Responding to the COVID-19 Crisis with a Gender Lens:

An Opportunity for Gender Lens Investors in Southeast Asia to Invest with Attention to Power and Gender

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Executive Summary

The COVID-19 health crisis has caused unprecedented impact on global supply chains and capital flows. These changes are having, and will continue to have, a negative impact on SMEs and microbusinesses, particularly in developing countries. Women and other marginalized communities who are disproportionately impacted by shocks are most at risk.[1] It is important to highlight the central role of gender in COVID-19 responses by adopting gender sensitive and power equitable approaches in response and recovery efforts.

This brief discusses the COVID-19 responses of gender-lens investors in Southeast Asia that are applying a gender lens through a spectrum of approaches. The review assesses published responses from leading gender lens investors in the region. Building on this analysis, and on Criterion Institute's power analysis framework, we provide recommendations for future investment with attention to gender and power dynamics in order to enhance the overall stability and sustainability of market systems.

Key Findings:

- WSME businesses have been disproportionately affected by the crisis.[2]

- WSMEs have demonstrated resilience, partially since they have historically been forced to adapt to resource constraints.[3] They are a source of stability during crisis, as well as a contributor of economic recovery after crisis.

- It is therefore imperative to support WSMEs to survive the immediate shock of the crisis and to allocate resources to them in both the short and long-term.

- The materiality of gender is not immediately evident in responses to the crisis amongst gender-lens investors, despite it being core to their investment theses - a reflection of the power dynamics at play in the sector.

- The crisis also presents an opportunity to value WSMEs in gender-lens investments by valuing resilience and stability with a lens toward power dynamics.

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[1] In the context of this paper, this shock is the economic impact of the global shutdown due to the COVID-19 crisis, rather than the health impact.
[2] WSMEs are Micro and Small and Medium Enterprises (SMEs) that are led by or significantly focus on women in their value chain, either as suppliers or as consumers.
[3] Resilience implies the ability to absorb, respond, and recover from shocks. At both a household and a business level, resilience is correlated to liquidity – the ability to access cash, either through savings or income.

Assessing the Gendered Impact of the Crisis

The COVID-19 crisis has severely affected Small and Growing Businesses (SGBS) in emerging markets. In a 2020 report, "The Small and Growing Business Sector and the COVID-19 Crisis: Emerging Evidence on Key Risks and Needs," ANDE summarizes the resulting impact:

- *"There is a significant risk of widespread SGB failure in emerging markets. Nearly 42% of SGBs are at risk of failing in the next six months, a figure broadly consistent across regions. Many SGBs have already closed permanently as a result of COVID-19.*
- *SGBs urgently need flexible financing due to low cash balances and declining revenues. Many SGBs have already downsized and/or temporarily shut their businesses to prevent complete business failure.*
- *SGBs need technical assistance, primarily to access financial relief funds and pivot their business models so they can adapt to a post-COVID-19 world.*
- *Capacity Development Organizations (CDOs), particularly CDOs based in emerging markets, are also facing severe liquidity crises and need financial support to both survive and introduce new COVID-19-related programming for SGBs." (p. 4)*

The COVID-19 crisis, in its protracted and global nature, has had an unprecedented impact on economies across Southeast Asia and the Pacific, particularly in sectors such as agriculture, retail, and tourism. The impact in each country, and its Government's response, is different, yet there are similarities across the region.

Surveys through both UN Women and CARE demonstrate that the current crisis has not been gender neutral (2020). Women-led businesses are particularly at risk during this time, which exacerbates the issue of limited access to capital. Women-led small and medium enterprises (SMEs) are disadvantaged during procurement processes of corporations and large businesses, as they typically do not benefit from economies of scale and have limited access to economic, social, and human capital (UN Women, 2017). For this reason, there is an increased risk of bankruptcies as women-run SMEs are vulnerable to delayed payment. Additionally, in some cases, collateral is still a requirement in accessing relief loans, eliminating women that do not have title to assets.

Despite the threat that the current crisis poses to WSMEs in the short term, with appropriate resources, these businesses can demonstrate their experience in preparing for, and responding to shocks. A 2013 study of women entrepreneurs in Indonesia found that even after accounting for individual variables of entrepreneurship, women displayed resilient coping strategies when dealing with business failures. As a result, they were able to thrive despite restrictive social, cultural, and political constraints (Loh & Dahesihsari, 2013).

Studies in developed markets further highlight the resilience of women-led businesses. A 2019 study of women entrepreneurs found that their enterprises are as resilient as men's – despite receiving lower revenue and significantly lower investment (Farrel, Wheat & Mac, 2019). More recently, a Cheung Kong Graduate School of Business (CKGSB) study found that female leaders and executives in China have shown higher psychological resilience during the COVID-19 pandemic than men of the same rank, even while under greater levels of pressure. This is critical to improving the resilience of the entire organization (2020).

Following the Ebola crisis in West Africa, the research findings of BRAC – an international NGO focused on social enterprises and development – demonstrated the resilience of women as borrowers, their intent to repay, and their role in restarting economic activity. The case study highlights the need for credit in economic recovery after the crisis and provides guidance on the need to take a client-centered or borrower-centered approach (Chakma, Coppel, Diallo, Dubitsky & Whisson, 2017).

While WSMEs have been disproportionately impacted by the crisis due to historical issues of access to capital, markets, and networks, and are therefore most at risk, they are also models of adaption and demonstrate strategies for survival that can be learned from. In sum, **WSMEs have demonstrated resilience in their ability to survive in the face of inequitable systems. However, resources should be dedicated to ensure they survive the immediate shock of the crisis. In the recovery, the allocation of capital to these businesses should be seen as an attractive investment.**

Applying a Gender Analysis to Responses to the Crisis

Investors have responded in varying ways to the unprecedented nature of the COVID-19 crisis. Within the gender lens investing community, the responses can be assessed in two ways - based on the instruments of investment, or based on the scale and size of the portfolios.

For investors whose impact thesis has revolved around financial inclusion through large-scale debt, the response has been immediate. Typically, these organizations have published COVID-19 responses at an organizational level, acknowledging the impact of COVID-19 and outlining the organization's immediate actions to respond. These responses focus on assuaging investor concerns, addressing portfolio risk, and assessing the potential dip in investor returns. Further, the responses highlight portfolio risk through investee companies, and the implication of the crisis on their liquidity and, potentially, solvency. The crisis has necessitated cooperation amongst former competitors; for example, a group of nine investors with over $15 billion in assets under management (AUM) signed a memorandum of understanding (MOU) outlining cooperation on how to deal with liquidity issues in situations of default. Yet, there has been limited acknowledgement of the impact of the crisis on end-borrowers – specifically women at a household level or at a microbusiness/SME level.

By contrast, investors with equity investments have had limited public response to the crisis. With closed fund structures, there has been more focus on the liquidity of companies within the portfolio. The COVID-19 crisis has forced these investors to assess the importance of resilience by addressing the immediate concern of liquidity. A number of investors have looked to raise additional funding to support their existing portfolio in the form of working capital, pivoting to be focused on debt, rather than equity, with increased attention to resilience across their portfolio. These investors also have investment theses that are reliant on the exceptional performance of only a few companies within the portfolio. Thus, in some cases, their response has also highlighted the opportunity that the crisis presents for companies within the portfolio. However, neither the role of WSMEs, nor the opportunity they present, has been highlighted in the published responses.

Recommendations for Investors to Respond to COVID with Attention to Power

In the responses to the economic crisis caused by COVID-19 described above, investors have revealed clear power dynamics at play that will have a profound and lasting impact on the region unless they are addressed with intention. The economic impacts of COVID-19 have exacerbated inequalities worldwide and the gender-lens investment space is no exception. Yet, this crisis also allows an opportunity for investors to reimagine their role within the sector and to elevate attention to existing gender and power dynamics.

To this end, we utilize the power analysis framework developed by Criterion Institute in collaboration with key branches of the Australian and Canadian governments (Criterion Institute, 2020). This power analysis framework allows us to look beyond the current crisis and assess the investment decision-making process that prioritizes investors over the enterprises and communities that the investments purport to serve. The table below outlines the shifts that are possible with increased attention to processes of power, presenting examples of what is already unfolding in the Asia-Pacific region.

Power Dynamic	Traditional investment practices	A 'New Normal' approach with attention to gender and power dynamics	Examples of shifts in the region to date
Knowledge *What skills and experience are valued?*	Investment pursues a growth mindset and values associated knowledge and expertise. Equity investors seek opportunities with exponential growth while debt investors look for growth of their portfolios.	Diverse viewpoints are recognized, particularly those that value resilience and stability, as well as local knowledge, to reach a bottom-up fund design process. Attention is paid to diversity in representation and agency.	Patamar Capital's new fund – the Beacon Fund – will support women-led businesses and businesses that impact women through the value chain with working capital. The fund will value stability rather than exponential growth.
Access *Who is considered worthy to access capital and resources?*	Entrepreneurs and management teams that relate to each other – that speak the same language and have exposure to, and an understanding of, finance – are privileged with access to deal-making.	Entrepreneurs and businesses from a diverse background are surfaced and supported with appropriate investment capital particularly those that strengthen and support the underlying value chain.	SEAF's relief fund will explore investment in a broader set of entrepreneurs, recognizing and engaging enterprises that are critical to the stability of the value chain.
Decision Making *Who holds the power across each phase and process?*	Reflects the deeply held cultural value that those who hold the capital deserve the most power. Investment teams and investment committees represent investor interest, with knowledge and processes inherited from	Representation is increased in both investment committees and management teams that includes local representation and intersectional diversity.	Diversity in representation continues to be an opportunity at both the investment committee and management team level.

	mainstream financial practice.		
Timing *Whose time frame matters most and sets the pace?*	Investor sourcing, screening, due diligence, and legal processes exclusively reflect investor time frames. Due diligence processes are onerous for enterprises, reflecting a biased view of risk while also requiring significant time commitment for completion from entrepreneurs and their teams.	Investment processes are simplified and balance investor and entrepreneur needs in the duration, requirements, and timeliness of investment processes.	Investors in the Asia-Pacific have started to adopt simplified legal processes through instruments such as Simplified Agreements for Future Equity (SAFE) notes and Keep It Simple Security (KISS).
Transparency *Who gets to know what, when?*	In contrast to the complete transparency expected of enterprises, investors have little expectation of their own transparency, potentially leading to misaligned expectations and subsequent breakdown in relationships or trust.	Transparency exists in both investor and entrepreneur expectations, overall processes, timelines, and reflective due diligence. All parties are held accountable for their actions and implications of their actions.	The RISE Fund under the Investing in Women program has provided relief funding equally across their current portfolio, with accelerated deployment linked to the preservation livelihoods.
Risk Sharing *Whose risks are prioritized and mitigated?*	The assessment of risk is one-sided and reflects a growth mindset where enterprises are expected to risk pursuit of exponential growth. Additional investor risks are often mitigated at the cost of the enterprise.	Investment is expanded in enterprises and entrepreneurs that prefer a slower growth path grounded in stability and resilience goals, reflecting investor willingness to assume risk rather than pass it on to the most vulnerable/ least empowered.	Capital for Development (C4D) Partners is utilizing revenue-sharing instruments to be able to invest in different legal structures such as cooperatives, while balancing the risk-return metric in favor of investees.
Alignment/ Incentives *Who is structurally incentivized to do what?*	Structural incentives prioritize activities that have a view on returns over a specific time period, potentially at the cost of long-term stability of the enterprise and stakeholders within it. Collection processes, which result in significant burdens on enterprises and/or households, are an example of this.	A trust-based approach is adopted and reflects better alignment of incentive structures, with a focus on impact. This is carried out by empowering mission-oriented groups with veto power to balance short-term financial objectives with long-term financial and impact objectives.	Good Return's impact investment fund provides partial guarantees to incentivize financial institutions to provide loans to underserved communities with terms that match business needs.

We recommend that investors take a three-phase approach to investment post-COVID, integrating attention to power across all three phases. It is important to note the realities of current, established investment practices, as well as what might be possible in the "new normal" if a power analysis is applied. We present each of these phases, and the underlying power dynamics, below.

Phase I - Response

The first phase focuses on immediate response, providing liquidity to companies within their portfolio that may be at risk. In this response phase focused on economic relief, efficient funding provision has already been established as a priority. Yet, incorporating a view of gender and social equity remains fundamental as, without this, structural inequities will continue to grow and impede the economic recovery process.

At this stage, *Timing*, *Access*, and *Risk-sharing* are critical. Alongside the immediate need for liquidity and cash flow planning, it is important to assess who has access to funding and on what terms. Providing finance exclusively to portfolio companies will be limited in terms of relief. Further, preserving the livelihoods of employees of the company must be prioritized. In this phase we recommend investors explore liquidity issues of companies within the supply chain, either up or downstream from the investee company, that may hamper its ability to remain solvent through the crisis. There is an opportunity to stabilize the broader value chain.

In terms of *Risk-sharing*, the choice of instruments, and their terms, is also important at this stage. Relief grants have long been the instrument of choice for governments; yet, the majority of investors have pivoted in the wake of COVID-19 to provide working capital in the form of debt. It is crucial that the terms of these working capital loans reflect the likelihood of an extended crisis that will have multiple waves over time. Therefore, revenue-sharing instruments with limited collateral requirements would be more suitable in response funding, particularly if designed with appropriate and balanced risk-sharing mechanisms.

Phase II - Recovery

Applying a power analysis framework to the second phase, recovery, provides an opportunity to rethink existing investment practices. This phase consists of two steps, stimulating reemployment and reopening markets.

Stimulating reemployment

In stimulating reemployment, the intention is to support businesses that have had to suspend or close operations and which may either want to restart operations or pivot the business focus. Noting that increased women's economic participation is directly correlated with better economic outcomes (Asian Development Bank, 2018), *Access*, and applying a gender-lens to reemployment action steps, remains critical. Women entrepreneurs and leaders have had to be flexible and adaptable in response to this crisis and now they must have access to appropriate seed capital to support business pivots or new businesses. In addition, the *Timing* of investment should follow their expressed needs, valuing their *Knowledge* as experienced entrepreneurs, rather than the expectations set by investors.

Opening up markets

The COVID-19 crisis has caused massive disruption of the global supply chain, highlighting concerns on the over-reliance of export markets. Recovery efforts would be well placed to support and strengthen businesses that pivoted quickly to domestic market supply chains and value this *Knowledge*, while simultaneously supporting efforts to reestablish supply chains to increase access to export markets.

Access to markets can be restarted through invoice or trade finance, with *Transparency* in terms and accelerated *Timing*. Domestic markets should continue to be valued for their relative stability and sustainability. This stability is critical with the potential of a COVID-19 second wave that will potentially disrupt the global supply chains in the future.

Phase III - The New Normal

As countries and businesses emerge from the crisis, there is a unique opportunity for investors to assess *Decision-making* and *Alignment/Incentives* within their investment theses and processes to value resilience, sustainability, and stability in their investments rather than exponential growth. This also presents an opportunity for investors to seek and assess value chains and market systems that create a stable, enabling environment around companies, and to invest in them. Making market systems inclusive also makes them more resilient, and therefore, more competitive in the long-term.

Following the Response and Recovery phases, investors can reassess their objectives, reimagining not just the outcomes and impact they intend to create, but being transformative themselves in the processes through which they seek to achieve these goals. Paying attention to each of the seven power dynamics in the framework – with specific suggestions mentioned in the table above - will allow the reimagination of a “new normal.” Striving toward this new normal provides an opportunity for ground-level design based on attention to the requirements and ambitions of entrepreneurs that do not fit the traditional mold.

Conclusion

The current crisis has effectively been a mirror to society on what we have valued as important. The role that WSMEs play in the economic system has been consistently undervalued, leading them to be the most vulnerable to the current crisis. In the responses of gender-lens investors to the crisis to date, the role that WSMEs play has not been acknowledged; rather, the responses reflect a hierarchy inherited from the traditional finance sector. While acknowledging that growth-focused investments will, and should, continue, we recommend that additional space be made for investments that reflect the need for resilience and stability at household, community, enterprise, value chain, and market system levels. This crisis is also an opportunity for gender-lens investors to understand and address the broader power dynamics that are embedded in their approach and processes at present, reimagining their role in transforming these power dynamics for an equitable future.

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