PROMOTING GENDER EQUALITY THROUGH PERFORMANCE-BASED FINANCIAL INCENTIVES

AN ANALYSIS OF IDB INVEST'S EXPERIENCE

Actionable Insights Guide for Development Finance Practitioners

Blended Finance

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Dalberg
we-fi WOMEN ENTREPRENEURS FINANCE INITIATIVE
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Introduction

Performance-based incentives (PBIs), such as interest rate reductions that kick in once certain gender targets are achieved, can be powerful tools for development banks to incentivize behavioral changes within their private sector clients, encouraging them to hire more women or finance more women-led businesses. These incentives can be even more powerful when combined with advisory services such as helping clients develop inclusive human resource or procurement policies or tailor financial products for women.

IDB Invest has been pioneering the use of gender-focused PBIs—typically bundled with advisory services— in Latin America and the Caribbean since 2015 using blended finance resources from the Canadian Climate Fund for the Private Sector in the Americas (C2F), the Women Entrepreneurs Finance Initiative (We-Fi), and the Clean Technology Fund (CTF). These concessional funds aim to bridge gaps in women's leadership opportunities, quality employment, and access to training, finance, and markets.

What is this Actionable Insights Guide and who is it for?

This guide summarizes the main findings and recommendations from the study, Promoting Gender Equality through Performance-based Financial Incentives: An Analysis of IDB Invest's Experience, produced by IDB Invest and Dalberg with support from We-Fi. It aims to serve as a practical resource for multilateral development banks and development finance institutions interested in applying this blended finance tool to promote positive development outcomes.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank Group, its respective Boards of Directors, or the countries they represent.

WHY

Women face systemic barriers in access to credit, education, and well-paid jobs

Despite progress in narrowing gender gaps in Latin America and the Caribbean, women still face significant barriers.[1] For instance, the gender disparity in bank account ownership has narrowed by two percentage points over the last five years in the region, yet structural barriers continue to hinder equitable access to finance.[2] A recent IDB study spotlights how women in Chile with identical characteristics to men, including credit history, faced an 18% lower loan approval rate, especially in banks with a higher proportion of male officers.[3] Additionally, despite an increase in female labor force participation, women typically work in lower-skilled, lower-paying positions. Only 36% of women in Latin America and the Caribbean pursue careers in STEM fields, and fewer than 15% of new jobs in the construction and transport sectors are filled by women.[4] In construction, only 1% to 6% of formally contracted workers are women.[5]

A combination of chronic market failures such as market inertia (reluctance to change within an organization), asymmetric information (e.g., limited information about the needs and behavior of women-led businesses), and entrenched gender biases all play a role.[6,7,8] **Market inertia and gender biases prevent women from securing jobs and advancing to higher-level positions in the workplace.** For instance, while STEM skills are essential for many career paths in the renewable energy sector, prevailing stereotypes about women's educational abilities continue to limit their presence in these fields.[9] Biased perceptions result in women earning less than men in similar positions and discourage women from applying for the same job openings as men due to the expectation of having to meet more stringent requirements.[10] Imperfect information and information asymmetries limit the ability of buyers, suppliers, service providers, and users to see the full potential of women-led businesses, and lead to higher perceived risks associated with financing women.[11]

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[1] *World Bank, Closing Gender Gaps in Latin America and the Caribbean, 2020*
[2] *World Bank, 'Global Findex Database 2021', 2022*
[3] *Montoya, Ana María; Parrado, Eric; Solís, Alex; Undurraga, Raimundo, Bad Taste: Gender Discrimination in the Consumer Credit Market, Inter-American Development Bank, 2020*
[4] *IDB Invest, Towards a Fair, Inclusive Transition: Employing Women in Infrastructure Projects, 2022*
[5] *IDB Invest, Making Women Welcome: The Next Challenge for Renewable Energy Construction Projects, 2022*
[6] *World Bank, Gender-Based Employment Segregation: Understanding Causes and Policy Interventions, 2023*
[7] *IRENA, Renewable Energy: A Gender Perspective, 2019*
[8] *Inter-American Development Bank, Leveraging Behavioral Insights for a More Equitable Workplace, 2019*
[9] *IRENA, Renewable Energy: A Gender Perspective, 2019*
[10] *Ibid*
[11] *IFC, Closing the Gender Finance Gap Through the Use of Blended Finance, 2022*

WHAT

Blended finance through performance-based incentives can help tackle market failures impeding gender equality

Performance-based incentives (PBIs) can include transfers of capital, interest rate reductions or other material rewards from investor to investee or employees, provided contingent on achieving a set of gender-related outcomes. These financial incentives—often funded using blended finance resources[12]—are typically bundled with advisory services to enhance the client's capacity to meet and sustain gender objectives.

Examples of financial incentives contingent on results

- Grants (synthetic interest rebate)
- Interest rate adjustments
- Share transfers to employee pools

Examples of gender-focused advisory services

- Human capital strategies for clients (e.g., HR policy recommendations, diversity and inclusion training, and mentoring programs)
- Market research, product and service development, portfolio identification and segmentation, and strategy development for certain user segments
- Inclusive value chain strategies, procurement policy development, and service contracting recommendations

IDB Invest carried out a qualitative study of its blended finance investment portfolio, focusing on a sample of financial institution, corporate, and infrastructure projects that included gender-focused PBIs, typically paired with advisory services. The findings show that PBI programs may enhance the likelihood of success in expanding access to finance for women-led/owned small and medium enterprises (WSMEs) and women's employment and training opportunities. They may also support the achievement of gender targets beyond those initially set and provide critical justification for resource allocation toward gender programming within client organizations. Incentives may result in positive spillovers, such as shifting internal mindsets, creating demonstration effects, and generating new networks. In addition, establishing accurate baselines for gender metrics played a crucial role in designing effective gender milestones which clients considered as both achievable and sufficiently ambitious. **Moreover, case study interviews underscored the importance of offering advisory services alongside PBIs to build client capacity related to gender and align interests across stakeholders within the organization.** They also highlighted the importance of flexibility in program design and supervision for empowering clients to achieve gender targets.

[12] *Blended Finance is the combination of concessional finance from donors or third parties alongside development finance institutions' (DFIs) own capital and/or commercial finance from other investors, to develop private sector markets, targeting high-impact projects in which actual or perceived risks are too high for commercial finance alone. See also IDB Invest and partners, DFI Working Group on Blended Concessional Finance for Private Sector Projects, 2023*

HOW

Recommendations for integrating gender-focused PBIs into development bank portfolios

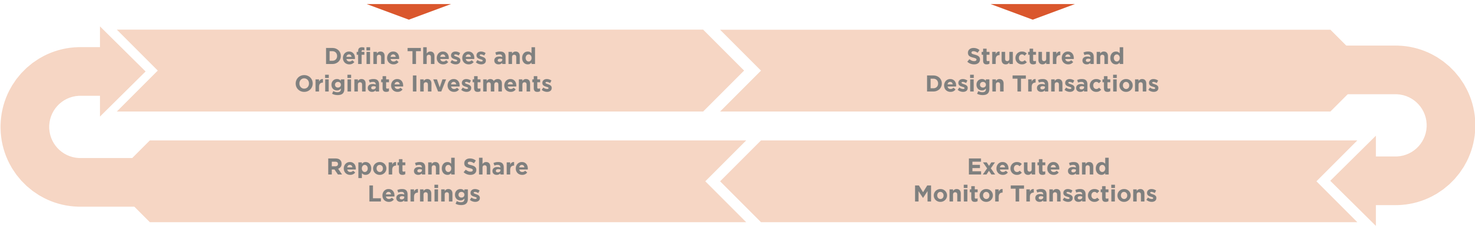
Development finance institutions (DFIs) and multilateral development banks (MDBs) play a pivotal role in implementing blended finance instruments such as PBIs and expanding the evidence base on what works (and what does not). **Leaning on the experience of IDB Invest, DFIs and MDBs can embed PBIs into their portfolios by following 12 key recommendations over the course of the investment lifecycle.**

STAGES OF INVESTMENT PROCESS

RECOMMENDATIONS

1. Define PBI-specific impact logics
2. Focus on clients where early alignment potential is high or in sectors where large relative gains may be possible

3. Invest in benchmark and measurement process accuracy
4. Pilot structures that reward intermediate success
5. Consider deploying TA for all investees receiving incentives



10. Measure and aggregate PBI performance data
11. Develop internal learning systems within investee organizations
12. Strengthen collective PBI learning processes across the MDB and DFI community

6. Standardize PBI-specific reporting processes
7. Track intermediate progress leading up to milestones
8. Create buffer capacity to support investees in instances where large deviations from targets are observed
9. Promote active ‘spillover’ collaborations

Investment Theses and Investment Origination

In building blended finance portfolios featuring PBIs, DFIs and MDBs must adhere to project selection guidelines aligned with the DFI Blended Finance Principles, ensuring: (i) Additionality of the Investment; (ii) Crowding-in and Minimum Concessionality; (iii) Commercial Sustainability; (iv) Reinforcing Markets; and (v) Promoting High Standards. **Once DFIs/MDBs identify a shortlist of potential projects that meet these requirements, they should consider the following recommendations:**

1 Define sector-specific impact logics that clearly articulate the intended role to be played by PBIs when integrated into programming.

For investors, having a sector-specific focus and clarity about how impact priorities map to addressing market failures through a gender incentives program can ensure team alignment, resource optimization, and the ability to establish a clear workplan at the early stages of portfolio planning. For investees, clarity on the logic of the incentive and the relationships with other results could help accelerate decisions on how to shift internal resources towards achieving PBI-intended outcomes.

2 In constructing a PBI portfolio, focus on clients where early alignment potential is high or in sectors where large relative gains may be possible.

DFIs could pilot taking a 'poles' approach: focusing first or early on investees with a pre-established interest in gender programs, thereby overcoming early hurdles of misaligned values and building a critical mass of investees that generate further demand. Investors should also push these incentives in sectors that do not usually integrate a gender lens, such as construction and finance, to maximize potential impact, build expertise, and better set targets, baselines, and benchmarks.

Structuring and Design

3 Invest early in enhancing the accuracy of benchmark-setting and measurement processes.

Investors considering creating a PBI program should test the measurement capacity of their prospective clients to ensure that indicator setting and ongoing measurement can be performed with high fidelity. Close upfront engagement on data availability and internal data generation capacity could serve as a useful barometer for adapting advisory services to the client's needs during investment execution. It can also allow investors to detect data collection problems early once an investment is underway and act accordingly.

4 Pilot transaction structures that more explicitly reward intermediate and ongoing success.

Investors could consider testing the effectiveness of combining multiple years of efforts into more concentrated milestones; or creating milestones with staggered thresholds. By incentivizing early wins, even if rewards are only incremental, sponsors within client organizations can find opportunities to ensure broad and ongoing commitment to the gender program's objectives. Investors could define several potential sets of milestones, e.g., "core/base" anad "bonus/reward", for projects, thereby encouraging high performers to achieve even greater gender impacts, if possible, while rewarding intermediate progress.

5 Consider deploying advisory support for all investees receiving incentives.

Investors could start implementing gender training for all investees regardless of milestone type. They could also position advisory support as a way to both advance program goals and install internal capacity to help sustain gender equality results, such as the establishment of new committees and collaboration platforms or the deployment of new impact monitoring frameworks.

To do so, the DFI/MDBs should first conduct a gender lens materiality analysis of the prospective client with the purpose of addressing the pain points and identifying opportunities for impact within the investee's operations. These should then inform the scope and nature of the advisory services, which could include gender inclusive human capital and/or value chain strategies, market research, or product and service development.

Execution and Monitoring

6 Standardize measurement and management guidelines across investors to streamline reporting and evaluation for PBI-specific deals.

Beyond implementing uniform reporting templates, investors can approach standardization by first focusing on capturing easily measurable direct effects in the same way (e.g., specific kinds of employment targets), followed by indirect impacts, such as the retention, satisfaction, and well-being of women impacted by the PBI, as well as market spillovers like networks created with other organizations.

7 Track intermediate progress leading up to milestones.

Investors should ensure consistent communication and ongoing tracking with investees, enabling timely obstacle identification and indicator negotiation. Investors could also try expanding investee reporting requirements to after the incentive has ended and maintain regular communications to capture ongoing progress and potential spillover effects.

8 Create buffer capacity to support investees in instances where large deviations from targets are observed.

Investors should embed 'wiggle room' into program design and allow for adjustments to be made throughout execution. This should include some openness in considering the postponement of reporting requirements to adapt to unexpected situations (e.g., COVID-19 pandemic).

9 Promote active 'spillover' collaboration outside of the investor-investee nexus to maximize market failure corrections.

As PBI deals are structured, executed, and closed, investors should play a proactive role in encouraging coalition building with other active parties addressing similar market failures (e.g., government, academia, civil society, and labor organizations) to maximize the longer-term impact of each transaction.

Report and Share Learning

10 Measure and aggregate PBI performance data.

Investors should dedicate efforts to cataloguing and sharing transaction performance data with peers related to target achievements, thereby helping to establish more rigorous benchmarks. Moreover, reducing knowledge gaps around PBI effectiveness could encourage uptake of these instruments and highlight the reputational benefits for participants on both the supply and demand side of each transaction.

11 Develop internal learning systems within investee organizations.

Investors could more formally encourage investees to develop learning systems as a means to ensure the sustainability of gender-related outcomes beyond the incentive program. This could include systems and processes to collect and report sex-disaggregated data for firm employees, the number and percentage of women in senior leadership positions, and other key metrics, regardless of PBI gender milestones.

12 Strengthen collective PBI learning processes across the development finance community.

Investors should leverage existing communities of practice like the OECD's DFI Blended Concessional Finance Working Group, 2X, and others to regularly exchange insights and create joint action plans focusing on replicating and scaling PBI approaches.

HOW

PBIs in action:
IDB Invest client case studies

Case Study
Elcatex

Grupo Elcatex is one of the largest textile manufacturing companies in Central America. **In 2020, IDB Invest provided a seven-year US$64 million loan, financing 47% of project costs for Elcatex to expand its productive capacity and diversify production.**

Project status: Ongoing

Project cost:	64M	Blended Finance Tranche:	210K	Sector: Corporate		Country: Honduras	
Type of PBI: Performance grant		Gender milestones: Access to market		PBI status: One target achieved as of 2022	100%	Technical Assistance: External	

The transaction included a performance grant incentive from the Women Entrepreneurs Finance Initiative (We-Fi) of US$30,000 per year contingent on Elcatex increasing the integration of WSMEs into its supply chain. **Specifically, they have two main targets: increase the share of WSME suppliers relative to total suppliers from 5% in 2020 (baseline) to 24% in 2027; and/or increase the share of purchases from WSMEs relative to total purchases from suppliers from 16% to 40% over the same period.** To help the company achieve these gender targets, IDB Invest provided advisory support which included developing a strategy to increase procurement opportunities for women suppliers and improving the sex-disaggregation of data in its tracking system, among other activities.

As of 2022, Elcatex had achieved one of the two gender targets established for the first two years of the program. It successfully increased the share of WSME suppliers to 11.4%, surpassing the target of 11% for 2023 one year ahead of schedule. While they did not meet the second target for increasing the share of purchases from WSME suppliers, they did show significant growth in the value of purchases from local WSME suppliers. Elcatex stakeholders have highlighted important organizational changes as a result of IDB Invest's program, including a new gender division and improvements in its Enterprise Resource Planning, including a women-led audit program to track strategic gender metrics.

Case Study

Atlas Renewable Energy - New Juazeiro

Atlas Renewable Energy specializes in developing, building, and operating solar and wind projects across Latin America. **In 2020, IDB Invest provided Atlas with a 17-year US$67 million loan package for the design, construction, commissioning, and operation of four solar plants and a transmission line in Juazeiro do Norte in Brazil. IDB Invest's investment financed 50% of the total cost.** Atlas also received advisory support from IDB Invest to help them identify gender-related focus areas and design the PBI milestones accordingly, ensuring a positive impact on Afro-descendants, women, and girls.

Project status: Completed

Project cost: 125M	Blended Finance Tranche: 15M	Sector: Energy & Infrastructure	Country: Brazil
Type of PBI: Interest rate adjustment	Gender milestones: Educational & Operational	PBI status: Fully achieved 100%	Technical Assistance: In-house IDB Invest

The funding package included a set of PBIs structured as interest rate reductions of up to 150 bps for the achievement of gender-related occupational, educational, and operational milestones. These included organizing internal workshops on inclusive employment in construction, implementing an outreach campaign for women in STEM careers, creating a detailed community gender action plan, and increasing women's participation and racial diversity in the construction workforce.

As of 2022, Atlas had achieved all of the gender targets, receiving 100% of the incentive. Two years after the introduction of the PBIs, New Juazeiro had 162 female employees, representing 10% of the construction workforce. By 2023, New Juazeiro had trained 250 women: 211 high school girls who received training and awareness on STEM sector careers and entrepreneurship and 39 women who received training on post-project economic opportunities.

Atlas highlighted how the PBIs helped them adhere to gender quotas and provided an effective counterpoint to the stereotypes associated with the participation of women in the construction sector. Atlas will continue to implement training initiatives that enable women to explore diverse job opportunities, either within the company or outside, even after the project's completion.

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