Financial Innovation to Support Women-Led Businesses

Mexico's First Gender Bonds and the Role of National Development Banks

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On October 15, 2020, the Trust Funds for Rural Development (Fideicomisos Instituidos en Relación a la Agricultura, or FIRA) issued a social bond with a gender focus with the aim of expanding the resources available to finance projects led by women in rural areas.[1] The issuance was made under a Social Bond Framework in accordance with the International Capital Markets Association (ICMA) Social Bond Principles. FIRA operates as a second-tier development bank that offers credit, guarantees, training, and technical assistance through its network of banks and non-bank financial intermediaries. The Inter-American Development Bank (IDB) supported FIRA in this pioneering initiative.

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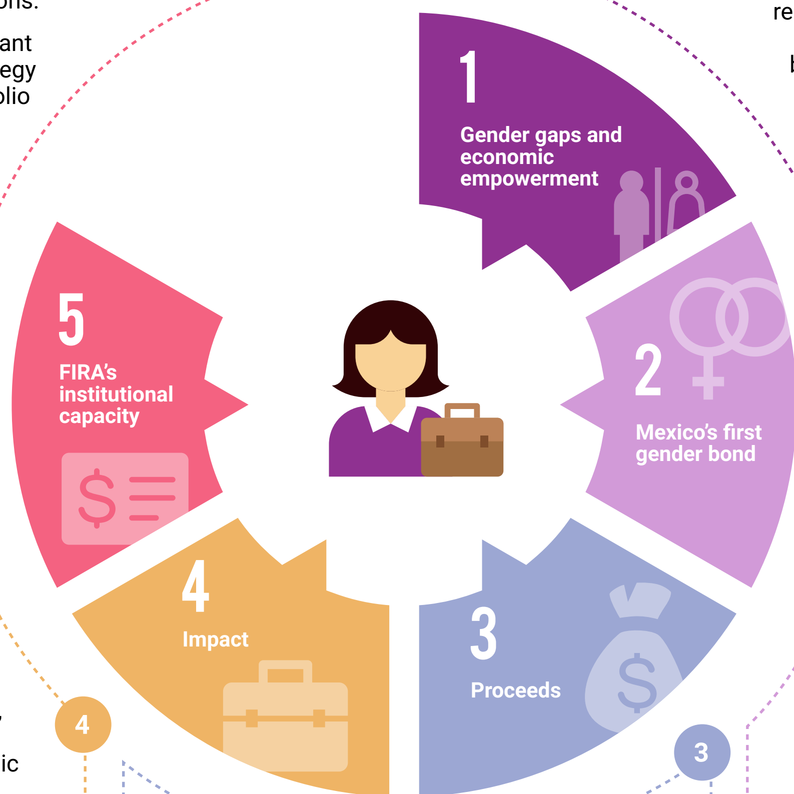
[1] The issuance was made through one of its constituent funds, the Special Fund for Agricultural Financing (Fondo Especial para Financiamientos Agropecuarios, or FEFA).

Five Highlights of FIRA's First Gender Bond



1 Gender Gaps and Economic Empowerment

In Mexico, 46 percent of women do not have access to credit versus 40 percent of men, and in localities with fewer than 15,000 inhabitants, only 20 percent of women have formal credit versus 23 percent of men.[2]

Although women in agriculture play key roles in contributing to household income, food security, natural resource management, and biodiversity, they face barriers to access to land, capital, and technology, which limit their economic participation and empowerment.

2 Mexico's Gender Bond

This issuance was Mexico's first gender bond and the first to be issued by a national development bank (NDB) in Latin America and the Caribbean (LAC). The bond, issued on the Mexican institutional stock exchange (Bolsa Institucional de Valores, or BIVA), was almost four times oversubscribed.

3 Proceeds

The proceeds from the issuance will be used to finance or refinance projects led by women in the agricultural, fishing, forestry, agri-food, and rural sectors in three categories: (i) Financial Inclusion, targeting new credit recipients; (ii) Labor and Productive Initiatives, to provide working capital financing for productive projects; and (iii) Entrepreneurship, to provide long-term financing for capital investment in productive infrastructure.

4 Impact

The bond is consistent with the Social Bond Principles, which seek to achieve positive socio-economic outcomes for target populations. By financing projects led by women in rural areas, this bond promotes women's participation in the labor force, improves women's access to financial services, and supports economic growth in agricultural and rural settings while advancing gender equality. The bond will contribute to the achievement of UN Sustainable Development Goals (SDGs) 1, 5, and 10.

5 FIRA's Institutional Capacities

FIRA's 2020–2024 program includes policies and actions that contribute to enhancing gender equality bay (i) fostering financial inclusion; (ii) designing financial products adapted to the needs of producers, particularly vulnerable groups and women; and (iii) incorporating a gender perspective throughout the institution's objectives and operations.

This bond is an important element of FIRA's strategy to strengthen its portfolio of projects aimed at supporting women and is aligned with its sustainability strategy.

[2] *According to Mexico's National Financial Inclusion Survey, 2018.*

Sovereign social bond summary term sheet	
Issuer	Special Fund for Agricultural Financing
Amount issued	$3 billion Mexican pesos (up to $5 billion in the same year)
Currency	Mexican pesos
Tenor	Three years
Use of proceeds	Financing or refinancing of credit for women and women-owned businesses
Independent reviewer of the social bond framework	Sustainalytics, which will confirm that the issuance follows ICMA Social Bond Principles
Social impact reporting	Annual
Listing	BIVA, Mexico City

Key Points on Gender Bonds and the Role of National Development Banks

1

Despite efforts to improve financial inclusion and access to productive finance, women entrepreneurs remain underserved.

Access to finance restrictions limit the capacity of micro-, small-, and medium-sized enterprises (MSMEs) to make investments that can boost their growth, productivity, and innovation. The LAC region has the largest percentage of self-employed women in the world, and women-led businesses represent a third of all businesses in the region. However, 70 percent of women-led businesses that apply for a bank loan are turned down, 30 percent are financially restricted (versus 25 percent of those led by men), and access to financing is a major constraint for women to start a business and the main reason why their businesses fail.[3]

2

Several factors restrict access to financing for all MSMEs, including information asymmetries for assessing credit risk and insufficient collateral.

These restrictions are even more severe in the case of MSMEs owned or led by women. For example, women tend to have fewer assets in their name and their businesses tend to be concentrated in the services sector, which impacts the availability of collateral. Moreover, women face specific demand- and supply-side barriers that further limit their capacity to access the financing needed to start or grow their businesses. Supply-side constraints include credit bureaus that lack positive information and gender bias, both conscious and unconscious, in financial institutions. Demand-side constraints include limited time and mobility, limited access to information and networks, and lack of services with an adequate value proposition for women, due to the lack of sex-disaggregated data and understating of women's preferences and attitudes toward finance.[4]

[3] *For a longer discussion, see the IDB Sector Framework Document, Support to SMEs and Financial Access/Supervision (2017).*

[4] *For example, data show that women have less access to networks, although they have a greater focus on building deep relationships and a higher propensity to share experiences and act on the recommendations of peers. This explains why successful financing programs targeting women entrepreneurs tend to have strong non-financial component. An example is the CreceMujer Emprendedora platform sponsored by BancoEstado in Chile.*

3

Providing better services to women entrepreneurs has important development benefits, while also being a viable market opportunity for financial institutions (FIs).

Enhancing women's access to adequate financial services is a promising way to improve women's economic empowerment and productivity. It improves economic opportunities and development outcomes, as it gives women more control over their resources and allows them to invest in their families and businesses and to better address emergencies. Furthermore, narrowing the gender gap in access to financial services would foster greater stability and resilience in the banking system, enhance economic growth, and contribute to more effective monetary and fiscal policy.[5] From a market perspective, the financing gap facing women-led MSMEs in the region is estimated at US$92 billion.[6] Most FIs are unaware of this gap and of the specific demand from women entrepreneurs, and therefore of the lost market opportunity. Available data from FIs that have designed and implemented programs for women-led MSMEs in accordance with best practices to address their needs show that increasing the share of women-led MSMEs in the total loan portfolio does not deteriorate its quality or increase risk. Indeed, available information from FIs that are members of the Financial Alliance for Women consistently indicates that WLBs have better results in terms of nonperforming loans (NPLs) and that women clients represent a valuable business opportunity to financial service providers.

The Effects of COVID-19 on Women-led Businesses

The COVID-19 pandemic and the crisis it has generated have disproportionately impacted women. Not only more women work, or lead businesses in, industries that were the most severely affected by the pandemic, such as tourism and services; women also face an increased burden in terms of household work and family care.

Women entrepreneurs face these problems as well as the supply and demand shocks that have affected most businesses around the world. And while virtually MSMEs have been impacted, the crisis has exacerbated the structural inequalities and constraints that affect women. It is therefore crucial to understand these constraints and accelerate efforts to support women-led MSMEs to avoid reversing the progress achieved in recent years and to ensure that women entrepreneurs can contribute to economic recovery and growth in a more sustainable and resilient manner.

Specifically, the share of NPLs for women was 2.7 percent versus 4.5 percent for men in the small business segment and 1.7 percent for women and 3.3 percent for men in the medium-size business segment.

[5] *See Sahay et al. 2018. Women in Finance: A Case for Closing Gaps. IMF Staff Discussion Note. Washington, DC: IMF. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/09/17/women-in-finance-a-case-for-closing-gaps-45136*

[6] *See MSME Finance Gap Database. Available at: https://finances.worldbank.org/Other/MSME-Finance-Gap/ijmu-5v4p.*

[7] *See Financial Alliance for Women. 2019. The Economics of Banking on Women. New, NY: Financial Alliance for Women.*

4

National development banks can play a critical role in fostering a more inclusive financial sector that adequately addresses the needs of women-led MSMEs.

Improving access to productive finance is a key policy objective across the LAC region. National development banks are at the center of these efforts. Nonetheless, most NDBs do not yet view women-led MSMEs as a segment that requires specific programs and a differentiated approach. There are ample opportunities for NDBs to start implementing actions to better serve women and foster these actions across the financial sector through their second-tier operations. These actions include (i) undertaking and promoting the collection, monitoring, and analysis of data disaggregated by the sex of the owner or leader of the business, which is needed to understand the WLBs' participation of women-led MSMEs in current portfolios and programs, their demand and credit risk performance, and the business case to serve this market accordingly; (ii) designing specific programs to address the reduced availability of traditional guarantees or collateral affecting women-led MSMEs, thus reducing the perceived risk of this segment by FIs; and (iii) strengthening the institutional capacity of NDBs and FIs to serve women-led MSMEs, by training staff and improving their engagement through sensitization activities and other efforts to reduce potential conscious and unconscious gender bias. Importantly, NDBs can lead pilots or innovative initiatives, such as gender bonds, that can demonstrate the potential to the whole financial sector.

5

Gender bonds can catalyze resources to expand the financing frontier for women while fostering best practices to serve them.

Gender bonds are social bonds with a gender focus. They are a promising financing vehicle for institutions committed to addressing and reducing gender inequality by improving women's access to financing, leadership positions, and equality in labor markets. Gender bond frameworks establish the rules that ensure that the proceeds will be exclusively utilized to achieve one or several of these objectives, as well as comply with the four components of the Social Bonds Principles, namely: (i) use of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds, and (iv) reporting. Gender bonds can therefore not only increase the availability of resources to finance women-led MSMEs; they also contribute to the achievement of several SDGs. Importantly, gender bonds, like other thematic bonds, allow for impact investing without sacrificing financial returns, thereby facilitating the mobilization of private investment for development and sustainable projects.

6 **Considering the potential of gender bonds in a regional context that requires sustained efforts to improve gender equality, the IDB Group has been a leader in fostering this financial innovation.**

It has contributed to the three gender bonds that have been issued in the LAC region thus far: the first two, issued by commercial banks with the participation of IDB Invest, the private arm of the IDB Group; and FIRA's, with the support of the IDB.

Previous Gender Bonds in the Region—Clear Leadership of the IDB Group

- **In 2019, IDB Invest structured and subscribed a gender-focused social bond** issued by Banistmo for **US$50 million** issued and a five-year term. The issuance made Panama the first country in the LAC region to issue a social bond with a gender focus, aimed exclusively at expanding access to financing for women-led SMEs. The resources will promote entrepreneurship and women's economic empowerment in that country.

- **In 2020, IDB Invest structured and subscribed a gender-focused social bond** issued by Banco Davivienda, SA. The deal, worth **COL$362,500 million,** has a seven-year maturity. This is the world's first issue of a gender-linked bond based on achieving outcomes. The issuer will use the proceeds from the bond placement exclusively to finance the growth of its women-led SMEs portfolio, as well as to purchase self-help housing built by women in Colombia.

7 **National development banks can lead the way to expand opportunities that offer gender bonds to better serve women.**

The success of previous gender bonds, particularly FIRA's Gender Bond, illustrates the potential of this financing instrument and the opportunities it offers to NDBs that seek to advance gender equality and that align this objective across their institutional programs and policies. This point is crucial: gender bonds require an institutional context where there is a clear commitment to gender equality and to serving women and their businesses. The capacity to understand the need for women-led MSMEs in their loan portfolios and the ability to collect and track sex-disaggregated data are crucial and required. Advancing NDBs' institutional capacity and strategic approach to serve women and women-led MSMEs can thus expand and diversify the funding sources for NDBs while also multiplying their development impact and contribution to achievement of the SDGs. This is particularly important and valuable in the context of the COVID-19 crisis, especially considering the potential to increase loan portfolios without deteriorating their quality since lending to women results in fewer NPLs. Moreover, expanding the potential of gender bonds throughout the LAC region can contribute to the development of capital markets at the national and regional levels.