Gender, Power, and Process in Financial Inclusion:

Insights from Developing World Markets' Private Equity Portfolio

Developing World Markets

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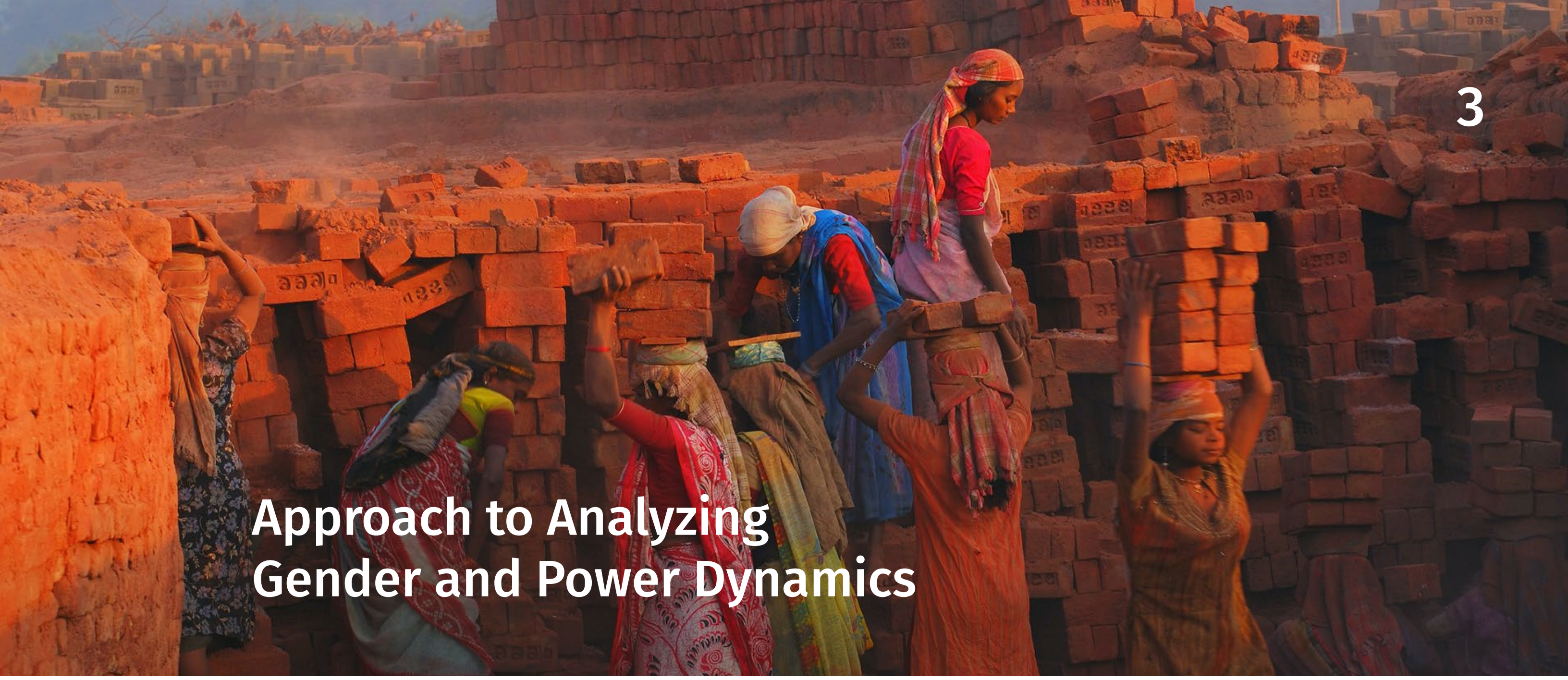
Introduction

Developing World Markets makes impact investments aimed at increasing the availability of responsible, high-quality, affordable financial services for underserved populations in emerging markets. This focus has de facto implied reaching majority low-income women clients, given the outsized barriers women face in accessing financing in most parts of the developing world. In light of this focus, DWM has recognized a need to delve deeper into its understanding of how gender dynamics have been integrated into portfolio company operations, to enhance both gender-equitable outcomes and business success.

In 2021, DWM engaged Criterion Institute, a think tank specializing in analyzing gender and power dynamics in finance. Criterion's approach is explicitly concerned with understanding the processes involved in the design and implementation of investments and financial products. Criterion and DWM worked together to design an assessment tool tailored to inclusive finance institutions and then applied the tool with the eight portfolio companies in DWM's second private equity fund, the Inclusive Finance Equity Fund (II). The portfolio companies are located in seven countries: Armenia, China, Colombia, India, Georgia, Panama, and Sri Lanka. The objectives of this process were to raise awareness among company managers about strengths and opportunities to integrate gender into business processes and to identify next steps on the journey to achieving gender-equitable outcomes.

This report presents the process, results, and insights from our joint project. We hope it sparks discussion among other investors and inclusive finance institutions about the ways that gender equity and power dynamics affect the success of business operations and results.

Too often, those who are asked to improve their institution's gender equity may both understand the importance of doing so but also feel that complying with such requests imposes extra burdens on their already significant workload without clear business implications. In such cases, improving gender equity often feels like a "check-box" activity—something to be done in order to comply with an external request. But, with a shift in perspective, companies and investors can come to see gender equity as a key business imperative, rather than a mere check-box activity.



Approach to Analyzing Gender and Power Dynamics

The processes used to design and distribute financial products—and the power dynamics underlying those steps—have significant effects on social and financial outcomes. When gender is understood as material to the value of a business, there is an incentive to move gender analysis from a metric applied late in (or after) the investment or loan process to the analysis that informs the design of products and services. Rigorous gender analysis has the potential to unlock additional financial upside, expose hidden and pervasive risk and/or uncover new opportunities to drive equitable social outcomes.

Using this lens of integrated financial and social value, DWM and Criterion Institute worked with DWM's private equity portfolio companies to provide a guided assessment of their processes and suggestions about how to apply more sophisticated gender analyses to these processes.

The assessment tool includes four core areas of business activity:

- **Product and Channel Design:** Whether the development of products and the determination of distribution channels used to disseminate these products recognize structural constraints or barriers to access by gender.
- **Loan Origination**: Whether client outreach and intake processes recognize bias and mitigate or perpetuate socially exclusive practices.
- **Credit Assessment and Servicing**: Whether the methods used to evaluate the eligibility of borrowers or clients and service loans reflect gender-balanced decision-making and incentives, enabling gender-equitable access to services.
- **Governance and Management**: How gender has been integrated into processes related to human resources administration and oversight of business strategy and operations.

Criterion Institute has identified seven gender-related power dynamics that show up in investment and finance processes[1]. After discussion, DWM and Criterion agreed to focus

1 See "Process Metrics that Analyze Power Dynamics in Investing"

on three of the seven power dynamics that were most relevant to the activities of inclusive finance institutions:

1. **Access**: Access to finance can sometimes be limited according to certain standards or expectations around race, religion, ethnicity, gender, education levels, and other social identity markers. Access dynamics have one party (typically financial institutions) determining who is considered 'worthy' to access capital and resources.

2. **Decision Making**: Decision making is often monopolized by the capital holders (who are considered to be synonymous with power holders). Effective representative decision-making structures ensure not simply that other stakeholders have access to decision making, but that control is effectively shared. Decision making dynamics determine who holds power across each process.

3. **Alignment / Incentives**: Alignment between stakeholders becomes more complex in inclusive finance, where both financial and impact returns must be accounted for. Alignment dynamics further determine what is valued by financial institutions by deciding which stakeholders are provided structural incentives to fulfill certain objectives of the social investment and how impact and financial objectives might be balanced.

These power dynamics can be used to assess each stage of the financing process. To take a specific example of the **product design process**, assessing whether product design adheres to a power equitable process is about understanding whether the capital being deployed is constructed to meet the needs of the end borrowers it is intended to serve (i.e., whether decision-making and incentives are gender-equitable). In the design of financial products, including stated objectives regarding gender equity goals increases the likelihood that the capital will be deployed in manners consistent with these goals, with the end result of ensure better gender balance in access to services.

A power-equitable product design process will start with a deep analysis of the social issue(s) it aims to address focusing on the end borrower and designing financial solutions to meet their needs through appropriate structures. This is a reversal of the traditional design hierarchy of many financial products, which typically start with designing for the capital holder and their preferred type of capital for efficient or scaled deployment. Designing with a focus on capital holder preferences can result in ill-suited loan terms that do not effectively meet the needs of clients and can directly affect an institution's ability to access certain target customer segments and effect sustained loan repayment.

Each category of business activity in the assessment tool covered several best practices, which are mapped to the relevant power dynamics in the graphic below.

Figure 1. Guided Assessment Tool Categories

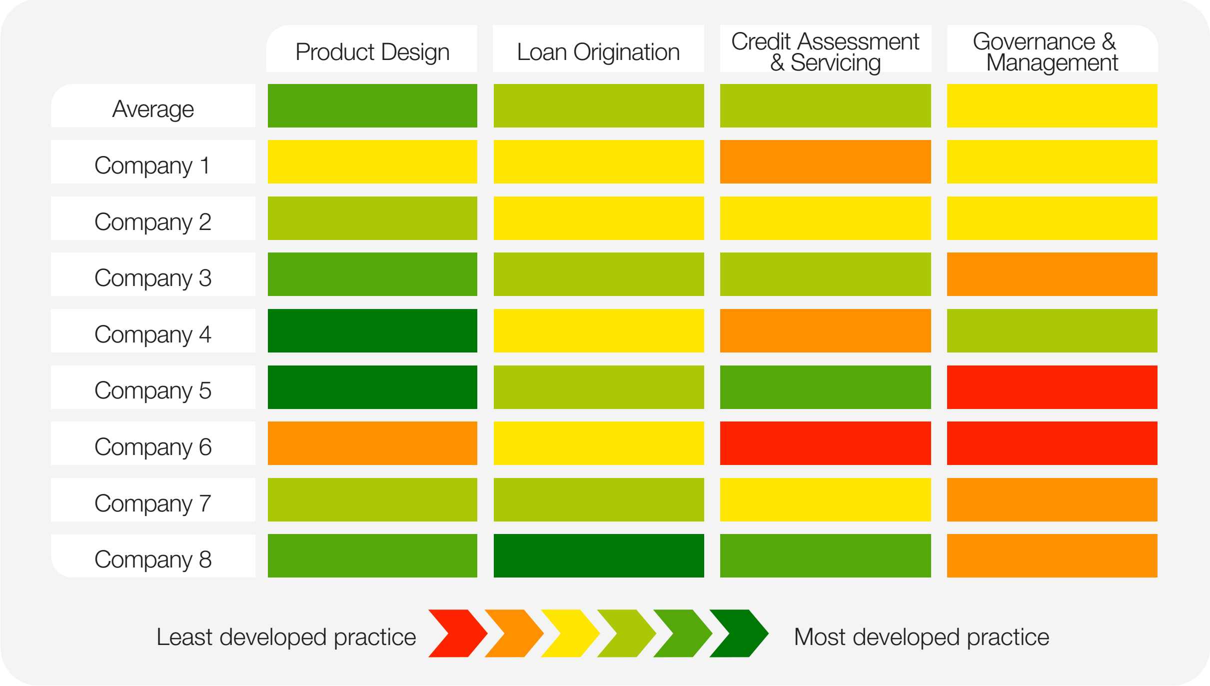
		Access	Decision-making	Alignment/incentives
1.	**Product and Channel Design**			
	Names gender as a meaningful aspect of strategy	○	○	●
	Conducts design research from end-borrowers and/or collects input from gender experts	○	●	○
	Undertakes needs analysis from un/underserved borrowers; ties design features to gender-equitable outcomes	○	○	●
	Considers gender and power dynamics in channels for communication, origination, distribution, and collection	●	○	○
	Embeds feedback loops to solicit information from a diverse and gender-representative set of customers	○	○	●
2.	**Loan Origination**			
	Creates an extensive and diverse network of loan officers	○	●	○
	Provides training to loan officers to encourage diversity in origination and collects sex-disaggregated data to understand trends in access and outreach for women	○	○	●
	Utilizes indicators, targets, and incentives to prioritize gender consideration as a key aspect of origination	○	○	●
	Seeks to understand potential unconscious bias in loan pipeline and creates action plan to address these issues	●	○	○
3.	**Credit Assessment and Servicing**			
	Collects sex-disaggregated data and benchmarks results against relevant proxy indicators of broader market trends on gender	○	○	●
	Regularly assesses credit decision making process and compares process outputs against assumptions/expectations by gender	○	●	○
	Designs credit policy to consider the needs/experience of its end borrowers	○	○	●
	Assesses effect of credit process on end borrowers to ensure processes are not overly onerous and exclusive	●	○	○
	Affords loan officers flexibility to structure and adjust terms to achieve gender targets or address disparities in power dynamics related to gender	○	●	○
	Develops disbursement and collections practices with gender and power dynamics in mind	●	○	○
4.	**Governance and Management**			
	Integrates gender equity and power dynamics into hiring process	○	●	○
	Analyzes staff turnover and pay by gender and implements policies to address gender and power dynamics	○	○	●
	Implements gender-equitable processes related to professional development, training, and career and salary progression	○	○	●
	Regulates workplace culture via publicly available policies and procedures which demonstrate respect for and adherence to its values	○	●	○
	Includes gender equity considerations in oversight processes	○	○	●

Analysis and Insights

Through the guided assessment process, each company received a score based on where they fell on the spectrum of consideration to intention and implementation of gender inclusive practices and procedures. Follow-up conversations were then held to discuss the results of the self-assessment and highlight opportunities for changes in processes. This conversation helped the companies understand how to pivot from thinking about gender equity as a matter of compliance to seeing it as a business opportunity.

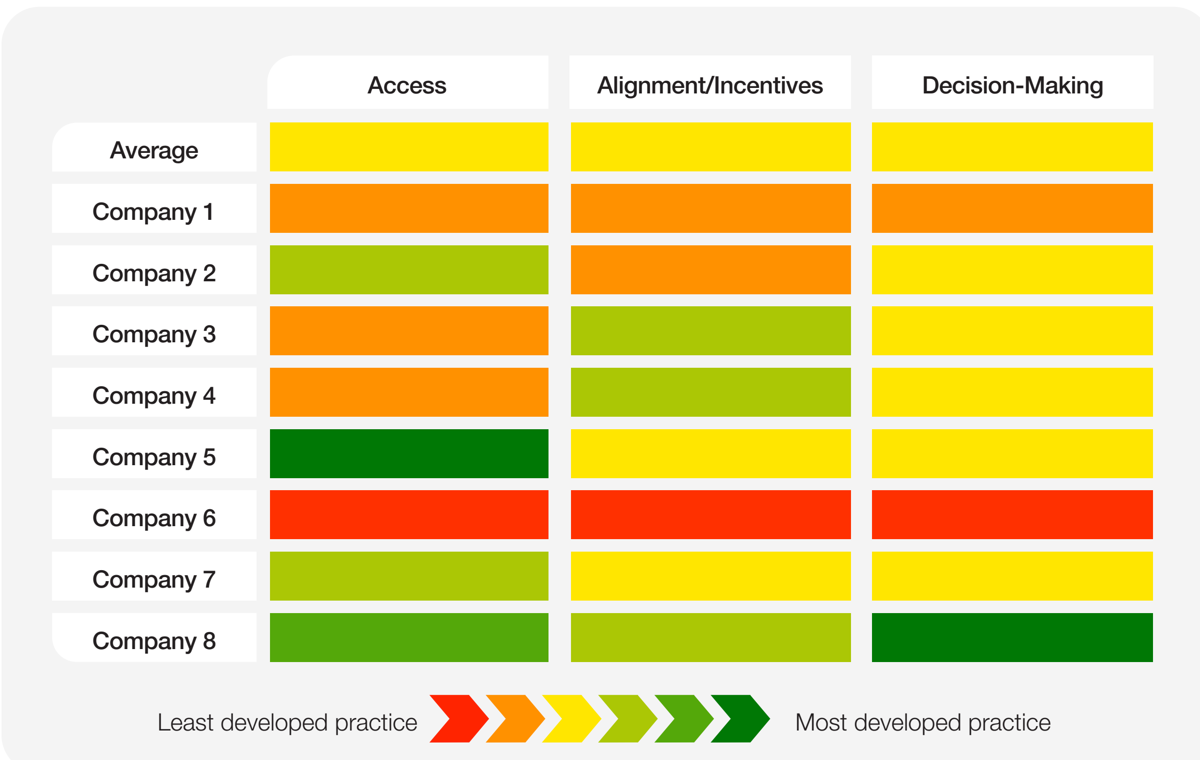
As seen in the table below, the categories with the highest average scores were product design and loan origination. This reflects the overarching findings that while inclusive finance institutions may have developed women-focused products or programs and reach women clients, there is room to improve the integration of gender considerations in routine operational processes and internal management.

Figure 2. Results from Gender and Power Dynamics Assessments, by Business Process



When viewed through the lens of alignment with power dynamics, on average the companies were stronger on access than the other two categories (albeit with similar averages across all three categories). The companies are making some progress on the processes that address alignment and incentives, such as needs analyses from the perspective of borrowers and collecting sex-disaggregated data. Areas for improvement include embedding feedback loops to solicit information from a gender-representative set of end borrowers and tying product and design features to the achievement of gender-equitable outcomes (even in cases where a women-focused product already exists). Portfolio companies could also improve the incentives and targets in place for prioritizing gender consideration in the loan origination process and in oversight and management processes such as analyzing staff retention and turnover by gender.

Figure 3. Results from Assessments, by Power Dynamics



Analysis of Practices by Core Business Activities

1. **Product and Channel Design**: Many of the portfolio companies have taken a "customer-centric" approach to design or have specific funding streams focused on women. However, they often lack an explicit statement to guide and reflect a commitment to gender equity as an aspect of their strategy. There are also opportunities to strengthen design research by including gender expertise either internally or externally and considering gender in channels for communication, origination, distribution, and loan collection.

2. **Loan Origination**: The portfolio companies are aware of the importance of having their loan officers reflect and/or come from the local community and take meaningful steps to identify and hire appropriate candidates. There is training for loan officers on gender issues, but the level of detail and context is mixed. One company indicated, "The loan officers are properly trained and cultured how to interact with the different power and marital dynamics of the household." For other companies, training is more focused on identifying women-led businesses and does not include understanding unconscious bias.

3. **Credit Assessment and Servicing**: Some companies already gather gender-disaggregated data for use in credit assessment, but there are widespread opportunities to better use this data, for example by testing hypotheses about variation in credit factors and collections by gender. Companies can think beyond the number and percentage of loans to women and men to evaluate trends in areas such as loan size, collections, and credit terms (including pricing). Another aspect that this category covered was the flexibility and adaptability of loan servicing processes to integrate needs that vary based on gender norms and roles. While most portfolio companies are committed to simplifying processes, this is more related to customer centricity broadly than to gender-specific practices. The companies tend to use standardized tools and templates, which may have embedded gender bias (e.g., loan application, credit parameters, customer profiling). On the other hand, some companies are fairly sophisticated in their understanding of specific disbursement processes relevant for women, such as who should be present at the time of disbursement, whose account the money should be disbursed into, and appropriate locations and timing for collections.

4. **Governance and Management**: The portfolio companies were very strong in regulating their workplace culture via publicly available policies and procedures, and nearly universally seek gender representation in staff and management. However, there are various opportunities to improve gender-equitable processes in internal management, including analysis of turnover and retention by gender and processes for professional development, training, and career and salary progression. Some companies indicated that their processes are meritocratic and uniform across genders, indicating an opportunity to build awareness of potential unconscious bias baked into seemingly neutral practices.

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Conclusion

Key Takeaways

The assessment process yielded significant insights for every portfolio company across the various dimensions analyzed. Several key takeaways emerged as the team analyzed the cross-portfolio results.

1. **Gender-sensitive design may be undercut by bias in existing channels.** Even companies that had thoughtfully designed products addressing the needs of women sometimes struggled to effectively roll them out because the typical sourcing and origination channels they used had in-built bias (e.g., use of credit bureau data for underwriting, or sales agents as distribution partners). In other words, the “decision-making” power dynamic had not been fully considered. This can be avoided by considering and removing systematic bias from distribution and client origination channels.

2. **A clear business case is imperative to achieve gender-related targets.** Initiatives around gender targets (for staff or clients) whether internally set or externally imposed stall quickly if the business case is not made explicitly for the staff and management. Applying the lens of power dynamics, the incentives at play are critical to achieving results.

3. **Data exists, but the feedback loop is incomplete.** Systems are readily available at inclusive financial institutions to receive customer feedback, but integrating this feedback into product design is often not well developed or completely absent. Completing this loop ensures that decision-making takes gender considerations into account.

4. **Even gender-representative staff need to be supported with capacity building.** A majority-female staff on its own is not enough to achieve gender-equitable outcomes. They still require training on engagement, outreach and power dynamics.

5. **Transition from microfinance to microenterprise can create a blind spot on gender.** Sex-disaggregated data is available for individual borrowers, but not for ownership of small and medium-sized businesses. In some cases, this requires new capabilities to track appropriately as it enters into new product categories (SME finance).

The project reinforced DWM's hypothesis that there is significant value in applying a gender lens to the business activities of inclusive finance institutions. Even where there was initial skepticism, the assessment process and follow-up conversations led portfolio company managers to believe that gender expertise and integration is an important differentiator in competitive markets. Many also came to see the business case for specific process improvements to meaningfully include gendered power dynamics.

Applying a process-first approach, the project emphasized the ways gender considerations can be integrated at each step of the loan cycle, rather than beginning with gender-related outcomes and working backwards. This allowed portfolio company managers to arrive at their own understanding of the relevance of gender to their business, and of how a gender lens could add further value through better market insights, customer loyalty, more effective channel strategy, and employee retention, among other benefits.

One company, for instance, noted that the questions in the assessment tool, while simple, resulted in thoughtful analysis within the company and a realization not just that they could be doing more, but that their actions could be tied to significant business improvement targets. In a few instances, companies moved from initial resistance to a strong willingness to learn more. This should be encouraging for other investors who wish to encourage portfolio companies to review their processes and understand the business imperatives behind gender improvements.

Next Steps

The team found that all the companies would benefit from a more robust approach toward data collection, analysis, and process change. Specifically, the companies should create initial hypotheses related to gender-based differences and then formulate data collection to prove or disprove them. Beginning with hypotheses—rather than the data they can collect—forces speculation about what is going well, what can be changed, and what additional information is necessary.

Additionally, the companies can develop stronger leadership pathways for women. This would be supported by more data analysis on differences in retention, salaries, productivity. For example, in this area, collecting gender disaggregated data on employee retention may reveal differences that require additional analysis—perhaps exploring salary differentials and opportunities to increase flexibility in work structure.

Further guidance will be required to help DWM's portfolio companies adjust processes to achieve the desired impacts. DWM plans to continue to support each portfolio company to identify action steps tied to business strategy for the near and medium terms. We will track the results of these changes and seek to apply lessons learned across the rest of DWM's debt and equity portfolios, as well as sharing results with our peers to help inform the field of gender-lens investing.

Portfolio Companies

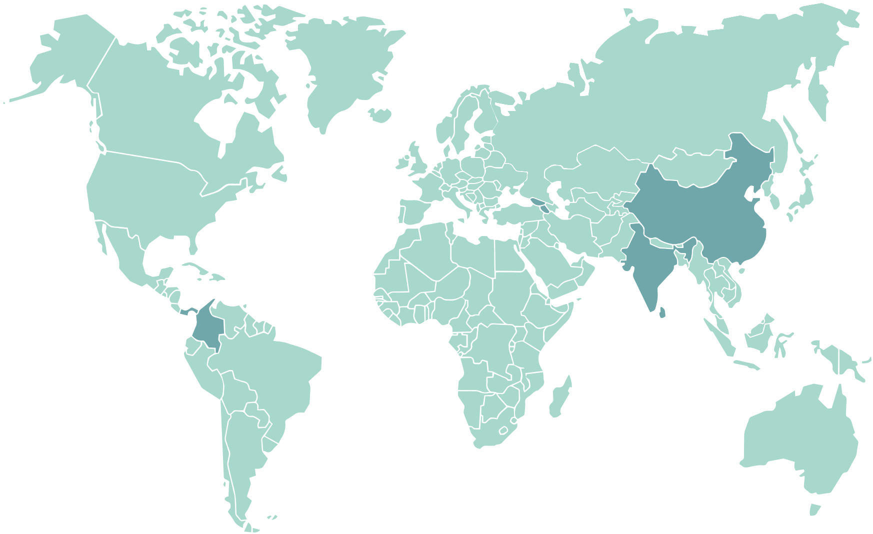
This project focused on DWM's Inclusive Finance Equity Fund II, which comprises eight portfolio companies across 6 countries, including microfinance institutions and specialized financial institutions providing services for small and medium enterprises. The portfolio companies serve nearly 3 million end clients, of which 80% are women. On average, the portfolio companies' employees are 40% women, and their boards are 27% women. These figures are on par with or better than regional industry averages; still, as the project demonstrates, the commitment to gender equity goes beyond these achievements to embed a gender lens throughout business processes.

INECOBANK
Armenia

crystal
Georgia

microcred
China

Ashv
India



CFE
Panama

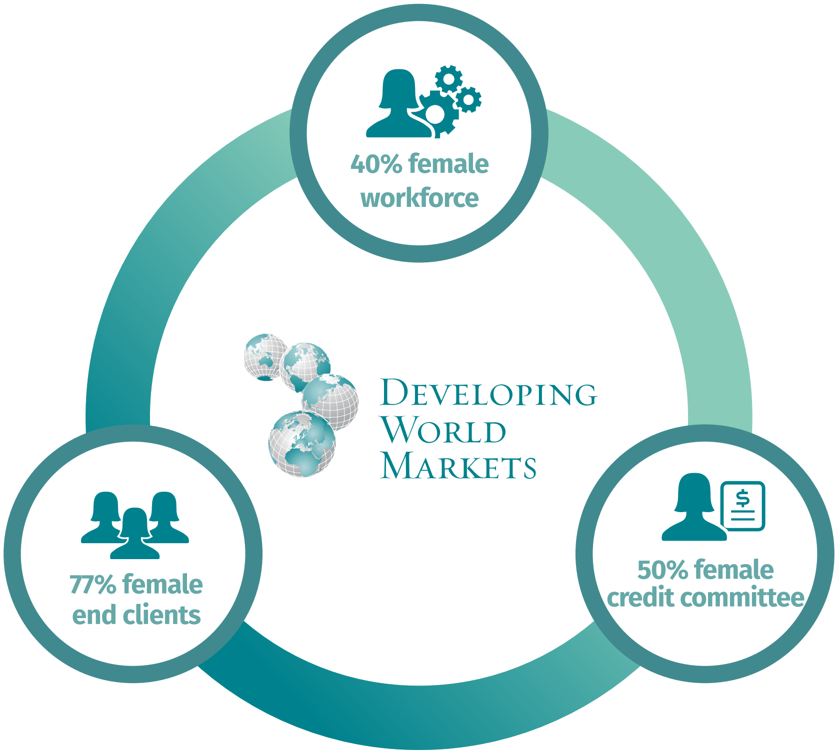
acercasa
Colombia

HNB FINANCE
Sri Lanka

SURYODAY A BANK OF SMILES
India

Gender Equity at Developing World Markets

DWM is committed to diversity, equity, and inclusion in its leadership, workforce, operations, and investment process. We recognize the need to model the equitable practices we espouse for our investees. The 2X Challenge has emerged as a minimum standard for gender lens investing practices. DWM meets 2X criteria through our gender-balanced Credit Committee, 40% female workforce, gender-inclusive workplace policies, and 77% female end client base. DWM has set internal goals to further improve its inclusive practices beyond the baseline thresholds. DWM's current portfolio also meets the criteria for indirect investments through funds, and we plan for all future funds to be 2X eligible. Continuing the work of advancing gender equity (internally and externally) is inseparable from our organizational goal of creating positive social impact around the world.



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