CASE STUDY

WOMEN'S LIVELIHOOD BOND (WLB)

FEBRUARY 2018

EXECUTIVE SUMMARY

The Impact Investment Exchange's (IIX) Women's Livelihood Bond (WLB) is an innovative development finance instrument that mobilizes private sector capital for development impact by pooling loans to social enterprises into a public debt security. The USD 8M, four-year bond is listed on the Singapore Exchange (SGX) and will pay a semi-annual coupon to bondholders. The bond proceeds were lent to three underlying borrowers focused on empowering women through sustainable livelihoods in Southeast Asia. The WLB benefits from a blended capital structure, mitigating risk through a USD 500K first-loss tranche and a pari passu guarantee of 50% of the loan principal.

Launched in 2017, IIX spent approximately two years designing, structuring, listing, and fundraising for the WLB. During this time, the size and structure evolved significantly, adapting to and managing important challenges around innovation, including right-sizing the risk mitigation mechanisms, and investor outreach and education. The WLB uses existing capital markets instrument to achieve impact in an innovative way and is a key development for impact investing in Asia.

The WLB's design and fundraising experience present useful insights for others considering structuring or investing in similar structures:

- Gender-lens investing is an emerging trend
- Multiple layers of concessional capital may be required
- Blended finance structures are complex
- Knowledge of target investors is important for positioning attractive investment opportunities
- Blended finance or not, innovation is costly

SYNOPSIS

Portfolio manager	Impact Investment Exchange (IIX)
Mandate	Empowering 385K women through sustainable livelihoods, building their resilience to socio-economic shocks and stresses in Cambodia, Vietnam, and the Philippines through enhanced access to credit, market linkages, and affordable goods and services.
Issue date	2017
Bond tenor	4 years
Size	USD 8M
Key stakeholders	United States Agency for International Development (USAID); Australian Department of Foreign Affairs and Trade (DFAT); Japan Research Institute; Rockefeller Foundation
Capital structure	Senior debt: USD 8M First-loss capital: USD 500K Partial guarantee: 50% of losses on underlying loans
Investment instruments	Senior unsecured debt in US dollars
Investment size	USD 1.0-3.7M
Investees	MFIs: SAMIC PLC, NWTF Social enterprise: Viet Phu Payment Services (iCare)
Target return	Senior debt: 5.65% coupon rate
Example impact metrics	Social return on investment (SROI), total female beneficiaries

INTRODUCTION

In 2017, the Impact Investment Exchange (IIX) launched one of the world's first listed bonds with an impact mandate, called the Women's Livelihood Bond (WLB). Accredited investors and institutional investors purchased the WLB, with the proceeds from the issuance lent to three social enterprises that empower women by improving their access to critical products and services, such as basic banking. To mobilize commercial capital for women's empowerment in Southeast Asia, the WLB leverages three blended finance mechanisms: i) early-stage grant funding to support the two-year design process; ii) a partial guarantee on the underlying loans; and iii) a small first-loss capital tranche contributed by IIX.

Empowering women to participate fully in economic life across all sectors is essential to build stronger economies, achieve the Sustainable Development Goals (SDGs), and improve the quality of life for women, men, families, and communities. Women's empowerment is the ability for women to enjoy their right to control and benefit from resources, assets, income, and their own time, as well as the ability to manage risk and improve their economic status and well-being. There are many social enterprises tackling this challenge, empowering women to overcome gender-based constraints and socio-economic barriers to achieve sustainable livelihoods. However, access to finance is a major barrier to growth for these social enterprises, preventing them from scaling up to empower a greater number of beneficiaries.

The WLB represents an innovative application of a traditional financial instrument to the impact investment sector, which seeks to bridge the current gap between the SDGs and global financial markets. The WLB is a listed bond (or debt security), the proceeds of which finance a group of high-impact social enterprises that have undergone rigorous financial and social due diligence. The WLB is one of the first listed bonds and a unique impact investing opportunity for the Asian market as it is listed and quoted on the Singapore Exchange (SGX). Benefiting from IIX's pioneering efforts, listed bonds with an impact mandate have great potential to be structured and issued around multiple development themes and regions.

DESIGN AND FUNDRAISING

The WLB was conceptualized, designed, launched, and is managed by IIX, a Singapore based company established in 2009 whose mission is to mobilize private sector capital for social enterprises in developing Asia. IIX set out to pool together a group of borrowers into a basket, allowing the overall portfolio to diversify away part of the risk and enhance the opportunity for entities to attract private sector investors. More importantly, IIX wanted to establish a framework/template for structuring and issuing listed bonds with impact mandates that could appeal to a wide range of investors. This instrument has high potential to mobilize private sector capital at scale because it is a standardized instrument that is well-understood by institutional investors, it offers a steady coupon over a clear tenor, and it provides liquidity, which is scarce in the current impact investing market.

To avoid confusion, it is important to note the difference between a traditional bond with an impact mandate (social or environmental), and the pay-for-success model that is also described as an impact bond. An impact bond in the pay-for-success world is not a traditional bond. It is a structure where investors provide working capital for development interventions (e.g., education programmes) and are repaid principal and a return by donors or government if impact targets are achieved. The key differences between these structures are outlined below.

	Pay-for-success impact bond	Traditional bond with impact mandate
Returns for investors	No traditional "economic" return; outcome funders repay principal and a return if impact is achieved	Return generated through principal and interest payments by borrowers who are engaged in economic activity
Risk for investors	Ability of development intervention to achieve impact	Ability of borrowers to make principal and interest payments
Underlying Borrowers	Typically NGOs or non-profits	Companies or social enterprises, like MFIs
Coupon	No coupon; either bullet payment from outcome funder, or 2-3 payments over life of impact bond	Regular coupon payment
Liquidity	Not tradeable	Tradeable if listed, such as WLB

Table 1: Overview of development bond instruments

IIX committed to create a bond for women's livelihoods at the Clinton Global Initiative (CGI) Annual Meeting in September 2014. It ultimately took approximately three years for this idea to come to fruition. During this time, the size and structure evolved, adapting to key considerations around feasibility and market readiness. The WLB was originally envisioned as a USD 20M single-tranche bond with a partial guarantee issued on each of the underlying loans.

Ultimately, the WLB launched as a USD 8M two-tranche bond with first-loss capital provided by IIX in addition to a partial guarantee from USAID.

While IIX committed to develop the bond in 2014, the design process formally began in 2015, supported by an early-stage design grant from the Rockefeller Foundation and additional support from Japan Research Institute. Most of the design decisions and activities were completed in the targeted 12-month period, culminating in a blueprint paper that summarized and provided lessons on preparing and structuring a listed bond with an impact mandate. The WLB opened for fundraising approximately one year later in 2016 and reached financial close in July 2017. The first-loss tranche was added shortly before closing.

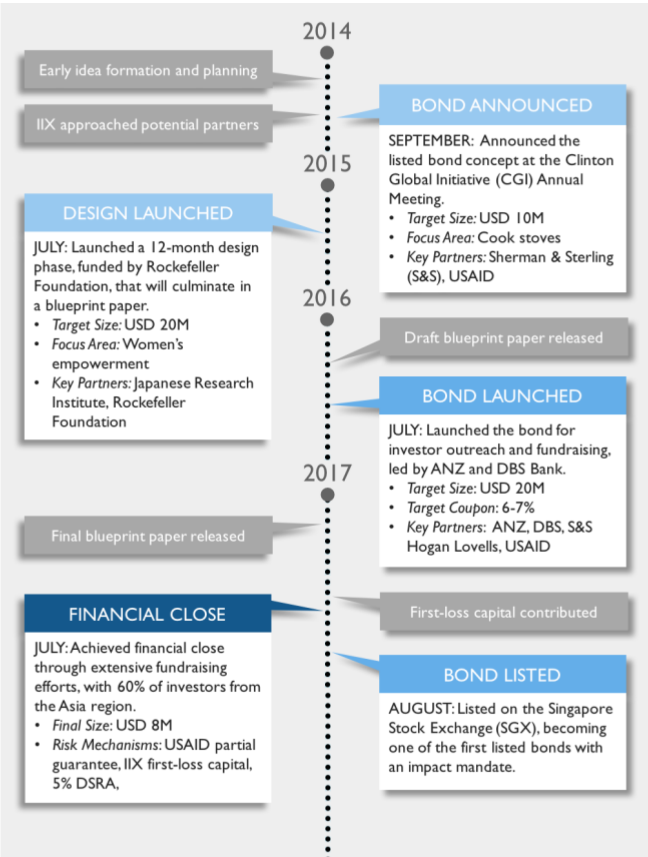

Figure 1: Timeline of the design process

There were three key activities in structuring and issuing the bond: i) pipeline development, ii) product development, and iii) issuing the bond.

I. Pipeline Development

One of the first activities was for IIX to identify a strong pipeline of underlying borrowers to pool together in a basket based on their risk-return profile and impact potential. IIX leveraged a gender lens investing framework, which is the practice of investing for financial return while considering the benefits those investments have for women. Gender lens investing can include funding women-owned businesses, businesses with a strong track record of employing women, or companies that improve the lives of women and girls with their products and services.

IIX leveraged their existing databases and partner network to establish a strong pipeline of social enterprises aligned to the bond's objectives. IIX then conducted both a negative and positive screening of both financial and social impact capacity, followed by due diligence on a shortlist of organizations. Key considerations for entity level screening included mission orientation (with a clear focus on empowering women), financial sustainability (including the ability to effectively absorb, deploy and repay capital), and governance. Key considerations for portfolio level screening included country conditions and overall risk-return-impact of the pool of entities. Due diligence was conducted via site visits undertaken by IIX financial experts and IIX Foundation impact experts.

Ultimately, IIX constructed the WLB portfolio based on the collective ability of underlying borrowers to balance risk, generate reasonable financial returns, and create demonstrable social impact. The initial portfolio included six borrowers across four countries, but ultimately the WLB only provided finance to three borrowers across three countries. Borrowers were removed or dropped from the WLB for several reasons, including changes in borrowers' financial position; borrower drop outs due to delays; and changes to accommodate investor preferences.

II. Product Development

The next stage was for IIX to customize the financial instrument to the geographic and market contexts. IIX began by identifying the key parameters that would govern the bond structuring process, namely the i) target rate of return, ii) level of acceptable risk, and iii) the target impact. Once these parameters were identified, IIX developed the financial model. Here, DBS Bank and ANZ Banking Group played an important role providing strategic input on client preferences on underlying borrowers, geographic diversification, the coupon rate and bond tenor, and investment terms.

- Principal amount and maturity: The objective was to align the supply of capital with demand, specifically the ability of borrowers to absorb, deploy, and repay capital. IIX tested several different bond sizes and maturities. The initial anticipated bond size was USD 10M over a five-year period. The final bond size was USD 8M over a four-year period, which reflected both pricing estimates for different risk and return profiles and changes in the portfolio as noted above.

- Coupon rate and lending rate: It was necessary to have a good sense of both investor preferences and borrower limitations. IIX set an initial target coupon rate of 6-7%, primarily focusing on providing an attractive return for investors. Balancing borrower limitations and investor appetite, the WLB's final coupon rate was settled at 5.65%. The average lending rate to the portfolio of borrowers will be 2.5% higher than the coupon rate, a market appropriate interest rate that accounts for various bond costs, including the cost of the guarantee.

- Risk mitigation: IIX initially factored in a guarantee mechanism and a Debt Service Reserve Account (DSRA) to mitigate risk for the bondholders. For the guarantee, IIX approached USAID through its regional mission to Asia, which in turn engaged USAID Development Credit Authority (DCA). USAID DCA extended a partial 50% guarantee on the principal amount of each of the loans to the underlying borrowers. When the partial guarantee and DSRA proved to be insufficient to attract the targeted commercial investors, IIX added a third risk mitigation instrument, a small first-loss tranche, in early 2017 in response to investor feedback.

III. Placing and Issuing the Bond

The final step in developing the WLB was the actual bond issuance, including the placement of the bond and listing on the stock exchange. The bond placement required the incorporation of a special purpose vehicle (SPV), the preparation of the investor memorandum, marketing to investors, and finalizing the pricing. These activities were led by ANZ and DBS Bank, which had agreed to work in partnership with IIX to sell the bond to accredited investors and institutions in their networks.

The WLB was listed and quoted on the Bonds Market of the SGX in August 2017. Listing the WLB was arguably not a necessary element of the structure given the size and tenor. Yet, both IIX and supporting partners felt it was important to list the WLB for three reasons:

1. To build transparency and credibility around this new asset class (i.e., listed bonds with an impact mandate): Entities listed on stock exchanges have a general obligation to disclose performance information on a continuous basis and a transparent track record can build market appetite.

2. To provide liquidity to investors: The bondholders may trade the bond on the stock exchange during the life of the bond, which provides an exit option and added comfort to the investor. Although little or no trading is expected to occur given the short tenor of the bond and the nature of the ultimate investors (i.e., more impact-oriented), the possibility has value to investors.

FUNDRAISING

The fundraising process was co-led by IIX and the supporting investment banks, DBS Bank and ANZ. DBS Bank reached out to accredited investors and institutions in Europe and Asia, while the ANZ Banking Group focused on institutions in Australia, New Zealand and the United States.

The initial fundraising thesis was that a standardized debt security would appeal to institutional investors with an impact investment mandate and would also be a natural extension for individual Asian accredited investors looking to bridge into either emerging markets or impact investing. While the WLB did successfully attract commercial investors, the fundraising process was more challenging than anticipated for several reasons:

- Small size of the investment opportunity: The small size of the bond played a notable role in limiting institutional investor interest given standard limitations around bond subscriptions and portfolio requirements. Future issuances in the Women's Livelihood Bond series are expected to be larger in size than the pilot.

- Restricted investment mandates: Few Asian institutional investors have a mandate to invest in impact investments. Moreover, even in more developed impact investment markets, the number of institutional impact investors is limited. And many of those that do exist are focused on the microfinance market and were unable to invest in a bond that included other impact enterprises beyond microfinance institutions (MFIs).

- Required education around impact investing opportunities for Asian investors and beyond: While the intent was to create a commercial investment opportunity, investors still required significant education around the implications of the impact objectives on the structure and outcomes. Many investors assume "impact" or "sustainable" investment opportunities are innately concessional. IIX and the investment banks explained the impact objectives and related metrics and, ultimately, investors trusted the assessment of the portfolio manager.

- Understanding and adequacy of "blended" instruments: While the concessional instruments—both the partial guarantee on each of the underlying loans and the first-loss tranche—ultimately mobilized private sector investment, these instruments complicated the fundraising process. The structure of the guarantee was confusing for many investors who were not used to calculating the value of this type of partial provision. Feedback from investors indicated that the partial guarantee alone was insufficient—which ultimately resulted in the addition of the first-loss tranche.

- Nascent impact market: Overall, impact investing remains new to many Asian investors and markets were more conservative than anticipated, this is reflective of the relatively new wealth of investors compared to more developed impact markets like Europe and the United States. Additionally, these investors do not necessarily have the tools to evaluate impact investing opportunities. IIX has launched an online training program, the IIX Impact Institute, to educate mid-career professionals on the impact investing space.

Ultimately, the WLB successfully reached financial close in mid-2017, after a year of investor outreach and fundraising activities. The final investor pool included one European institution with a track record of investing in debt of MFIs and one US family office with a history of impact investing. The investor education efforts paid off as local Asian investors sourced through DBS's private banking network accounted for ~60% of investors, a landmark achievement for impact investing in Asia.

STRUCTURE AND GOVERNANCE

CAPITAL STRUCTURE

The WLB issued USD 8M in bonds to accredited investors, senior to the USD 500K first-loss capital. Bondholders are paid a semi-annual coupon and are repaid the principal at maturity of the bonds. Bondholders are also entitled to 50% of any surplus funds net of fees, costs, and expenses. Since the bond is listed on the SGX, investors can buy and sell the bonds in the secondary market. The WLB benefits from two concessional capital contributions – a partial guarantee on the three underlying loan transactions and a first-loss capital tranche.

USAID provided a 50% pari passu guarantee in favour of the issuer on each of the loans to the three underlying borrowers. The guarantee will reimburse 50% of any losses incurred by the issuer in respect of non-repayment of principal of the loans. Bondholders have no direct recourse to the guarantee. The guarantee is subsidized by Australia's Department for Foreign Affairs and Trade (DFAT), which provided a grant to USAID DCA. This enabled DFAT to participate in the guarantee while bypassing internal DFAT constraints around issuing guarantees or other more sophisticated instruments.

IIX provided the capital for a USD 500K first-loss tranche in the form of a subordinated loan to the issuer to further protect senior investors from any potential losses. The first-loss tranche was not included in the initial design, instead it was added based on feedback from investors during fundraising. The first-loss capital will bear losses only after the DSRA is exhausted and only to the extent not covered by the guarantee.

A DSRA has been established by retaining a portion of the proceeds of the bond offering, bolstering the modest first-loss capital contribution from IIX. In the case of a major default by one or more of the borrowers and a coupon payment is due, the risk-mitigating instruments will be drawn upon in the following order:

1. DSRA: The SPV first draws any available funds accumulated to the DSRA.
2. Partial Guarantee: The partial guarantee provides cover on losses on each of the underlying loans up to 50%.
3. First-Loss Capital: If there are losses beyond 50%, the SPV can draw from the first-loss capital provided by IIX.

Assuming there are no losses during the life of the bond, unutilized DSRA funds will be split evenly between the bondholders and IIX, potentially enhancing the bondholders' return beyond the 5.65% coupon.

In addition, the WLB benefits from several in-kind contributions outside of the immediate capital structure, including the initial design funding and several pro bono services. ANZ and DBS Bank provided structuring advice, marketed, and placed the bond to investors on a pro bono basis, as part of their CSR mandates. While ANZ and DBS Bank benefitted from exposure to, and understanding of, the growing impact market, this piece of the model will need to be refined – such that these costs are internalized – to effectively scale the listed bonds for impact.

LEGAL STRUCTURE AND GOVERNANCE

The international legal partners, Shearman & Sterling LLC and Hogan Lovells, provided pro bono counsel to IIX on the legal aspects of the structuring and placement of the bond as well as on the documentation of the loans, including drafting term sheets, ensuring alignment with international regulations, and drafting offering materials and final documentation for the bonds.

The WLB structure involved the formation of a SPV wholly-owned by IIX to issue the bond and extend the loans to the borrowers. The bond is listed on the SGX, which promotes good governance and builds transparency and accountability around listed bonds with impact mandates. The bond's investors will receive rigorous disclosure of both financial performance and social impact, and benefit from the potential for secondary liquidity in the impact investment market.

The SPV, while owned by IIX, is designed to operate independently of IIX's control. Vistra Alternative Investment Services is providing corporate services to the SPV, including an independent board, acting as corporate secretary, and providing record keeping, administration, and accounting services. BNY Mellon is the bond's trustee.

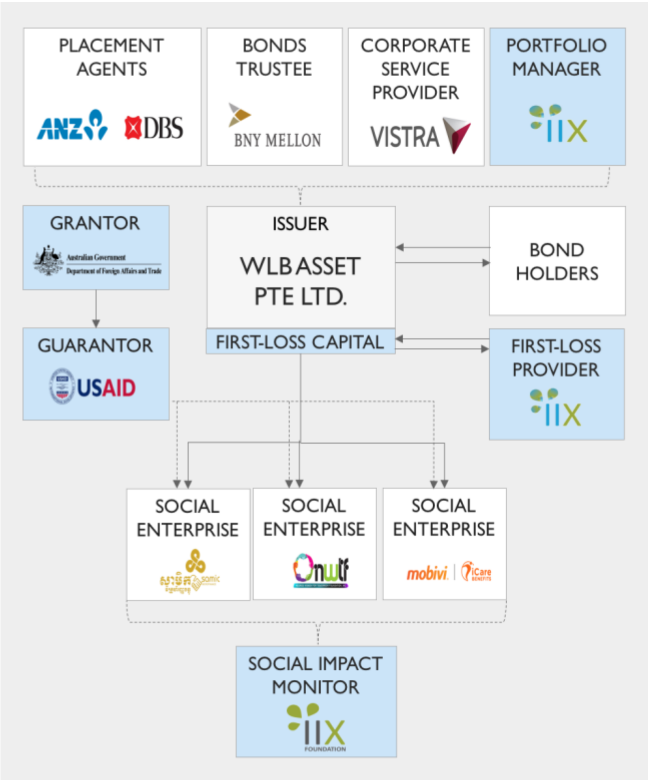

Figure 2: Overview of bond structure

OPERATIONS

INVESTMENT PROCESS

As portfolio manager, IIX is responsible for selecting and conducting financial due diligence on the prospective borrowers, negotiating loan terms, and communicating with borrowers for information and reports. IIX is also responsible for monitoring the loan portfolio, collecting payments, and monitoring borrower compliance. The initial pipeline of borrowers was identified by IIX based on existing relationships, knowledge of past performance records, and referrals through its extensive network.

IIX focused on identifying MFIs and social enterprises that have strong impact potential and financial sustainability. IIX completes initial screening, followed by due diligence on all potential investees. IIX considers net profit from the last three years, years of operation, international partners, and return on assets (ROA). Alongside financial due diligence, IIX completes social due diligence, including analysis of the gender-lens (e.g., owned or run by women, benefiting women), livelihood focus, social mission, and social performance management (i.e., adequate tools and systems in place) for each borrower. A credit committee approved the final portfolio of social enterprises, as well as the allocation amount and lending rates. All loans were denominated in USD.

INVESTMENT ACTIVITY TO-DATE

Ultimately, the proceeds from the WLB were used to advance loans to three social enterprises focused on women's empowerment in countries across Southeast Asia. All loans are provided in USD as senior unsecured loans. Interest payments are due quarterly, and loans mature two weeks before the bond maturity date. The proceeds were fully deployed within 90 days of issuance of the bond.

Borrower	Description	Terms
SAMIC PLC	Deposit-taking MFI providing financial products and services to rural and urban poor	USD 3.2M 4-year
NWTF	MFI that offers financial products and services to women	USD 1M 4-year
Viet Phu Payment Services (iCare)	Social enterprise that provides employee benefits program to workers in developing countries	USD 3.7M 4-year

Table 2: The WLB's Investment portfolio

IMPACT METRICS

The WLB will enable each of the three selected borrowers to support women's empowerment through sustainable livelihoods by providing critical services, including access to finance, access to income generating assets, and access to skills. The WLB is targeting 500K direct beneficiaries, approximately 70% of which would be women (i.e., 385K total female beneficiaries). Beyond the total number of beneficiaries, the WLB focuses on several key impact metrics aligned to three of the SDGs: Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, and Goal 17: Partnerships for the Goals. The key impact metrics – outlined below – reflect IIX's desire to measure both outputs and outcomes.

Focus SDG	WLB Impact Target
5 GENDER EQUALITY	• Provide 385K women with access to credit, access to essential goods and services, access to market linkages, and access to technology
8 DECENT WORK AND ECONOMIC GROWTH	• Generate USD 2.40 in socio-economic value for every dollar invested (SROI) • Generate >USD 13M in improved financial resilience by empowering women to increase income and savings
17 PARTNERSHIPS FOR THE GOALS	• Mobilize USD 8M for MFIs and social enterprises in Southeast Asia • Mobilize USD 20 of private sector investment capital for every dollar of grant funding provided to structure the investment

Table 3: Alignment between WLB impact metrics and the SDGs

One unique impact metric measured by the WLB is the Social Return on Investment (SROI). As developed by Social Value UK, SROI is a relatively new tool for measuring and communicating the volume, or value, of impact created by strategic investment dollars. Like traditional return on investment (ROI) analysis, SROI is a cost-benefit calculation that establishes a ratio between the inputs and the measured outputs or outcomes. Based on initial calculations, the WLB will have a weighted average SROI of 2.4 across its three investments. In other words, IIX anticipates USD 2.40 in measurable impact (e.g., increased income and/or savings) for every dollar invested by the WLB.

IIX Foundation will monitor the impact performance of the borrowers and create periodic impact reports. IIX Foundation is the non-profit arm of IIX (formerly known as Shujog), which provides impact assessments and action-oriented research, among other activities. IIX Foundation will provide semi-annual impact reports to investors to ensure complete transparency on the social performance of the underlying borrowers. Frequent impact reporting – which will be reported through SGX to ensure transparency around results – increases the engagement of partners and investors with the targeted social outcomes and ensures borrowers remain committed not only to repaying the Bond but also achieving the impact targets.

FOLLOW-ON STRUCTURE

The WLB represents a potentially important instrument for crowding in commercial capital through a listed debt security with blended finance features. But the success of the bond will be in large part measured by its demonstration effect; that is, the number of listed bonds with impact mandates introduced to the market in coming years. IIX is currently developing the Women's Livelihood Bond 2 (WLB2), another listed bond to advance women's livelihoods in underserved communities across South and Southeast Asia. The WLB2 structure will be larger in size, with the potential to mobilize up to USD 100M of private sector capital and to impact the lives of five million women.

KEY INSIGHTS

The WLB presents several insights useful for others looking to create or invest in listed bonds with an impact mandate or other innovative blended finance instruments:

- Gender-lens investing is an emerging trend for creating sustainable impact: Gender is an important cross-cutting theme for the SDGs and a priority area for an increasing number of public and philanthropic investors in blended finance. The WLB was conceived by a woman – Doreen Shahnaz, Bangladeshi American and IIX founder with experience in capital markets and microfinance in Asia – and women were involved throughout the design process. The WLB invests in women-led and/or women-focused social enterprises, and will focus on measuring the outcomes for women in Southeast Asia. There will likely be continued demand for fund managers and blended finance experts with knowledge of and experience in gender-lens investing.

- Blended finance structures are complex: Risk mitigation is an important measure to attract private sector investment to the SDGs in developing countries, but there is not yet sufficient standardization across blended finance mechanisms, which increases the barrier to entry for new adopters of blended finance. Designing and structuring blended finance structures requires expertise in development impact, finance, and stakeholder management. The WLB brought together a range of public (e.g., USAID), private (e.g., DBS), and philanthropic (e.g., Rockefeller) partners to support the design process and develop the blended finance mechanisms.

- Multiple layers of concessional capital may be required to close the deal: A key component of blended finance is right-sizing the use of concessional capital to attract private investment. IIX initially anticipated that the risk-return ratio provided by the partial guarantee and target coupon rate would be sufficient, but investors preferred lowering the risk over maximizing their returns. By adding the first-loss capital tranche, IIX enabled commercial investors to get comfortable and invest in a product with an impact mandate. This also demonstrates the additionality of IIX's concessional capital, which was evidently required to achieve financial close.

- Mobilizing (local) commercial capital requires attractive and familiar investment opportunities alongside direct outreach: IIX and partners believe that Singapore is well-placed to become a regional hub for impact investing flows and that the WLB is an important first step to crowding in local commercial capital to impact-focused investments in Asia. In addition to attracting a number of seasoned impact investors, the WLB appealed to local Asian investors, many of whom had not been actively looking for impact investing opportunities. Key elements of success included leveraging a familiar channel (i.e., private banking) and a familiar product (i.e., listed bond) with extensive outreach and education.

- Blended finance or not, innovation is costly: Development practitioners should carefully weigh the costs – financial and non-financial – of innovation, rather than scaling activities. The WLB represents an innovative and replicable model to crowd-in additional sources of capital for the SDGs, which offsets the costs and labour-intensity of establishing these mechanisms. Before investing in innovation, blended finance practitioners should consider the cost and benefits against the potential to replicate or scale existing solutions.

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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