CONVERGENCE
BLENDING GLOBAL FINANCE

Women's World Banking

DESIGN GRANT CASE STUDY

WOMEN'S WORLD BANKING CAPITAL PARTNERS II (WWBCPII)

MAY 2021

EXECUTIVE SUMMARY

The Women's World Banking Capital Partners Fund II (WWBCPII) is a blended fund that benefits from a layered capital structure, blending first-loss equity, equity-participating debt, and technical assistance grants to attract commercial capital at scale. The Fund aims to close the 9% gender gap in women's access to financial services in developing markets.

WWBCPII is managed by WWB Asset Management (WAM), a for-profit asset management company and wholly owned subsidiary of Women's World Banking. WWBCPII builds on the success of Women's World Banking Capital Partners Fund I (WWBCPI), a $50 million traditional private equity fund that launched in 2012. WWBCPII is supported by a range of impact investors, development agencies, and foundations.

To support the Fund's gender strategy, WWBCPII benefits from a sidecar technical assistance program (TAP). In 2018, Convergence provided WAM with early design-stage funding to refine and further develop its existing gender methodology, as well as finalize the Fund's structure and financial model. The design of WWBCPII provides several insights for practitioners looking to structure blended products that bolster gender equality and financial inclusion:

- Blended finance requires flexibility from all parties, in order to align preferences and find a structure that works for all
- Grant capital can be a powerful tool for bolstering impact, including gender equality
- Investing in financial inclusion in emerging markets, particularly with a gender lens, is commercially viable – but perceived risk continues to be a barrier
- Complexity can serve as an added challenge when seeking scale

SYNOPSIS

Fund manager	WWB Asset Management ("WAM")
Fund Vintage	2020
Mandate	To close the financial inclusion gender gap by promoting women's access to financial products and services, while achieving attractive economic returns for Class A investors and capital preservation for Class B investors.
Priority Regions	Sub-Saharan Africa and South and South-East Asia
Target Fund Size	$100-150M ($75M first close reached in March 2020)
Capital Structure	• Risk Sharing Lenders ($25M) • Class A (Commercial) Equity ($50-$60M) • Class B (First-Loss) Equity ($20M) • Technical Assistance: $5-10M
Investment instruments	Equity / Quasi-Equity
Management Fee	2% annually of assets under management
Fund term	10 years, with possibility of two 1-year extensions
Impact Targets	Invest in 10 to 15 financial services providers

INTRODUCTION

One billion women globally lack access to financial products and services, representing a 9% gender gap on average, compared to men in developing economies. Despite being a profitable customer segment, women are not adequately served even as the financial inclusion market grows. Achieving the social goal of women's financial inclusion and sustainable empowerment requires financial institutions and investors to offer bespoke solutions to women's specific needs.

The development benefits of investing in the financial inclusion of low-income women are well known: women are more likely to invest in education for their children as well as better housing, nutrition, and healthcare for their families. Women's access to loans, savings accounts, and insurance can directly improve their family's development outcomes. Indeed, women's financial inclusion is considered a prerequisite for achieving at least nine of the Sustainable Development Goals (SDG), and enshrined in SDG 5: Gender Equality.

Recognizing the importance of financial inclusion for women, Women's World Banking (WWB) was established over 40 years ago to promote financial solutions and policy environments that serve women. In 2012, WWB launched the world's first women-managed private equity fund (WWBCPI) to invest exclusively in women-focused financial services providers. The Fund was managed by WAM, a for-profit asset management company and wholly owned subsidiary of WWB. WWBCPI achieved success both in terms of financial performance and impact; returns for the Fund are in line with the average according to the Cambridge Associates Benchmark for Impact Investing for the peer group vintage year. Moreover, WWBCPI has helped more than 5.8 million women gain access to financial products and services to date.

Building on WWBCPI's success, WAM began structuring a follow-on fund (WWBCPII) in 2018. In April 2018, Convergence provided WWBCPII with design-stage grant funding through its Global Emerging Markets Design Funding Window, funded by Global Affairs Canada, to finalize its financial model and business plan, as well as to refine and further develop its existing gender assessments. In 2020, WWBCPII reached a first close of $75 million, attracting support from a diverse set of investors including development finance institutions (DFIs), multilateral development banks (MDBs), impact investors, and family foundations.

DESIGN AND FUNDRAISING

While WWBCPI was a $50 million traditional private equity fund, WAM chose to create a blended finance structure for its second fund. Blended finance would allow the Fund to:

i) Expand its geographic presence to lower-income and fragile countries, particularly in Sub-Saharan Africa; and
ii) Diversify its portfolio by investing in more products and services (e.g., specialty finance companies, digital financial products) and earlier-stage companies

WWBCPII also sought to achieve a larger fund size of $100 million, by tapping into commercial investors. To this end, WWBCPII draws on a number of types of concessional capital. Firstly, WWBCPII uses first-loss equity to reduce the risk profile for commercial investors. WWBCPII also draws on multiple types of grant capital to develop a comprehensive gender-lens strategy to bolster its commitment to empowering women. This includes design funding provided by Convergence, as well as a sidecar technical assistance progam (TAP), which supports the Fund's investees implement a rigorous gender assessment process and gender action plans.

The fundraising process for WWBCPII took over two years, with WAM adapting the fund structure several times to suit all parties. WWBCPII draws on capital from three types of funders: commercially-oriented investors (Class A LPs), first-loss donors willing to play a catalytic role to mitigate risk for other investors (Class B LPs), and risk-sharing lenders (RSLs), namely the United States Development Finance Corporation (DFC).

Identifying Class B Limited Partners

Beginning in 2018, WAM approached a number of funders to participate in the Class B tranche, including development agencies and foundations.

Here, WWBCPII attracted initial support from the European Union (EU) through KfW, the German development bank, and USAID. These organizations were looking to play a catalytic role and identified with the Fund's use of blended finance. The EU and USAID were further attracted by WWB's track record in accelerating economic opportunity for low-income women, and holistic approach to gender.

KfW approached WWB early on to submit a proposal to a special funding window of the EU, focused on women's economic empowerment, using blended finance. Together, KfW and WWB submitted a proposal for a EUR 10 million anchor investment (including EUR 7 million for the Fund and EUR 3 million for the technical assistance facility), which was approved by the European Commission in June 2018. As the primary purpose of the EU contribution was to crowd commercial investors into the fund by risk-adjusting the fund structure, the EUR 7 million commitment to the Fund was structured as a first loss equity contribution, with a cap on returns of 2.5%. However, funding provided by the EU was restricted to supporting investees in Sub-Saharan Africa (SSA), in line with the Commission's existing mandate. Due to the higher risk profile of SSA investments relative to other target geographies, a larger first loss support for those investments was in line with the goal to risk-adjust investments for the Fund overall. Nonetheless, in order to accommodate this restriction and requirements of other investors, the Fund's structure ultimately needed to be adapted to include two subsidiaries for the two different investment pools: the SSA pool ($40 million) and a Non-SSA pool ($60 million). This complicated the structure of the Fund for WAM and other investors, adding both legal and financial implications.

WWBCPII also represented a timely opportunity for USAID. The organization had just launched its innovative USAID INVEST initiative and identified WWBCPII as an opportune test case. While USAID could not participate as a traditional equity investor, INVEST provided a channel for USAID to support the Fund. Launched in 2019, the INVEST initiative was designed with the express purpose of being an efficient tool for USAID to support private sector activity. Using INVEST, USAID could participate through an existing tool; by using a deliverables-based contract. By treating WWBCPII as a deliverable, USAID repurposed a traditional avenue to deploy catalytic based capital. A contract-based approach also limited 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 sub-contract with WAM only lasts two years, while the granted funds remain invested throughout the duration of the Fund's life. Ultimately, USAID committed to providing $500,000 in first-loss funding using INVEST. The first $250,000 was paid at the close of the Fund's first round of fundraising and remaining $250,000 at the close of the second round. Moreover, USAID also recognized the important role technical assistance would play in the Fund, and committed an additional $100,000 in grant funding to support the Fund's activities.

WWB also received early support from the Development Finance Corporation (DFC). DFC identified with the Fund's exclusive focus on delivering greater financial inclusion for women in low-income countries, as well as its alignment with DFC's 2X women's initiative. Similar to USAID, DFC was looking at complementary ways to support WWBCPII, but did not have authority to invest equity. To accommodate DFC's constraint, WAM revised the structure to incorporate an equity-participating debt tranche that ranks pari passu to the Class A (equity) tranche. The debt tranche was structured with equity-features (quasi-equity), in order for Class A investors to retain equal rank in all but the most remote scenarios; and also included several rounds of negotiations with the other Limited Partners in order to get all parties comfortable with this structure. Furthermore, the DFC commitment had to be split into two separate loan agreements to accommodate the unique structure with the two separate investment pools.

Lastly, KfW identified the German Federal Ministry for Economic Cooperation and Development (BMZ) as an additional anchor investor in the Class B tranche. Subsequently, BMZ provided a total investment of EUR 8.5 million in Class B and EUR 1.5 million for the Technical Assistance Program. Unlike the EU, BMZ was not restricted to any specific geography, and therefore provided first-loss support for investments in both the SSA and Non-SSA investment pools.

Identifying Class A Limited Partners

Following the success of WWBCPI, WWBCPII sought to attract commercially-oriented investors, including impact investors. WAM's fundraising activities progressed in tandem with structuring, with WWBCPII adapting its initial fund structure several times. This presented a challenge for commercial investors, requiring further negotiation and multiple rounds of due diligence as investors and donors re-evaluated a model that would work for all parties. For example, the addition of regional investor pools created a possibility whereby the carry from one pool could be paid to WAM before the hurdle rate was achieved for the entire Fund. The additional due diligence needed to analyze the structure resulted in some interested commercial investors not being ready to participate in the Fund's first close.

In 2018, the Fund attracted interest from Open Society Foundations (OSF), following an open call under OSF's newly-launched "Power of Women" portfolio. While OSF had supported gender equality in the past, WWBCPII represented one of OSF's first explicit women-led investments. In addition to WWBCPII's use of blended finance, the Fund's holistic, sustainable approach to gender-lens investing and the role of technical assistance in delivering its gender-lens strategy. In this way, technical assistance would allow WWBCPII to implement a comprehensive gender assessment and work with investees to identify gender gaps and develop appropriate products for women.

WWBCPII's strong focus on gender also attracted support from impact investors with an existing focus on gender-lens investing. For example, Dreilinden, a German impact investor with a mandate to support LGBTIQ people and / or women and girls, first supported WWBCPI in 2012. Although originally looking for investment opportunities primarily with a focus on LGBTIQ people, Dreilinden recognized the unique role of WWB in its commitment to gender and the power of its robust methodology. Importantly, WAM agreed to work with Dreilinden to incorporate LGBTIQ topics within its gender assessment methodology and questionnaires for WWBCPII.

FUND STRUCTURE

WWBCPI is a blended finance vehicle that leverages multiple forms of concessional financing, including first-loss capital, to adjust its risk-return profile to attract commercial investors.

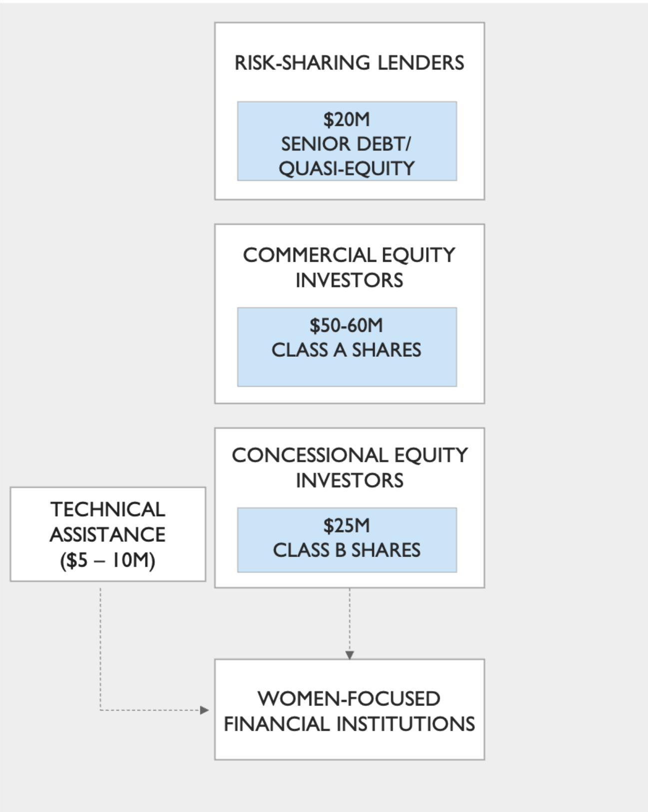

Figure 1: Structure of WWBCPII

The Fund is comprised of three tranches:

1) Debt ("Risk-Sharing Lenders"): WWBCPII leverages a long-term equity participating debt tranche, capitalized solely by DFC. Rather than rank senior to equity investors as in traditional capital structures, DFC ranks pari passu with commercial equity investors (Class A) in the Fund's distribution waterfall, however with a cap on returns of 10% per annum. If DFC has not achieved a minimum return of 4% by the time the last portfolio company is sold, DFC will become senior in the Fund's waterfall until this minimum return is achieved.

2) Commercial Equity ("Class A"): The Class A tranche is the commercial tranche, seeking target annual returns between 15-18%. WWB raised $39 million in commercial equity from a mix of development funders (e.g., JICA, EIB), as well as impact investors (e.g., Soros Economic Development Fund, Dreilinden). Class A Limited Partners benefit from downside protection as a result of the Class B tranche as well as higher (i.e., leveraged) potential upside as a result of the debt tranche (that seeks lower returns in exchange for seniority).

3) First-loss Equity ("Class B"): WWBCPII has raised $17 million in Class B equity to date, primarily from development agencies such as the EU, BMZ, and USAID, to provide first-loss protection to commercial investors. The first-loss tranche enables the Fund to invest in underserved areas such as low income and fragile or conflict-affected countries, as well as, early-stage companies. Following support from the European Commission, through KfW, this tranche is split into two investor pools: the Sub-Saharan Africa pool and the non- Sub-Saharan Africa pool.

The Class B tranche does not participate in any capital distributions until the Fund has returned capital to Class A Limited Partners and the Risk-Sharing Lenders, therefore absorbing potential losses in the Fund. The Fund then returns capital to Class B investors. Additional returns are shared across classes up to 2.5% per annum, after which additional return flows only to the Class A, therefore creating a return enhancement for these investors

TECHNICAL ASSISTANCE

During the course of WWBCPI, WAM recognized that a technical assistance program (TAP) could deliver substantive benefits, both in terms of financial gains and impact. As a result, WAM chose to make a TAP part of WWBCPII's structure. Specifically, technical assistance could play an important role in implementing a systematic approach to gender lens investing, by supporting the implementation of the Fund's Gender Assessment Methodology (*details below*). In this way, technical assistance enables a gender lens focused approach through: i) explicit inclusion in shareholders' agreements, and, ii) evidence-based learning from data to drive outcome improvement. To date, the TAP has raised approximately $5 million in grant funding.

GENDER ASSESSMENT METHODOLOGY

While WWBCPI has performed many gender assessments, with WWBCPII, WAM sought to refine and optimize the Fund's existing gender strategy. Specifically, WWBCPII endeavoured to advance two of the existing assessments used by Women's World Banking: i) the Women's Market Strategy Assessment (WMSA), which evaluates a prospective investee institution's outreach to the low-income women's market, specifically its product design, marketing, delivery channels, and educational programs and ii) the Organizational Gender Assessment (OGA), which evaluates an institution's gender diversity among staff and leadership. In 2018, Convergence awarded WWBCPII early-stage funding to integrate both assessments into a standardized tool which could be applied rapidly and universally to the Fund's portfolio companies, as well as to make a more concise online version publicly available for market-wide learnings.

The following features informed the design of the new GAM for WWBCPII:

- Comprehensive: The revised GAM builds on current methodologies, which focus primarily on the organization itself, to assess the institution's market and clients, including: product design, delivery channels, marketing, and education campaigns.
- Diagnostic and prescriptive: The GAM expands beyond merely assessing an organization's current gender equality practices to provide a plan of action to be implemented over the life of the Fund's investment.
- Open source: WAM sought to make an online gender assessment publicly available to support market-wide learning, with the intention to update as learnings and best practices evolve. The online GAM is now publicly available here.
- Universally and rapidly deployable: The GAM is a standardized tool that can be applied to a variety of institutions. The GAM is also designed to be implemented within a short period of time (i.e. when WWBCPII makes an investment).
- Sustaining: WWBCPII strives to provide an ongoing measure of progress for its investees, by requiring an ongoing set of indicators that will be incorporated within the investee's gender action plans and monitoring and reporting requirements.

The GAM further consists of four elements:

- Online tool: The GAM uses an online tool to establish how prospective or current investees measure against best practices in the way they serve the women's market and achieve organizational gender diversity internally.
- On-site assessment: Once an investment is completed, WAM will perform an on-site gender assessment in order to identify gender gaps and biases that hinder the organization's ability to serve women or advance women leaders. This includes in-depth data analysis as well as focus groups with customers and employees.
- Gender Action Plan: Based on the assessment above, WAM and Women's World Banking work together with the investee's management and board to create a three to five-year gender action plan, which will include specific actions and KPIs the institution will take in order to serve more women with better products and services and develop an inclusive organizational environment.
- Follow on technical assistance: To the extent that additional funding is available, WAM will endeavor to provide additional technical assistance to the investees to support the implementation of the Gender Action Plan.

The implementation of the GAM and all related work is funded by the TAP.

In addition to the gender lens strategy described above, the Fund will also seek to negotiate investment terms committing institutions to tracking and reporting gender performance standards, including through shareholder agreements which commit to: increasing the percentage of women clients served by every major product line where they are not already at 50%, increasing the percentage of women staff at every level where they are not already at 50%, and increasing the percentage of women participating in senior management teams and boards where they are not already at 35%. WAM will also endeavour to hold a board seat on its portfolio companies.

LEGAL STRUCTURE AND GOVERNANCE

WWBCPII is a Mauritius Limited Partnership that consists of three tranches: Class A Commercial Return, Class B First-Loss Repayable, and Risk-Sharing Lenders (RSL). While the Fund was originally planned to be registered as an Ontario Partnership, due to investor requirements the jurisdiction was later changed to Mauritius, causing some delay due to the more regulated nature of this domicile.

To accommodate the addition of two regional investor pools (the Sub-Saharan Africa (SSA) pool and the Non-Sub-Saharan (Non-SSA) Africa pool), and therefore two separate loan agreements with DFC, the Fund has two wholly owned subsidiary special purpose vehicles (SPVs): the WWBCP II SSA, LLC and WWBCP II Non-SSA, LLC. These Mauritian SPVs hold equity ownership stakes in gender-diverse local financial service providers. The RSL tier has a quasi-equity investment of 25% of the total Fund size in the form of risk-sharing debt in both SPVs. The purpose of the vehicles is to separate investments and allocate expenses between SSA and Non-SSA countries.

WWB Investments II LLC ("General Partner") is a general partner of the Fund and a wholly owned subsidiary of Women's World Banking Inc, a New York-formed private not-for-profit corporation classified as tax exempt. Its Board of Directors is responsible for approving the launch of the WWBCPII. The General Partner oversees the Fund's operations and is ultimately responsible for ensuring the Fund operates in compliance with its mandate. The General Partner has engaged WAM to be the sole manager for the Fund.

INVESTMENT CRITERIA

WWBCPII invests in different types of financial service providers (FSPs), including: microfinance institutions (MFIs), banks, specialty finance companies (e.g., institutions that provide specialized financing for agriculture, housing, education etc.), insurance companies, mobile / digital FSPs, and SME finance providers.

WWBCPII is primarily an equity fund, and will seek minority equity positions, with a preference for a board seat. The Fund also has the option to make quasi-equity and limited debt investments. WWBCPII will primarily invest in FSPs that focus on women-owned microenterprises and small businesses, similar to the focus of WWBCPI, with a particular focus on companies that use digital technology to deliver products and services. In addition, the Fund will invest in newer inclusive finance products such as specialty finance for low-income housing, agriculture and education, microinsurance, and the provision of digital financial services such as mobile payments and remittances. The Fund will prioritize investments in institutions that leverage technology to reach women clients.

Potential investees must fulfill the following criteria to be considered for an investment:

(1) Adhere to the following Women's World Banking principles
   a. Responsibly serve the unserved and underserved women's market;
   b. Promote gender diversity within their institutions; and
   c. Commit to product innovation for women's financial inclusion and partner with Women's World Banking on key insights and learnings.

(2) Prospective portfolio companies will be:
   a. Engaged either in providing target products and/or the delivery channels for these products to financially unserved or underserved populations with a focus on women;
   b. Operated in emerging markets;
   c. Committed over the long-term to serving financially unserved or underserved populations responsibly, with a focus on women, with the target products;
   d. Committed over the long-term to building and maintaining gender-diverse organizations;
   e. Committed to reporting detailed gender-disaggregated data on clients and staff; and
   f. Projected to achieve a commercially attractive return over the investment horizon with a reasonable view to exit.

WWBCPII will be guided by the below investment parameters and concentration limits:

Target number of portfolio companies	10 to 15
Investment size	Ranging from $1 million to 15% of aggregate Total Commitments, with an average investment size of $6-7 million.
Investee concentration limit	15% of aggregate Total Commitments
Country concentration limit	20% of aggregate Total Commitments
Expected holding period	5 to 7 years

Table 1: WWBCPII investment parameters

INVESTMENT PROCESS

The principal investment objectives of the Fund are to:

1) Close the gender gap in financial inclusion by investing in and further developing inclusive FSPs which (i) promote access to and the use of diverse financial products and services for

women clients and (ii) promote gender diversity at all levels of the Portfolio Companies; and

2) Achieve attractive economic returns for Class A Limited Partners and capital preservation for Class B Limited Partners.

To achieve these objectives, the Fund will seek to:

(1) Increase the percentage of women clients served by every major product line that a Portfolio Company offers where women are not already at 50%; and
(2) Increase the percentage of women's participation in operating staff, management teams, and boards of Portfolio Companies, where they are not already at least 50% of staff and 35% of management teams and boards.

As the Fund's manager, WAM draws on a wide network of partnerships and methods to identify investment opportunities. Sourcing partnerships and methods include:

1) The WWB team, network, and partnerships;
2) Strategic outreach to high performing companies in target sectors and geographies;
3) The Women's World Banking FinTech Challenge and other industry events and conferences;
4) Members of the WWBCP II Investment Committee;
5) WWBCPI portfolio companies requiring follow-on investments;
6) Organizations using the online assessment tool.

INVESTMENT ACTIVITY TO DATE

To date, WWBCPII has invested in three financial service providers, affecting more than 150,000 women. This includes:

1) A $3 million investment in an Indian affordable housing company, Sitara, providing mortgage finance to women in the informal sector and supporting them to receive property titles.
2) A $1.3 million investment in an agricultural insurance broker, Pula, providing weather insurance to small-holder farmers across Sub-Saharan Africa by leveraging technology.
3) A $3 million investment in a Colombian fintech company, providing micro-loans and insurance to primarily women micro-entrepreneurs through a network of informal agents.

IMPACT METRICS

The Fund subscribes to Women's World Banking's empowerment framework that connects women's access to and usage of financial services to women's empowerment along the following dimensions: material change, cognitive change, perceptual change, and relational change.

In order to measure access to and usage of financial services, the Fund will measure the number and percentage of women served in every major product line that Portfolio Companies offer. Furthermore, the Fund will collect a range of additional indicators at the input, output, and outcome levels to measure how well Portfolio Companies serve women clients and promote gender diversity at the organizational level (See tables below).

Type of Metrics	Sample Metrics
Input metrics (at level of Fund / Technical Assistance Program)	e.g., number of investments; number of technical assistance projects
Output metrics (at level of Portfolio Company)	e.g., value of financial products & services provided by gender and product; portfolio quality by gender, number of women in managerial positions receiving capacity building support / leadership training
Outcomes (at level of clients and employees of Portfolio Company)	e.g., number of women with improved financial inclusion, number of employees, by gender and by staff level; promotion rate by gender

Table 2: Sample Indicators collected by WWBCPIII

Recognizititing that measuring the actual impact of the Fund's activities on women's empowerment requires more in-depth impact evaluations, the Fund will endeavor to conduct impact evaluations on a small subset of Portfolio Companies. These impact evaluations will measure how the increased access to financial products and services contributes to women's empowerment.

KEY INSIGHTS

- Blended finance requires flexibility from all parties, in order to align preferences and find a structure that works for all funders: Blended finance allows parties with different objectives to invest alongside each other to achieve their respective goals. In the case of WWBCPII, two types of funders were sought: concessional funders interested in promoting gender equality while playing a catalytic role, and commercial investors looking for investment opportunities in line with their risk-return profiles. The collaborative nature of blended finance, involving the reconciliation of diverse mandates, can sometimes be challenging. For example, in the case of WWBCPII, combining the different requirements of several donors as well as development finance agencies required longer time frames, which posed challenges when seeking to maintain the appetite of private investors. Over the course of fundraising, the structure of WWBCPII also changed to accommodate investor preferences, including the addition of two regional investment pools, as well as a change in legal domicile. To ensure that all parties are aligned, flexibility is required, both in terms of structuring and legal arrangements, to find creative solutions that suit both donors and private investors alike.

- Grant capital can be a powerful tool for bolstering impact, including gender equality: A defining feature of WWBCPII is its systematic commitment to gender equality. Grant capital played a crucial role here. First, WWB leveraged a design-stage grant from Convergence to develop a landmark tool for the market through its gender assessment methodology (GAM). Early-stage funding was used to build upon and standardize WWB's existing assessments, as well as to enable the tool to become publicly available for market-wide learnings. Importantly, WWB also leverages grant-funded technical assistance to implement its gender assessments and gender action plans. This includes WWB working with investees to gather data, inform existing gender gaps, and prescribe adequate steps to better address women in the market (including, for example, by designing new and more accessible products). The financing WWBCPII will provide to its investees will be critical to supporting financial inclusion for women, and the GAM made possible by grant capital will drive additional impact.

- Investing in financial inclusion in emerging markets, particularly with a gender lens is commercially viable – but perceived risk continues to be a barrier: WAM's first fund was a traditional private equity fund that achieved financial performance in line with benchmarks and considerable development impact, demonstrating both favourable returns while reaching more than 5.8 million women. In the case of WWBCPII, blended finance was used to deepen impact by: (i) expanding the Fund's geographic presence to lower-income and fragile countries, especially in Sub-Saharan Afirca; (ii) diversifying the Fund's portfolio by including more products and services (e.g., specialty financing for housing or agriculture) as well as by investing in earlier-stage companies; and (iii) supporting a more comprehensive gender strategy. However, traditional commercial investors are still hesitant to invest in financial inclusion in emerging markets with a gender lens, due to perceived risk and often the small size of such funds. Continuing to build the track record for the commercial viability of investing in gender, as done by both WWB funds, is therefore crucial.

- Complexity can serve as an added challenge when seeking scale: WWBCPII added complexity to the structure of WWBCPI in two ways - the use of blended finance and the addition of risk-sharing lenders. While the added risk mitigation offered by blended finance is an important measure for attracting commercial investors to riskier markets, the use of multiple types of capital can serve as a barrier to entry for new adopters of blended finance. Moreover, the addition of equity-participating debt to the capital structure required WAM to further amend the structure. However, with some creative thinking and a willingness to make the structure work for all parties, WAM was able to accommodate an additional equity-like debt tranche. As a result, DFC provided key funding in the form of $25 million. While blended finance structures should seek to simplify as much as possible, a willingness to accommodate the different requirements of development capital can result in fundraising targets being achieved.

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.

Our DESIGN FUNDING PROGRAM offers a unique market acceleration opportunity for practitioners to secure feasibility study and proof of concept stage design funding to develop and launch catalytic blended finance vehicles that aim to attract private capital to sustainable development at scale. Aceli Africa is a Convergence design funding grantee.