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:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A. Share of women ownership</td>
<td>51%</td>
</tr>
<tr>
<td>1B. Business founded by a woman</td>
<td>Yes/No</td>
</tr>
<tr>
<td>2A. Share of women in senior management</td>
<td>20-30%</td>
</tr>
<tr>
<td>2B. Share of women on the Board or IC</td>
<td>30%</td>
</tr>
<tr>
<td>3A. Share of women in the workforce</td>
<td>30-50%</td>
</tr>
<tr>
<td>3B. One “quality” indicator beyond compliance</td>
<td>Yes/No</td>
</tr>
<tr>
<td>4. Product or service specifically or disproportionately benefit women</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

#### Sector-Specific Thresholds

**2.A Women in Senior Management**

<table>
<thead>
<tr>
<th>Grp.</th>
<th>Sector</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Infrastructure, Power, Telecoms</td>
<td>20%</td>
</tr>
<tr>
<td>Mid</td>
<td>Financial Services, Manufacturing</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Agribusiness &amp; Food, Professional Services, Consumer Services</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Healthcare, Education</td>
<td>30%</td>
</tr>
</tbody>
</table>

**3.A Women in the Workforce**

<table>
<thead>
<tr>
<th>Grp.</th>
<th>Sector</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Infrastructure, Power, Telecoms</td>
<td>30%</td>
</tr>
<tr>
<td>Mid</td>
<td>Financial Services, Manufacturing</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>– Heavy, Agribusiness &amp; Food, Professional Services</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Healthcare, Education, Consumer Services, Manufacturing – Light</td>
<td>50%</td>
</tr>
</tbody>
</table>

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

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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 eligibility 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 owners\(^1\) in Africa\(^2\), 21% in Asia\(^3\), 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

Notes: (1) In this research, “Business owners” are defined as owners who employ at least one employee other than themselves; figures for all businesses are extracted from the MasterCard Index of Women Entrepreneurs 2018, based on ILO data 2008-2016; (2) Sample for all businesses includes: Algeria, Botswana, Egypt, Ethiopia, Ghana, Malawi, Nigeria, South Africa, Tunisia and Uganda; (3) Sample for all businesses includes: China, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam; (4) Sample for all businesses includes: Brazil, Colombia, Costa Rica, Ecuador, Mexico and Peru
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 body\(^1\)

\[
\frac{\text{Women on the Board}}{\text{Total people on the Board}} \times 100
\]

- Investees at which women Board members do not play an active role on the Board should not be counted\(^2\)

- 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

<table>
<thead>
<tr>
<th>Group</th>
<th>Sector</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Infrastructure, Power, Telecoms</td>
<td>20%</td>
</tr>
<tr>
<td>Mid</td>
<td>Financial Services, Manufacturing</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Agribusiness &amp; Food, Professional</td>
<td></td>
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<tr>
<td></td>
<td>Services, Consumer Services</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Healthcare, Education</td>
<td>30%</td>
</tr>
</tbody>
</table>

*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 sectors

Illustrative average of two global benchmarks, 2015 and 2017

<table>
<thead>
<tr>
<th>Sector</th>
<th>Proposed Threshold - High</th>
<th>Proposed Threshold - Mid</th>
<th>Proposed Threshold - Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agribusiness &amp; Food</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Professional Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecoms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data for developing countries is scarce and evidence is mixed – please refer to Appendix 3

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

Note that these are regional averages; the distribution of women Board members (and the share of firms meeting the 30% target) is generally unknown

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Kenya</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>Nigeria</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>South Africa</td>
<td>30%</td>
</tr>
<tr>
<td>Asia</td>
<td>India</td>
<td>Min. 1</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>30%</td>
</tr>
<tr>
<td>Latin America</td>
<td>Colombia</td>
<td>30%</td>
</tr>
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</table>

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

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 processes 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 supplier 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

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<thead>
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<td></td>
<td>Heavy*, Agribusiness &amp; Food, Professional Services</td>
<td></td>
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<tr>
<td>High</td>
<td>Healthcare, Education, Consumer</td>
<td>50%</td>
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<td></td>
<td>Services, Manufacturing – Light</td>
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</tbody>
</table>

*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 sectors,
Simple average of country averages for selected countries in Africa, Asia and Latin America, 2008 and 2017, and IFC Portfolio Averages, 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;

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 needs;
  - 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

Notes: (1) Infrastructure transactions would only count if there was an intention to design or build the infrastructure to specifically serve women better. For example, a road would not count unless it was designed with women and with routes and features that would enhance their safety, security, or access.
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

<table>
<thead>
<tr>
<th>2X Category</th>
<th>Impact Type</th>
<th>Rationale (applied here to intermediated investments only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship</td>
<td>Direct</td>
<td>• Financing of funds or banks that are women-owned fulfills the entrepreneurship goal</td>
</tr>
<tr>
<td></td>
<td>Indirect</td>
<td>• On-lending facilities and funds that can finance women-owned enterprises</td>
</tr>
<tr>
<td>Leadership</td>
<td>Direct</td>
<td>• DFIs can encourage women leadership within the financial institutions and funds they finance¹.</td>
</tr>
<tr>
<td></td>
<td>Indirect</td>
<td>• 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</td>
</tr>
<tr>
<td>Employment</td>
<td>Direct</td>
<td>• 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</td>
</tr>
<tr>
<td></td>
<td>Indirect</td>
<td>• On-lending facilities and funds can improve women’s potential for income generation by financing companies promoting fair and equal career opportunities for women</td>
</tr>
<tr>
<td>Consumption</td>
<td>Direct</td>
<td>• 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”</td>
</tr>
<tr>
<td></td>
<td>Indirect</td>
<td>• On-lending facilities and funds can contribute helping women access to priority goods or services by providing finance to companies delivering them</td>
</tr>
</tbody>
</table>

Notes: (1) Women are typically underrepresented at senior level in financial institutions, especially in developing countries (e.g. 6.9% of women representation at senior level in banks in Asia) *The Financial Times*
Commitments for new investments

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

Several criteria are 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

Source: Allen and Overy, Diversity: Example statements by FTSE 350 companies, 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.

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

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