

An Investment Approach for Improving LGBTQIA* Communities' Access to Labour Markets



Like anyone else, people in LGBTQIA* (1) communities have aspirations, drive, and plenty to contribute. Yet often their lived experience is very different. In too many aspects of their lives, LGBTQIA* people are more or less forcefully excluded from mainstream society.

Lee Badgett put it very accurately in one of her latest contributions on LGBTQIA* inclusion: “It is no exaggeration to say that *all* countries are developing countries when it comes to LGBTI people’s rights and broad inclusion.” We couldn’t agree more.

It is particularly well documented that people with minority sexual orientations and gender identities face significant challenges and obstacles in accessing the job market (2). Studies that look at trans and non-binary people paint an even bleaker picture: unemployment and poverty rates are significantly higher than for their non-trans peers. (3)

We constantly hear from grassroots movements that lack of access to the job market is one of the key obstacles to greater social and

economic inclusion. Unemployment leads to further ostracism, marginalisation and exclusion, thereby worsening already precarious situations.

We wanted to develop a mechanism that could help address these challenges from an investment perspective. There were a few data points that led us to focus our approach on micro, small and medium-sized enterprises (MSMEs):

- They account for more than two thirds of jobs globally. (4)
- They have acute financing needs. The MSME finance gap is estimated at USD 5 trillion in developing countries. (5)

Social Impact Incentives, a funding instrument pioneered by Roots for Impact, inspired us to develop an adapted approach with Viwala, our investment partner in Mexico. Instead of impact payments, we wanted to provide small and medium-sized enterprises with access to loans and reward them, with a reduced interest rate, for delivering pre-defined diversity, equity and inclusion milestones. We named this initiative “Incluye”.

Unlike our other lending initiatives in Mexico, Incluye doesn't require businesses applying for financing to have a direct link to LGBTQIA* communities. However, they must be open to engaging with such communities and improving their diversity, equity and inclusion (DEI) practises with a focus on LGBTQIA*. Widening the focus beyond the theme of LGBTQIA* to include other socially disadvantaged groups can be a strategy for working in environments that are particularly hostile towards diverse LGBTQIA* people and movements.

Credit Assessment

Incluye is targeted at formalised, established companies. They therefore have to go through a standard credit assessment to establish the loan amount and repayment term that the business can manage financially. Viwala runs various stress test scenarios to ensure that even if none of the diversity, equity and inclusion milestones are delivered (see below), the company will still be able to pay back the principal and interest on the loan. Once the credit

assessment is complete, a conditional offer that outlines the basic terms of the financing is made.

Milestone Development

In the next step, a DEI specialist conducts a DEI baseline assessment of the business. This includes a review of all its policies (e.g. parental leave, healthcare benefits) and practices (e.g. language used in job advertisements, interviews and hiring), a workshop with the management, and a questionnaire to be filled out by all staff. The questionnaire evaluates the lived DEI culture of a business, identifies potential areas of discrimination, and assesses employees' readiness to bring their whole selves to work.

The DEI baseline assessment is used to identify the milestones the company will be asked to deliver over the repayment term of the loan. The focus is on six dimensions (see graphic below), with each addressed in three stages: (1) Awareness; (2) Actions; and (3) Monitoring.



DEI Dimensions

Each stage requires the borrower to deliver a number of pre-agreed milestones. Each milestone is assigned a score and a weighting, depending on the time and effort expected to achieve it. Viwala and the DEI specialist provide a number of resources (free and paid) that support the company through the process of delivering each particular milestone. It is important to note that this is an iterative

process and requires close collaboration as well as time for the borrower's management team to agree on the different milestones.

Raising Awareness

The Awareness stage will typically require a very high level of commitment from all areas of the company—from the senior leadership team and human resources managers to rank and file employees. While the individual milestones will be different for each company, they will in most cases involve training sessions and workshops on inclusive leadership and recruitment, anti-discrimination training (e.g. critical masculinity, gender-based and institutional violence), and training on gender and sexual diversity and inclusion.

Actions

In the second stage, Actions, the company will implement very specific measures across human resources (e.g. hiring and onboarding processes, language used in internal and external communications), supply chain management (e.g. supplier selection and management), and infrastructure (e.g. provision of meeting facilities for the employee resource group). It also ensures that members of the LGBTQIA* communities and their allies have the necessary resources (e.g. intranet) and safe spaces (e.g. employee resource group) to be heard and seen internally.

Monitoring

The Monitoring stage provides the companies with an internal monitoring and feedback loop to ensure all actions have been implemented and become an integral part of the company's culture. It also allows them to identify action points and further areas of improvement. As part of an annual review, Viwala conducts a survey among all staff of the portfolio companies to celebrate their progress over time and provide data on their achievements.

Structure

To reduce complexity, we decided to structure the financing as a straight-line amortised loan. Loan amount, repayment term and interest rate depend on the company's credit profile.

Our starting point is usually a three-year loan (to allow companies enough time to deliver the milestones) between MXN 1 million (approx. USD 50,000) and MXN 10 million (approx. USD 500,000) with an interest rate of 17–20% p.a. pre-milestone delivery (in line with the Mexican market). The delivery of each milestone results in a predetermined reduction in the interest rate, culminating in a rebate of up to 50%, i.e. 8.5–10% p.a.

To keep borrowers motivated, the maximum reduction of the interest rate (i.e. 50%) is applied from the start. So on a loan with an interest rate of 18% p.a., for instance, the company will pay 9% p.a. The business then has 27 months (assuming a three-year loan) to deliver each of the milestones. After that period, the interest rate for the final nine months is set in line with the achieved results. If the business has delivered all its milestones, the interest rate stays at 9% p.a. If not all (or none) of the milestones have been hit, the interest rate will increase to account for the higher interest rate over the entire term of the loan.

First Impressions

We are seeing great momentum with this lending initiative in Mexico and have already closed on two loans within three months. Many more are in the pipeline.

Feedback from the SMEs has been overwhelmingly positive:

“Incluye gives us the structure to transform the company and become more inclusive. That has been the goal for a while now; we just didn't know where to begin. Incluye is the perfect solution for us to keep growing, and in a socially conscious manner.”

“What you are doing [with Incluye] is amazing. The reward mechanism is brilliant; I cannot think of a better way to keep a company fully committed to becoming more inclusive.”

“What’s valuable about this project is the potential for replication with a focus on other populations in different disadvantaged circumstances and actually making a difference through its execution.”

The milestones provide SMEs with a clear action plan towards better diversity, equity and inclusion practices and ultimately an environment that is welcoming and gives opportunities to all. We consistently hear that DEI is a priority, but many feel overwhelmed and struggle to take a first step. Incluye is changing that.

Initial data sets from the first two borrowers have produced some fascinating insights:

- Even in what we would consider conservative industries, the vast majority of employees (in one case over 90%) were of the opinion that more and better DEI practices present an opportunity.
- Perception of discrimination and equal opportunities vary significantly across age groups. While employees over 40 didn’t believe there was any discrimination or lack of opportunities, younger employees were very much of the opinion that they existed.
- Almost 25% of employees have heard, seen or experienced derogatory behaviour towards people from LGBTQIA* communities.
- Almost 20% of employees identified as part of LGBTQIA* communities.

We recognise that we are seeking to impact on highly complex, interrelated systems with relatively simple tools. Over time we hope to demonstrate that real change can be facilitated this way. To that effect, we are also in the process of launching a very similar initiative in Central and Eastern Europe.

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(1) We are using LGBTQIA* interchangeably with diverse SOGIESC, queer and other inclusive terms that express the variety of sexual orientations, gender identities, gender expressions and sex characteristics.

(2) <https://www.ilo.org/global/topics/dw4sd/themes/gender-equality/lang--en/index.htm> (accessed 25 May 2022)

(3) Shannon, “The labour market outcomes of transgender individuals”, Labour Economics, 24 May 2021.
<https://www.sciencedirect.com/science/article/pii/S0927537121000415> (accessed 7 April 2022)

(4) <https://www.ilo.org/infostories/en-GB/Stories/Employment/SMEs#intro>

(5) <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

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About Stefan Bollier

Stefan is a member of Dreilinden’s investment committee. He is the founder of Swiss-based Impact Advisors LLC, which is advising Dreilinden on the development and implementation of the foundation’s impact investment strategy.

About Dreilinden

Dreilinden is a Hamburg-based foundation dedicated to advancing societal acceptance of gender and sexual diversity. Founded in 2007, Dreilinden plays a driving role in supporting people with diverse sexual orientation, gender identity and expression and sex characteristics, providing grants and investments. Kindly note that Dreilinden is not accepting any grant applications at this time.

About Victoria McInnes

Victoria is the Investment Manager at Viwala. She has 6-plus years of experience in finance and consulting, working with impact

investors, entrepreneurs, accelerators, and government organisations. She served as an outsourced CFO for two social organisations in Mexico and is co-creator of a proprietary impact investing framework. Victoria holds a Master's degree in Economics & Strategy for Business from Imperial College Business School, London.

About Eta Noriega

Eta is an analyst with Diversa, the investment portfolio of Viwala focused on LGBTQIA* businesses and those interested in impacting the communities. They have a strong track record of activism in sexual and identity dissidence, receiving a mention in the 2018 exhibition *Identity, Love and Sexuality* at the Memory and Tolerance Museum in Mexico City, and co-hosting the political section of the *Chavxs* diversity youth-led programme run by Spanish language LGBT site Homosensual.

About Viwala

Viwala is a Mexico-based investment firm that empowers early-stage companies to scale up their positive impact on the world, focusing on gender equity and inclusion, social and economic empowerment, and climate change. As a part of the New Venture group, Viwala endeavours to challenge the status quo by developing, testing and implementing innovative blended financial solutions that meet the needs of underserved social and environmental impact enterprises in Latin America.