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Beyond Gender Lens Investing



Dreilinden

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On our journey to scope and size the queer investment universe, we started looking around the impact investment space to see how we could build on already existing approaches and frameworks. Luckily we didn't have to look very far as our friends at Criterion Institute (and many others) have already done fantastic work in a related field — gender lens investing (GLI)! GLI connects well to the way we want to approach queer impact investing. By reinterpreting GLI, or in some cases by just going back to its original intent, we wind up with the right foundation to build on.

In the long run, we hope a queer impact lens will be part and parcel of any investment process or will become an investment strategy itself. Our overarching aim is to demonstrate that true diversity and inclusion lead to better decisions, as well as a better life for everyone.

Adapting the Gender Lens Pillars to the Queer Lens

We want to approach the subject as broadly as possible, and evaluate the adaptation of GLI to a queer lens as well as the challenges posed by such an attempt. In the end, any combination or indeed all of the adapted pillars of GLI can be part of a queer investment lens. The combination will depend on each investor's priorities.

There are many different approaches to implementing a gender lens. The most common pillars of GLI are workplace equity, access to capital, and products and services. For this series, we will also look at leadership, investors and the supply chain. We feel it is

important to highlight these pillars in a queer context to provide a broader understanding, even if we ultimately decide to subsume them under larger categories.

Binary Workplace Equity

All current and potential employees have access to the same opportunities. Indicators such as the number of women employees, their roles in the organization, the gender pay gap, the existence of policies for a gender-friendly workplace are assessed as part of the due diligence and ongoing monitoring process.

Adaptation to the Queer Lens

We chose the slightly provocative title “Binary Workplace Equity” on purpose, as gender is all too often discussed on a binary basis. While we know this wasn’t the original intention of GLI, in reality this is how it is often interpreted. A binary view of gender will by definition not work for a queer lens. In addition, it is unlikely companies are systematically collecting data on their employees’ sexual orientation, gender identity, gender expression and sex characteristics. Hence, the due diligence needs to focus heavily on discussions with management and board members, using targeted conversation starters (as opposed to laundry list questions). Diversity and inclusion policies, compensation guidelines and levels across the enterprise, initiatives for queer people to be out in the workplace, a safe working environment free of discrimination and prejudice, etc., are all potential points of reference towards measuring workplace equity for all.

Access to Capital

Investing in women-led businesses has been around for quite some time, but lacklustre investment demand, limited awareness and perceived lack of investable opportunities have prevented mainstream adoption. However, recently we have seen positive signs that things are heading in the right direction: an increasing number of more suitable networking formats and platforms that allow women entrepreneurs to become more visible, as well as an uptick in female investors (see below), have led to solid growth in GLI.

Adaptation to the Queer Lens

We have repeatedly been told, although only anecdotally, that access to capital is one of the main challenges for queer entrepreneurs. Funding from family and friends is often not available. A lack of tangible assets, which makes it difficult to access traditional financing, only exacerbates the situation. In addition, there is a lack of platforms for queer entrepreneurs to gain visibility in the investor community. We also hypothesise that many queer businesses tend to gravitate towards services and lifestyle products. These enterprises typically do not offer the hockey-stick growth often sought by venture capitalists, hence making it even more difficult to raise funding. An ecosystem approach can help seed this strategy across developing countries and may include increased development of business enablers, incubators, accelerators, networks, as well as mentorship programs specifically targeting and supporting queer entrepreneurs.

Binary Gender Diversity (Including Leadership)

This pillar examines gender diversity across all business hierarchies, including at the management and board level. Leadership diversity is particularly crucial, as numerous studies have shown (see here and here). Hiring, retention and promotion strategies for women are potential indicators to consider.

Adaptation to the Queer Lens

For obvious reasons, queer diversity is infinitely more difficult to assess from the outside. Furthermore, the regulatory framework in the country of operation may not have progressed far enough for companies to pursue a public diversity strategy. Hence, only direct interaction with the management and board will allow an in-depth view of the company's diversity, its strategy to promote inclusion (even in adverse environments) and the initiatives in place to facilitate a culture of diversity.

Investors

It's no secret that women are under-represented in the investment industry. Even in a relatively mature market like the UK, only 14% of business angels are women. The situation is equally unpromising in the US, with only 8% of venture capital firms having female partners. This has important implications for women entrepreneurs as venture capital firms with female partners are more than three times as likely to invest in enterprises with a woman CEO. The lack of investment in women entrepreneurs should surprise us, because there are numerous studies that show that investing in women

entrepreneurs results in higher returns (see here and here). Obviously, conscious and unconscious bias remain hard to overcome.

Adaptation to the Queer Lens

Given the lack of binary gender diversity data, we can only imagine what the statistics would look like for queer people in the investment industry. Having said this, all of the studies indicate that greater diversity on investment teams leads to better decisions and higher returns. We are fully supportive of this approach but advocate for an inclusiveness which is conscious and purposeful, as well as for a much broader gender understanding.

Supply Chain

This pillar focuses on how women are treated within the supply chain of a particular company or industry. Again, the lack of visibility and business support networks are the main hurdles preventing women entrepreneurs from gaining access to supply contracts and becoming more closely integrated into the processes of larger ecosystems and industries. Inclusive tenders, support programmes or networking opportunities are potential mitigation strategies.

Adaptation to the Queer Lens

Queer businesses and businesses catering to the queer communities face identical challenges. We have seen great results in countries with queer chambers of commerce (e.g. FMELGBT in Mexico). They were able to build strong ally networks within and across industries to ensure queer businesses gain access to the supply chain of larger enterprises and become an integral part of the ecosystem.

Products & Services

This pillar examines enterprises offering products and services specifically targeting women. It also looks at how women are included in the design process of such products and services as well as how women use them. In particular, the latter has been neglected by many enterprises and investors in the past and has only recently gained momentum.

Basic goods and services, such as education, primary healthcare as well as maternal and child support are often provided by the state to make them more accessible to women,

especially in areas with little infrastructure. Hence, the private sector typically targets other socio-economic groups of the population, not women as such.

Adaptation to the Queer Lens

We expect this pillar to play a major role in any queer investment strategy. Queer communities, by and large, especially those in the Global South and East, do not benefit from state support and have to resort to private providers to gain access to services such as health care, housing, and legal protection. Including the queer community in the design process of tailored products and services is paramount and should be a critical element to consider when assessing development and supply chain processes.

Challenges to Adapting GLI to the Queer Investment Lens

Without question, it has become blatantly obvious above that there are a number of challenges that keep appearing throughout the pillars of queer inclusion. These include the following:

- **Structural Barriers:** Queer communities face certain challenges that are systemic and need to be addressed through legal, policy and grassroots initiatives. We do not accept these shortcomings of the status quo and will keep supporting projects that drive grassroots change. We do think, however, that strengthening queer communities from within through economic empowerment will contribute to the long-term sustainability of the communities.
- **Binary Gender View:** The gender discussion still has far to go — all too often we find ourselves confronted with binary gender perception. We believe it is mission critical to consider the full spectrum of gender identification, expression and characteristics, including sex characteristics, in the context of queer impact investing as is done in gender lens investing. It is often the non-binary population that is most marginalised and in need of empowerment.
- **Countering Victimisation:** We are targeting a demographic that regularly has their right to existence questioned and is victim to emotional as well as physical abuse. Much work is yet to be done, and we will continue to provide support in many ways besides business investments. It is our stated goal to empower the communities to come out of obscurity, integrate them better in the economic process and offer them

options in environments where they see few. As we move forward with our impact investments, we have decided to employ a two-pronged approach where every investment is assessed for impact as well as business sustainability, with two separate sets of experts.

- **Visibility and Networking:** Among the biggest challenges queer entrepreneurs and businesses catering to queer communities face in their fundraising efforts are lack of visibility and limited overlap in social networks. Large parts of the queer population feel overpowered by their heteronormative peers in networking situations, even in welcoming environments. The lack of “out” role models and limited to no diversity within the investment management industry further exacerbate the challenge.
- **Power Imbalance:** On the grant-making side of Dreilinden’s work, we have long incorporated a strategy of giving with trust. This is based on our conviction that people on the ground are the experts in their field. It’s important for us to interact with our grantees on an equal footing. We want them to do the work they set out to do, instead of spending their time writing elaborate reports for us. We have been able to follow this approach because our organisational set up is extremely lean, the decision-making processes are short, and we have direct personal links to the organisations we support. The dynamics in an investment process are different as the interests of the different stakeholders are at times diametrically opposed. Nonetheless, we are still keen to incorporate our philosophy of trust into our impact investment strategy. We will start by working collaboratively with our entrepreneurs, ensuring that impact measurement and management is benefiting the company itself and is not done simply for our benefit. We are also working on investment structures that will align the diverging interests better — more on this in an upcoming article in our queer impact investment series.
- **Enterprise Resilience:** One of the key observations from our research on South Africa and Mexico is the relatively short life span of micro, small, and medium enterprises (MSMEs). Most companies survive for less than five years in South Africa and less than eight in Mexico. This suggests that any investment strategy needs to include technical assistance to bolster the resilience of MSMEs. It also indicates that we as investors will have to think beyond traditional investment structures. Blended finance and hybrid as well as self-liquidating structures need to be top of mind if the

goal is to empower businesses as opposed to extracting as much shareholder value as possible.

- **Lack of Data:** The lack of reliable and consistent data (and, in some cases, no data at all) is an issue that has accompanied us throughout our journey to define the investment universe. The limited visibility of queer communities is still a reality. In many cases, they are criminalised. Discrimination, be it legal or social, negates the existence of queer communities, therefore making it impossible to collect data.

Opportunities Provided by the Queer Investment Lens

We are convinced that a queer investment lens will unlock untapped potential for both entrepreneurs and investors. Not only are we fighting for social justice, we also need to ask ourselves about the costs to society and the economy if we don't achieve long-term inclusion and diversity. A case in point is Kenya where the annual economic loss due to LGBT discrimination has been estimated between USD 180 million and USD 1.3 billion.

- **Expanding the Deal Pipeline:** While there are investors following a wider definition of gender, the queer investment lens is non-existent today. Opening up the investment horizon will help reduce current bias and deepen the pool of potential investments. The queer investment lens provides a platform for businesses that in all likelihood would be overlooked by a traditional investment approach.
- **Better Decision Making:** Many businesses have already caught on to the fact that diversity and inclusion is a great value creator. Many more still have to join them. However, very few investors are incorporating this in their investment decisions. Hence, we take the view that including a queer lens in the investment process unequivocally leads to better decision making. Conscious and unconscious bias are a costly proposition for an investor — opportunities are missed, and risks assessed with a one-sided view. Different investment lenses ensure a holistic assessment that ultimately results in better decisions and higher returns for all stakeholders.
- **Increasing Market Size:** The economic loss due to lack of queer inclusion has not been quantified on a global level; however, this study from Open For Business put a price tag of USD 180 million to USD 1.3 billion per annum for LGBT discrimination in Kenya alone. Per annum! Economic loss means businesses are paying for this with

higher costs, less revenues and a smaller overall market size. Reversing this dynamic has the potential to unlock significant growth and upside for all stakeholders.

Conclusion

We realise that it falls on institutions like Dreilinden and other philanthropic capital to establish, as well as prove, the business case for queer impact investing for a larger audience to take notice. Hence, the expertise gained from recent studies by iGravity and FMELGBT is meant to contribute to the discussion and hopefully help further the thinking around queer impact investing.

We are thrilled to see the positive development of investors adopting GLI. However, we believe to reap the full rewards of GLI, we need to move away from a gender binary view and broaden our horizons to consider the full spectrum. True diversity cannot be achieved through a binary approach, hence this article is a plea to go further, to appreciate the variety of gender expressions and embrace intersectionality.

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About Dreilinden gGmbH

Dreilinden is a Hamburg-based foundation dedicated to advancing societal acceptance of gender and sexual diversity. Founded in 2007, Dreilinden has been at the forefront of supporting sexual orientation, gender identity and expression, and sex characteristics with grants and investments. Kindly note that Dreilinden does not accept any grant applications at this time.

About iGravity AG

iGravity is an advisory firm specialising in impact investments and innovative finance solutions. Established in March 2017, the firm's mission is to connect disruptive ideas, visionary people, institutions and capital to address some of the most pressing social issues. iGravity works within three interlinked verticals: Research & Advisory Services, Investment Solutions and Impact Ventures. Clients include family offices, NGOs, international organisations, asset managers, foundations and governments.

About FMELGBT

FMELGBT+ works to create a Mexico with equal opportunities for all people. We give corporates, entrepreneurs, professionals and talent who identify as LGBT+ a voice and visibility. Together, we work for the economic empowerment through the connection of LGBT+ suppliers, corporate multinationals, government entities and civil society organisations. In addition to creating business opportunities and developing research projects, FMELGBT+ promotes norms, policies and regulations in favour of inclusion and diversity.

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