

2X Challenge: Background Document to Criteria and Governance Framework

October 2018



Introduction

The 2X Challenge will serve as one instrument in the DFI toolkit to direct capital towards women's development

2X Challenge Announcement:

The “2X Challenge” calls the G7 and other DFIs to collectively commit and mobilize \$3 billion that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access.



Operational objectives:

DFIs can use the 2X Challenge to direct capital towards women, pre- or post-investment by:

- + Encouraging investees to collect data on women employees and consumers
- + Measuring the development impact of investing with and in women, over time
- + Making a business case for investing with and in women

Implications:

- + The 2X Challenge aims to mobilize US\$3 BN by 2020, but should set its sights beyond 2020
- + The 2X Challenge will direct new investments towards women, but should reorient existing investments towards women as well
- + As the 2X Challenge achieves its quantitative goals, it should share qualitative lessons about its challenges and successes
- + The 2X criteria are not perfect; the 2X Challenge will provide an opportunity to refine these criteria and develop best practices for investing in women

Trade offs

The proposed criteria balance several trade offs

2X not only counts women but also *value* women



Gender lens investing often focuses on counting women, which may overlook opportunities to highlight or enhance women's *value* to investees and society at large. In addition to quantitative criteria that measure how investees include women, the 2X Challenge uses qualitative criteria that measure how investees value women.

2X celebrates success while encouraging progress



2X will identify and promote best practices by celebrating investees that have already achieved the 2X goals. Driving change, however, will also require DFIs to encourage and celebrate investees willing to make long-term, resourced, and monitorable commitments to empower women.

2X criteria thresholds should be aspirational but reasonable



The 2X Challenge aims to encourage investees to empower women beyond the norm for their sector and geography. Setting the bar too low risks approving “business-as-usual” transactions while setting the bar too high risks discouraging investees from trying. Setting the bar correctly, a task that will require iteration, has the potential to encourage long-term behavioral shifts.

2X criteria should leave room for judgment



The criteria list provides a backbone for gender investment analysis, but each case is specific and deal teams may slightly adapt the criteria wherever it is necessary to encourage change or recognize investees making transformational efforts to empower women. The criteria are designed with a sector specific dimension in mind as this is where the 2X challenge members have the greatest overlap however we acknowledge that there will be geographical dimensions and differences that will also need to be considered.

2X Criteria

Fulfilling *one* criteria makes an investment 2X eligible:

Direct Criteria	1	Entrepreneurship	Criteria	Threshold
			1A. Share of women ownership	51%
			OR	
	1B. Business founded by a woman	Yes/No		
	----- OR -----			
2	Leadership	2A. Share of women in senior management ¹	20-30% ²	
		OR		
		2B. Share of women on the Board or IC ¹	30%	
----- OR -----				
3	Employment	3A. Share of women in the workforce ¹	30-50% ²	
		AND		
		3B. One “quality” indicator beyond compliance	Yes/No	
----- OR -----				
4	Consumption	4. Product or service specifically or disproportionately benefit women	Yes/No	
		----- OR -----		
Indirect	5	Investments through Financial Intermediaries ³	On-Lending facilities: Percent of the DFI loan proceeds supporting businesses that meet direct criteria ¹	30%
			OR	
			Funds: Percent of portfolio companies that meet the direct criteria. ¹	30%

Sector-Specific Thresholds

2.A Women in Senior Management*		
Grp.	Sector	%
Low	Infrastructure, Power, Telecoms	20%
Mid	Financial Services, Manufacturing	25%
	Agribusiness & Food, Professional Services, Consumer Services	
High	Healthcare, Education	30%
3.A Women in the Workforce*		
Grp.	Sector	%
Low	Infrastructure, Power, Telecoms	30%
Mid	Financial Services, Manufacturing	40%
	– Heavy, Agribusiness & Food, Professional Services	
High	Healthcare, Education, Consumer Services, Manufacturing – Light ³	50%

*Room for judgement: Investees in unique sectors or geographies may require case-by-case consideration.

1) Commitments to achieve targets in these categories also make investments eligible, including new commitments by existing investees.

2) These thresholds vary depending on the sector of the investment. See sector-specific thresholds.

3) Investments through financial intermediaries may also be eligible if the financial intermediary meets any of the direct criteria. For funds, this requires either that the fund manager itself meeting one of the categories, or if the fund itself has a clear investment thesis to invest in women.

1. Entrepreneurship Criteria

Women have a majority stake in the investee or helped found the investee

Category overview

Development impacts targeted:

- + Expand opportunities for women entrepreneurs by providing access to finance
- + Promote women entrepreneurs as role models

Criteria detail

1A. Ownership

- + Percentage of the organization that is **directly** woman owned

$$\frac{\text{Shares held by women}}{\text{Total shares}}$$
- + Criteria specifies **direct ownership** because:
 - There is no strong development impact case supporting indirect women ownership
 - Sex-disaggregated data on indirect and beneficial ownership is difficult to track

1B. Founded

- + Investee founded by a woman or a group of women that retain(s) an active role in the organization

Threshold rationale

1A. Ownership - 51% share

- + Emerging gender lens investing standards such as WeConnect promote investments in majority women-owned firms
- + Women comprise 18% of all business owners¹ in Africa², 21% in Asia³, and 24% in Latin America,⁴ so opportunities for investment exist
- + *Room for judgement:* An investee approaching the threshold may be eligible if (i) it is located in a geography or operating in a sector where women are severely underrepresented, or (ii) it has a women Chairperson

2. Leadership Criteria

Women are represented within investee's senior management or on the investee's Board

Category overview

Development impacts targeted:

- + Promote the benefits of corporate diversity in DFI's operating markets
- + Encourage female role models to represent the needs of women

Criteria detail

2A. Senior Management

- + C-Suite or equivalent (e.g. Managing Directors, Partners)

$$\frac{\text{Women in Senior Management}}{\text{Total people in Senior Management}} \times 100$$
- + Room for judgement: Titles may change depending on investee's size and status. DFI should assess if positions are C-Suite equivalent

2B. Board

- + Share of women on the organization's board of directors or other governing body¹

$$\frac{\text{Women on the Board}}{\text{Total people on the Board}} \times 100$$
- + Investees at which women Board members do not play an active role on the Board should not be counted²
- + Share of women on Board should also exceed legal minimum for investee's domicile country

Threshold rationale

(see next page for related data)

2A. Senior Management - *Varies*

Group	Sector	Threshold
Low	Infrastructure, Power, Telecoms	20%
Mid	Financial Services, Manufacturing Agribusiness & Food, Professional Services, Consumer Services	25%
High	Healthcare, Education	30%

- + Thresholds reflect women's varied representation across sectors
- + *Room for judgement*: Investees in unique sectors or geographies may require case-by-case consideration

2B. Board – 30%

- + Several countries have set a 30% target for Board gender diversity for state-owned enterprises
- + *Room for judgement*: A female Board Chairperson may justify use of a lower qualification threshold

(1) For Investment funds, DFIs may assess the share of women in Investment Committees

Source: CDC Gender Strategy; The GIIN, *IRIS Database* (2) *the 2X working group* will develop and contribute towards a list stating legal requirements of female board members across the world so that the group is aware of which countries already set requirements and therefore where the threshold should be increased.

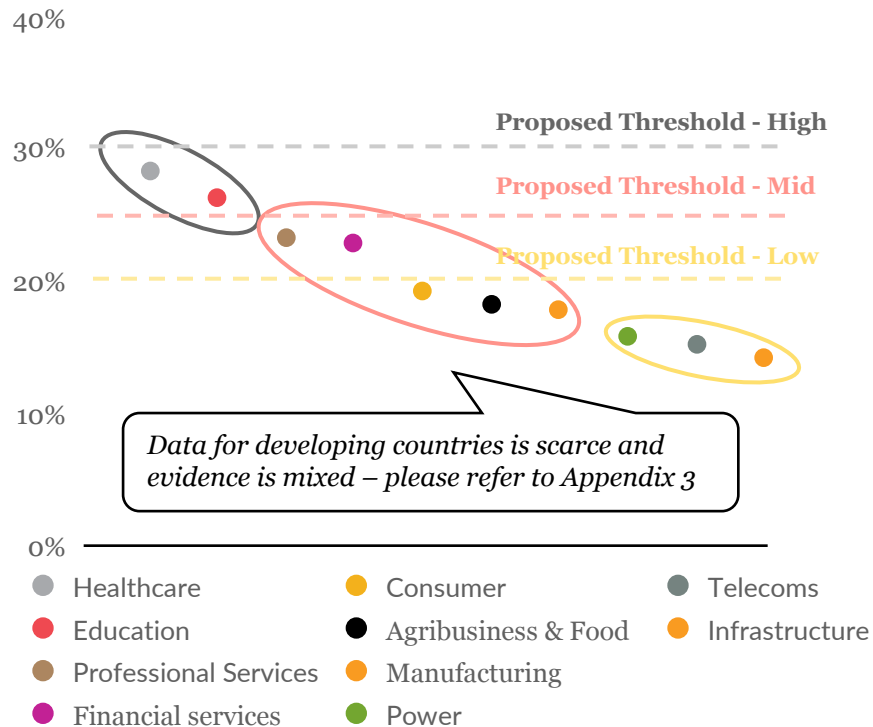
2. Leadership Data

Women represent 20-30% of investee's senior management or 30% of investee's Board

2A. Senior Management

Share of women in Senior Management in ten sectors¹

Illustrative average of two **global** benchmarks², 2015 and 2017

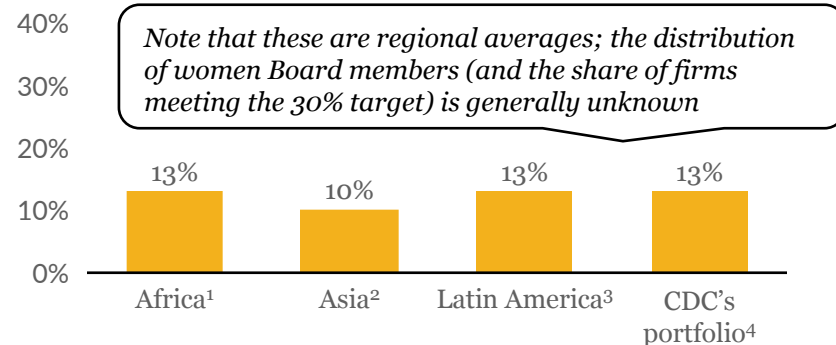


Mgmt: Notes: (1) Figures are averaged across two benchmarks, which use slightly different definitions for senior management and standardized sectoral definitions. We standardized definitions by adapting the three benchmarks (e.g. we considered “Agriculture, Hunting, Fishing and forest” from the Grant Thornton benchmark as “Agriculture”); (2) Sources: (a) Grant Thornton, *Women in Business: The path to leadership*, 2015, and (b) World Economic Forum, *The Future of Jobs*, 2016. Grant Thornton uses data from Russia, Georgia, Poland, Latvia, Estonia, Lithuania, France, Armenia, Sweden, South Africa, Nigeria, Indonesia, New Zealand, Netherlands, Botswana, Argentina, Brazil, India, Germany, and Japan. WEF uses data from the US, Mexico, Brazil, the UK, France, Italy, Germany, Turkey, Saudi Arabia, South Africa, India, China, Japan, the Philippines, Vietnam, Thailand, Malaysia, Indonesia, Australia

2B. Board Membership

Women Members of Boards as a % of Total Board Members

Simple average of country level averages from Africa, Asia and Latin America, data from 2014, 2015 or 2016



Legal women representation quota for Boards of SOEs or Publicly Listed Companies, 2018

Region	Countries	Threshold
Africa	Kenya	33%
	Nigeria	40%
	South Africa	30%
Asia	India	Min. 1
	Malaysia	30%
Latin America	Colombia	30%

Board: Notes: (1) Include: Botswana, Cote d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Tanzania, Uganda, Zambia; (2) Include: China, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Vietnam; (3) Include Brazil, Colombia, Mexico, Peru, Trinidad and Tobago. Sources: AFDB, *Where are women?*, 2014; Credit Suisse, *The CS Gender 3000: Reward for Change*, 2015; Women on Board Pakistan, Nigerian Stock Exchange, Superintendencia Financiera de Colombia Database.

3. Employment Criteria

Investee has large share of women employees and actively improves women's employment access

Category overview

Development impacts targeted:

- + Improve women's potential for income generation, value capture and job security
- + Support career development to improve other forms of empowerment
- + Inclusion of "direct workforce," "contracted workers," and "supply chain" aligns with IFC Performance Standards

Criteria detail

3A. Employee share

DFIs should count direct, indirect and/or supplier employees as makes sense in the investee context

- + **Direct workforce:** Share of women directly employed full- and part-time by the investee

$$\frac{\text{Women in Direct Employees}}{\text{Total Direct Employees}} \times 100$$

- + **Contracted workers:** Share of women among third party workers engaged to perform work related to core business processes¹ for a substantial duration

$$\frac{\text{Women in Contracted Employment}}{\text{Total Contracted Employees}} \times 100$$

- + **Supply chain:** Share of women among investee's primary supplier² workforce (*if corresponding proportion of primary suppliers meet entrepreneurship or senior management criteria, this may also justify 2X eligibility*)

$$\frac{\text{Women in the primary suppliers' workforce}}{\text{Total primary suppliers' workforce}} \times 100$$

3B. Quality Indicator

- + One policy or program—beyond those required by local law or compliance—addressing barriers to women's quality employment (e.g. wage inequity, lack of child care, discrimination / harassment), with evidence of implementation / commitment to implement
- + **Room for judgement:** Practices that address contextual barriers to employment (e.g. safe transport)

Threshold rationale

(see next page for related data)

3A/B. Employee Shares - *Varies*

Group	Sector	Threshold
Low	Infrastructure, Power, Telecoms	30%
Mid	Financial Services, Manufacturing – Heavy ³ , Agribusiness & Food,	40%
	Professional Services	
High	Healthcare, Education, Consumer Services, Manufacturing – Light ³	50%

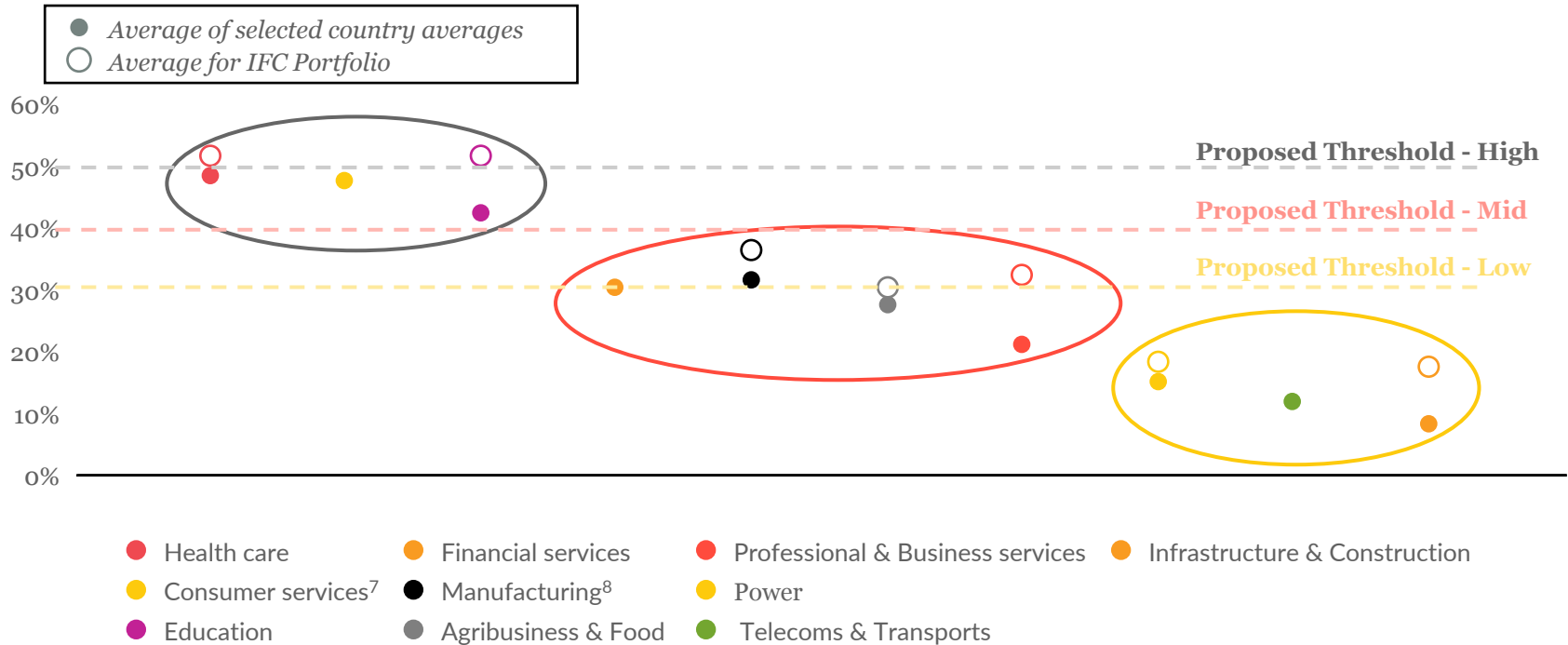
- + Thresholds reflect women's varied representation across sectors
- + Sectoral definitions vary across DFIs; each DFI should apply the sector-specific threshold it finds to be most appropriate
- + **Room for judgement:** Investees in unique sectors or geographies may require case-by-case consideration

Notes: (1) Core business processes constitute those production and/or service processes essential for a specific business activity without which the business activity could not continue. (2) Primary suppliers are those suppliers who, on an ongoing basis, provide goods or materials essential for the core business processes of the project; (3) This sectoral breakdown encompasses industries with very different women employment profiles (e.g. textile industry, which typically hires a majority of women, e.g. 80% in Bangladesh, and the automobile manufacturing, which hires a limited share of women). Source: CDC gender strategy; The GIIN, *Iris Database*; IFC, *IFC Performance Standards on Environmental and Social Sustainability*, Effective from January 1, 2012

3. Employment Criteria

Target share of women in workforce varies from 30 to 50% depending on sector

Share of women in the workforce in ten sectors¹,
Simple average of country averages for selected countries² in Africa³, Asia⁴ and Latin America⁵, 2008 and 2017, and
IFC Portfolio Averages⁶, 2016



Notes: (1) Sectoral breakdowns vary across the benchmarks used from each region. See list of sources below. We standardized sector definitions. (2) Arithmetical average of statistical data from a subset of 13 countries in Africa, Asia and Latin America; (3) List of countries includes: Botswana, Ethiopia, Ghana, Nigeria, Tanzania, Zambia; (4) List of countries includes: Cambodia, China, India and The Philippines; (5) List of countries includes: Brazil, Mexico, Nicaragua;

(6) http://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report/IFC+Results/Industry+Results/;

(7) Consumer services mostly refer to accommodation and food businesses; (8) We suggest to break down “Manufacturing” into two subsectors with different thresholds;

Sources: United Nations System in China, *Gender Equality in China's Economic Transformation*, 2014; Danish Trade Union Council for International Development Cooperation, *Cambodia Labour Market Profile*, 2014 (2004 figures); ILO and ADB, *Gender Equality in the Labor Market in the Philippines*, 2013; Ghana Statistical Service, *National employment Report*, 2015; Statistics Botswana, *Formal Sector Employment Survey*, 2016; National Bureau of Statistics, *National Manpower Stock and Employment Generation Survey*, 2010; The Federal Democratic Republic of Ethiopia Central Statistical Agency, *National Labor Force Survey*, 2013; University of Amsterdam, *An overview of women's work and employment in Zambia*, 2009; Tanzanian National Bureau of Statistics, *Integrated Labor Force Survey*, 2014; University of Amsterdam, *An overview of women's work and employment in Brazil*, 2009; INEGI, *Database Mexico*, 2016; World Bank, *Equidad de género en el mercado laboral en Nicaragua*, 2008

4. Consumption Criteria

Investee provides goods or services targeting and benefiting women

Category overview

Development impacts targeted:

- + Provide women access to products and services that address critical barriers to their economic participation and success

Criteria detail

Specifically or disproportionately benefitting women:

- + Products and services can qualify if they
 - Are designed for women's unique needs¹; or
 - Address a problem that disproportionately impacts women; or
 - Have a majority of women customers; or
 - Have a majority of women beneficiaries (e.g., a male household member may purchase product, but the end users are female household members)
- + Potential products that qualify are ones that enable women to increase their:
 - **Safety or security**
 - Access to **finance** or to **markets**
 - Access to **health**
 - Access to **education**
 - **Time savings**
 - *Room for judgement:* For each proposed 2x investment, the investee would need to provide rationale for how these products/services disproportionately benefit women

5. On-lending or fund investments

On lending and fund investments have a direct and indirect impact within the four categories

For on lending and intermediated investments, direct and indirect impact is possible in each of the four criteria categories

- *Direct impact:* impact achieved through the banks and funds meeting the 2X criteria themselves e.g. the bank has 25% women in leadership
- *Indirect impact:* impact achieved through the clients or portfolio businesses of the banks and funds

2X Category	Impact Type	Rationale (applied here to intermediated investments only)
Entrepreneurship	Direct	• Financing of funds or banks that are women-owned fulfills the entrepreneurship goal
	Indirect	• On-lending facilities and funds that can finance women-owned enterprises
Leadership	Direct	• DFIs can encourage women leadership within the financial institutions and funds they finance ¹ .
	Indirect	• On-lending facilities and funds can expand opportunities for women by providing finance to companies committed to attaining or maintaining a high representation of women in senior positions
Employment	Direct	• DFIs can facilitate employment of women by financing banks and funds that provide fair and equal career opportunities for women, as demonstrated by share of employment and quality indicators
	Indirect	• On-lending facilities and funds can improve women's potential for income generation by financing companies promoting fair and equal career opportunities for women
Consumption	Direct	• DFIs can help women access finance—itself a service—by encouraging its bank and fund investees to prioritize women within their customer base or fund pipeline e.g. “women's funds”
	Indirect	• On-lending facilities and funds can contribute helping women access to priority goods or services by providing finance to companies delivering them

Commitments for new investments

Investees that make clear and monitorable commitments to reach 2X goals can count towards 2X

Several criteria are to be fulfilled through commitments rather than pre-investment fulfillment

- + Commitments relate to commitments made during monitoring for new investments across equity, on lending and funds
- + The 2X Challenge should encourage DFIs to use leadership and employment commitments as a tool to engage with investees and encourage organizational shifts that benefit women
- + DFIs should work with investees to monitor progress towards commitments both as a way to keep investees accountable and as a way to collect data on the utility of commitments
- + The 2X Working Group should review available data on commitment success and efficacy as part of its Learning Agenda



Commitments should be target specific objectives and be monitorable

Commitments should include:

1. Clear targets
2. Action items with roles and responsibilities
3. Interim targets
4. Resources allocation
5. Monitoring system

They should be presented in formal, written commitment such as a side letter or in a Memorandum of Understanding, gender action plan with senior level oversight, or similar document deemed appropriate by the fund manager and the DFI.



General statements should not be considered as 2X eligible commitments

E.g.: *“The Board believes that diversity is the essential foundation for introducing different perspectives into Board debate [...]. The Board recognises that gender is an important aspect of the overall diversity to which chairmen should have regard in establishing the optimal balance and composition of the Board”* – Company’s Board Statement, 2013

Commitments for existing investments

Investees that make clear and monitorable commitments to reach 2X goals can count towards 2X

In addition to mobilizing new money, the 2X Challenge should also be used to “nudge or persuade” existing portfolio companies to take proactive steps to become 2X eligible.

- + The 2X challenge should also be as a tool to “nudge or persuade” investee businesses to think more strategically about women’s economic empowerment across their corporate value chain
- + DFI’s should build into the criteria the incentive for existing portfolio companies to take proactive steps to become 2X eligible.
- + This is based on the understanding that it is often in the 2nd or 3rd year of an investment that enough trust and stability is built with a business to support turning attention to new initiatives or ideas.
- + Commitments relate to any new commitments made by direct, debt or fund investees



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