using its proprietary investment management and risk management software, BlueOrchard Financial Services (BOFS). The system, which has been in use since 2012, is used to evaluate investees throughout the entire investment process. In addition, BOFS also serves as a central data depository which hosts the fund manager's online application process. The Investment Risk Team consistently updates the BOFS platform to integrate new advancements in monitoring practices and data analysis.

Once approved by the Investment Team, investees are monitored using BlueOrchard's BEWARE early warning system. BEWARE aggregates investee data on a monthly basis to monitor the institutions' growth, portfolio quality, open FX position, and profitability.

BlueOrchard also evaluates the social and environmental impact of all potential investees of JAWEF using its proprietary impact management tool, Social Performance Impact Reporting & Intelligence Tool (SPIRIT), which launched in 2009. Comprised of seven dimensions, SPIRIT is used to assess and monitor investees throughout the investment cycle. During the investment process, the Portfolio Manager uses SPIRIT to assess the investee's i) strategic intent (e.g. alignment between the investee's business strategy and impact objectives), ii) balance between financial and impact returns, and iii) contribution to the achievement of its impact objectives.

INVESTMENT ACTIVITY TO-DATE

JAWEF began disbursing capital immediately after first close, becoming fully invested within one year. To date, the Fund has demonstrated strong financial performance, consistently meeting investor targets from the first dividend distribution.

JAWEF’s portfolio is concentrated in seven countries. This includes ASEAN countries (i.e., Cambodia, Indonesia, Myanmar, the Philippines, and Vietnam) as well as non-ASEAN countries (i.e., India and Sri Lanka). Over time, the Fund has increased its exposure to non-ASEAN countries, notably India; by the end Q4 of 2019, approximately 25% of JAWEF’s investment portfolio was present in this country. In addition, Cambodia is a core market for the Fund; the target country accounts for about a third of outstanding loans.

As of Q4 of 2019, JAWEF has exclusively deployed debt, making 38 loans to 24 MFIs. Almost all loans are senior (approximately 97% of investments), with the remainder being subordinate. Most loans are invested in the agriculture sector, followed by trade (See Figure 2 for full sector breakdown below).

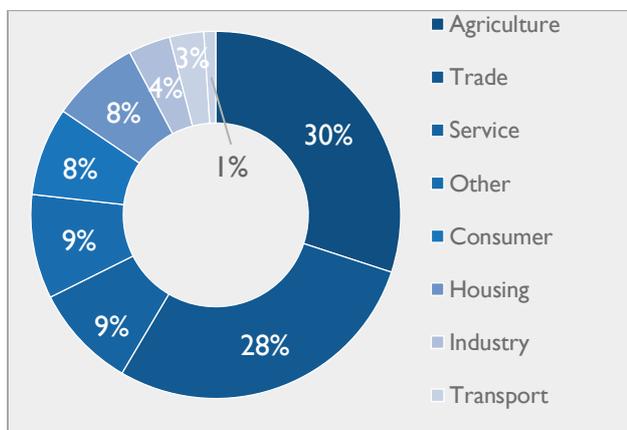


Figure 2: JAWEF portfolio by sector (as of Q2 of 2019)

JAWEF’s investments have primarily been into Tier 1 companies, representing 78% of their portfolio. A further 18% of the portfolio is invested in Tier 2 companies, with the balance in Tier 3 companies.

IMPACT METRICS

BlueOrchard uses (SPIRIT) to evaluate the social and environmental performance of JAWEF’s investees pre- and post-investment. Since 2009, BlueOrchard has consistently reviewed and updated SPIRIT to

incorporate industry best practices. BlueOrchard’s most recent iteration, SPIRIT 6.0, is aligned with the International Finance Corporation’s Operating Principles for Impact Management (Principles). Launched in 2019, the Principles are nine industry-wide accepted benchmarks for impact management. The principles provide a clear and common market standard for what constitutes an impact investment, addressing concerns about ‘impact-washing’ and bringing greater transparency, credibility and discipline to the process of measuring social and/or environmental impact. BlueOrchard was among the first signatories to these principles, and has worked closely with the consortium of public and private organisations in their development.

In addition to using SPIRIT, BlueOrchard collects impact data on a quarterly basis using its standard social performance indicators. These include metrics such as: percentage of end clients that are female, percentage of MFIs with a minimum of 60% female clients, percentage of rural clients, and total number of microentrepreneurs reached by MFIs in the portfolio. BlueOrchard also developed specific impact targets for JAWEF, including increasing the number of female entrepreneurs reached and the quality of services provided (e.g., by developing tailored financial products and training sessions for women).

IMPACT TO DATE

To date, JAWEF has reached over 250,000 microentrepreneurs directly, and supported a portfolio of MFIs that reach nearly five million microentrepreneurs overall. Since its launch, JAWEF has developed a strong track record in advancing access to financial services for female entrepreneurs, lessening the \$1.7 trillion credit gap faced by women-owned and women-led enterprises. To this end, all MFIs in JAWEF’s portfolio have a minimum of 60% female clients, and as of Q2 of 2019, 91% of the Fund’s end clients are women.

Beyond these successes, JAWEF has also achieved notable impact crowding in private sector financing to support women’s empowerment, providing important demonstration effects for the market. JAWEF was able to quickly mobilize a new investor set, Japanese institutional investors, to commit more than 50% of financing to the Fund. The commercial nature of JAWEF, and its success crowding in institutional capital establishes a track record for the private sector interested in gender-lens investing and frontier markets.

FOLLOW-ON STRUCTURE

Building on the Fund's initial fundraising success, JAWEF underwent a second fundraising round in 2019 to raise an additional \$120.5 million, bringing the total size of the fund to \$241.0 million. The majority of investors, including JICA, JBIC, and Japanese institutional investors including Sumitomo Life Insurance Company, increased their participation on a pro rata basis. In addition, the Fund brought in new investors, such as The Sasakawa Peace Foundation (SPF), which invested \$30 million in the senior tranche.

Following the Fund's expansion, JAWEF anticipates increasing its outreach from 27 MFIs to approximately 40 MFIs by 2021.

KEY INSIGHTS

JAWEF presents several insights useful for others looking to create or invest in blended funds focused on frontier markets and gender equality:

- **An experienced fund manager is a powerful partner for concessional capital providers looking to play a catalytic role:** Over its twenty years, BlueOrchard has proven its possible to deliver development impact alongside market-rate financial returns to senior investors through blended finance investment funds. Their track record served as a key incentive for JICA and JBIC, who were both interested in crowding-in the Japanese private sector. By partnering with such an experienced fund manager, JICA and JBIC were able to leverage their capital to attract first-time investments from Japanese institutional investors into frontier markets. Both capital providers were looking to mobilize additional private sector investment in accordance to their objectives and leverage complementary likeminded investors.
- **Concessional capital providers do not need to take a first-loss position to attract the private sector:** In the case of JAWEF, BlueOrchard deployed a minimal amount of first-loss capital (\$500,000) to cover credit and FX risks. The larger share of capital was provided by JICA and JBIC to the mezzanine tranche to varying degrees of concessionality. These concessional commitments matched the risk-return profile of each of the public investors, who were

looking to catalyze private investors and achieve social impact, but required some minimal risk protection given their newness to blended finance. The combination of the small first-loss tranche with the sizeable mezzanine tranche provided sufficient coverage to attract institutional investors to the senior tranche. Moreover, following a successful two-year investment period, JBIC and JICA re-committed capital to the fund on less concessional and more market-based terms, recognizing growing confidence from institutional investors. Ultimately, both the proportion of concessional capital and its terms should be right-sized to the specific vehicle and market context.

- **Blended finance can be an effective tool for mobilizing institutional capital towards gender-lens investing:** Through JAWEF, BlueOrchard, JICA and JBIC were able to mobilize additional capital for women's empowerment in ASEAN countries from Japanese institutional investors. These investors would not have traditionally participated in this type of fund; they had limited exposure to or appetite for impact or gender-lens investing in such frontier markets. JAWEF demonstrated the value of a blended finance approach, quickly reaching its target first close and then doubling in size after just two years. Concessional capital providers should consider where blended finance may play a role in mobilizing private sector investment at scale for high priority SDGs like Goal 5 (*Gender Equality*).
- **Successive fundraising rounds may lead to more efficient mobilization:** JAWEF reached first financial close (at \$120.5 million) after 18 months of fundraising, and fully deployed this capital in one year. JAWEF then had a second financial close (at \$241.0 million) after an initial three-year period, drawing largely from the same set of investors. This two-phase approach allowed investors to gain confidence with the Fund's approach and results. By designing the Fund to undergo successive fundraising rounds rather than launch follow-on vehicles, BlueOrchard proved its investment model quickly while efficiently mobilizing additional capital into the Fund. There are multiple examples of blended finance funds that have used this approach of successive fundraising rounds to scale their business models and crowd-in additional investors.

- Commercially-oriented blended finance vehicles can mobilize institutional investors, particularly when positioned for a specific target market : The mobilization of Japanese institutional investors in JAWEF is a notable accomplishment. While institutional investors are a large potential source of funding for the SDGs, institutional investors have not yet participated in blended finance at scale. In this case, JAWEF was structured with the intention of mobilizing a specific target market – Japanese institutional investors – who required largely the same risk-return requirements, in accordance to their fiduciary duty. While gender-lens investing and financial inclusion are more commercially established spaces, they serve as important markets to mobilize additional sources of capital. Commercially-oriented blended finance vehicles such as JAWEF are critical for increasing the exposure of institutional investors to developing countries and SDG projects.

SOURCES

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ABOUT CONVERGENCE

CONVERGENCE is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.

BLENDED FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.

Our GLOBAL MEMBERSHIP includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.

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