The Queer Impact Investment Universe

Dreilinden
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Photos courtesy of Micro Rainbow International Foundation. LGBTQI* Entrepreneurship Programme Brazil.
Violence and discrimination on the basis of sexual orientation, identity and expression remain rampant in large parts of the world\(^1\). As a result, a disproportionate percentage of the queer community members drop out of school, stay in (or re-enter) the closet in the workplace, face bullying and in general feel disenfranchised. The resulting economic loss has been documented in a number of studies (see here and here), with economies missing out on billions of dollars each year, not to mention the impact on human livelihoods and on the well-being of queer communities and their families.

Studies confirm that Sexual Orientation, Gender Identity and Expression, and Sex Characteristics (“SOGIESC”) diversity and inclusion have a direct positive effect on the economic development of a country. More and more companies realise that diversity and inclusion are good for business. Many multinationals and SMEs have been strong allies of queer communities for some time — even if living up to their own policies has been a challenge at times. It is also encouraging to see that companies from the Global South and East are jumping on board, even though the jurisdictions they operate in may not be queer inclusive.\(^2\)

From Dreilinden’s work supporting the cause of SOGIESC inclusion in the Global South and East, we know that these positive developments do not yet reflect the situation of many queer community members in these parts of the world. We have also repeatedly heard anecdotal evidence that queer entrepreneurs as well as companies that focus on queer communities are struggling with visibility, support and financing. They not only lack the necessary networks, but the businesses are either too large to qualify for start-up support programmes and micro loans (at manageable interest rates) or too small to receive financing from traditional banks or institutional investors. There seems to be a “missing middle” that needs to be addressed.

As a result, the following hypothesis began to emerge within Dreilinden:

**Queer businesses as well as enterprises focusing on queer communities are struggling to finance their transition from a micro to a medium-sized enterprise. There is strong demand for impact capital that would bridge the gap and empower queer communities in the Global South and East.**

In order to gather additional data points and to make an initial assessment, Dreilinden commissioned iGravity and FMELGBT to explore this hypothesis in four countries:
Mexico, Poland, Slovakia and South Africa.³ This article is the first in a series sharing findings from these studies. It addresses the scope and size of the queer impact investment universe, while also discussing some of the enabling factors behind effective queer impact investing.

Scoping the Queer Investment Universe

Given the nascency of the queer impact investment space, there is little reference material on how to best scope the investment universe of the Global South and East. We looked at related fields and borrowed liberally from the (binary) gender lens investing world to define three pillars for queer inclusion that frame the investable universe: (1) workplace equity, (2) access to capital, and (3) products and services.

We also felt it was paramount to take into account the complexities faced by queer communities in the Global South and East. These include, for example:

- Right to exist questioned/negated: The right to exist, including living a life of inclusion and equal opportunity, is questioned and in some cases negated in many countries of the Global South and East.

- SOGIESC-based violence: Violence against queer communities remains one of the most acute issues across the globe. While consistent data across geographies is hard to come by, the numbers reported are shocking. What’s even more disturbing is the expectation that they are hugely under-reported due to secondary violence, refusal to investigate and lack of legal protection.

- Criminalisation: Sexual activities between consenting same-sex partners remain illegal in significant parts of the regions examined, leading to blackmail, social stigma, discrimination and exclusion. In cases where legal protection is granted, social acceptance of the queer communities is lagging.

- Discrimination: Many members of the queer communities lack access to basic services, such as affordable housing, preventative health care, education, financial services, or fair employment opportunities.

- Lack of role models: The queer communities in the upper echelons are by and large invisible with limited to no “out” role models in leadership, management or board positions.
- No diversity in the workplace: The vast majority of employees (including the queer workforce) work in environments with no diversity, equity and inclusion policies or may work in the informal sector or be unemployed.

- Reduced access to funding: Queer-led enterprises are in many cases unable to tap into family and friends for start-up capital. On top of facing similar challenges in accessing investment and technical assistance as their non-queer counterparts, they have significantly reduced opportunity to provide collateral for more traditional financing.

- Missing middle: Lending from microfinance institutions is geared towards retail and micro enterprises. It is often too small for enterprises, and interest rates are often prohibitively high. Traditional financing from banks or investors, on the other hand, is often too large-scale.

The three pillars, combined with the intricacies of queer communities in the Global South and East, resulted in a more holistic approach to scoping the investment universe.

<table>
<thead>
<tr>
<th>Workplace Equity</th>
<th>Access to Capital</th>
<th>Products &amp; Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-discrimination policies</td>
<td>Flow of capital to queer-led businesses</td>
<td>Health care (incl. primary and mental care)</td>
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<tr>
<td>Equal benefits</td>
<td>Financial services and business support for queer entrepreneurs</td>
<td>Legal services and products</td>
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<tr>
<td>Representation in leadership and management and on boards</td>
<td></td>
<td>Insurance and financial services products</td>
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<tr>
<td>Organisational competency</td>
<td>Queer-focused incubators/accelerators</td>
<td>Housing</td>
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<tr>
<td>Public commitment</td>
<td>“Mainstream” incubators/accelerators committed to queer inclusion/equality</td>
<td>Education</td>
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<tr>
<td>Supply chain</td>
<td></td>
<td>Social and cultural services (incl. media and travel)</td>
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The Three Pillars to Scoping the Queer Investment Universe
Sizing the Queer Investment Universe

For our initial assessment, we wanted to look at three completely different geographies with the aim of preparing one case study each for Latin America, sub-Saharan Africa and Eastern Europe. Based on a preliminary field study by Justus Eisfeld, feedback from our network as well as our internal views, we selected Mexico, Slovakia⁴ and South Africa for this initial assessment. To pave the way for broader roll-out in the future, we also developed a methodology for country selection which we will present in one of the future articles in our queer impact investment series.

Having chosen the geographies and countries, we set out to assess the actual market size. Again, we based our approach on the three pillars of workplace equity, access to capital, and products and services. We divided each of the pillars into (probably not yet exhaustive) representative categories in the hope of using existing data to size the queer investment universe.

<table>
<thead>
<tr>
<th>Workplace Equity</th>
<th>Access to Capital</th>
<th>Products &amp; Services</th>
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</thead>
<tbody>
<tr>
<td>Queer employees</td>
<td>Queer-owned businesses</td>
<td>Queer customers (for each community)</td>
</tr>
<tr>
<td>Queer management and board members</td>
<td>Queer-led businesses</td>
<td>Products and services unique to queer communities</td>
</tr>
<tr>
<td>Diversity and inclusion policies</td>
<td>Queer investors</td>
<td>Products and services to be substituted as a better value proposition</td>
</tr>
<tr>
<td>Specifically hiring from marginalised queer communities</td>
<td></td>
<td>Access to the supply chain</td>
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<tr>
<td></td>
<td></td>
<td>Involving the communities in the design of products and services and observing them using the products and services</td>
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The Three Pillars to Sizing the Queer Investment Universe

We soon came to realise (rather unsurprisingly) that sizing the investment universe is a huge challenge, especially given the lack of consistent data. Statistics on the overall population and even more so on the queer communities are at best patchy in the chosen geographies. Data on the number and/or performance of micro, small, and medium
Enterprises (MSMEs) is equally inconsistent and varies greatly across different sources (see Case Study: South Africa).

Given the sensitivities specific to the queer communities, we take the view that the investment universe will grow if social acceptance as well as legal protection for queer people increases.

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**Case Study: South Africa**

South Africa does not have a regular census or a periodic survey that tracks the performance of MSMEs. Hence, various studies give wide-ranging estimates on the number of MSMEs in South Africa and their contribution to GDP and employment.

For instance, a study by Finscope in 2010 estimated 5.9 million small businesses in the country\(^5\). A 2014 survey estimated around 1.5 million non-VAT registered businesses\(^6\), while a study by the Bureau of Economic Research (BER) in 2016 put the number of small businesses at around 2.2 million.\(^7\) Recently, the Small Business Institute (SBI) was surprised to find that the SME segment within the formal, employment-creating economy is significantly smaller than generally assumed: collectively, it estimated that there are only some 250,000 formal MSMEs in South Africa.\(^8\)

Given the data disparity, only a very rough estimate of the number of queer entrepreneurs and potential queer clients for products and services can be obtained. We overlaid the share of queer people in South Africa (approx. 1.4%) with the working age population size as well as with the two most recent estimates of total SMEs in the country:

<table>
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<tr>
<th>Investment Lens</th>
<th>Baseline</th>
<th>Estimated LGBTQI* Population Share</th>
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<tbody>
<tr>
<td>Workplace</td>
<td>Approximate total working population (based on age) in Employment</td>
<td>530,000 potential LGBTQI* employees</td>
</tr>
<tr>
<td>Equity/LGBTQI*</td>
<td>Employees</td>
<td></td>
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We are aware of the limited meaningfulness of such a wide range of estimates, but still found it useful as guidance and as a first indication.

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**Enabling Factors**

There are a number of enabling factors that lay the foundation for mobilising entrepreneurial drive which should also be considered when assessing the queer investment universe. Some of these factors can be facilitated and nurtured by impact investors; others may need to be addressed by other stakeholders (e.g. grant-making foundations).

**Regulatory Environment**

Speaking as a foreign investor, a regulatory environment conducive to or at least permitting foreign investment is the foundation for any of our impact investment activities. Ease of capital flow and established legal frameworks and processes are paramount to facilitate a long-term commitment. However, we do not think that same-sex activity between consenting adults necessarily needs to be legal, or that transgender or intersex rights need to be legally enshrined in a particular country, for us to be able to empower local queer entrepreneurs. Even where same-sex activity is illegal, or transgender and intersex rights are non-existent, entrepreneurs have other forms of legal recourse.
Engagement

Since its inception, Dreilinden has always been committed to and supported the empowerment of local communities. We have found that our impact has been highest when local stakeholders are involved early, are engaged throughout and strongly support our activities. It is therefore neither our ambition nor our strategy to build a large portfolio of direct investments. Instead, we plan to create local investment teams in the medium to long term. For this purpose, we intend to first establish the proof of concept in a few select countries.

Ecosystems

To incubate a queer investment practice, an active entrepreneurial ecosystem will be paramount to building a continuous deal flow and to establishing the investment strategy. Given the complexities faced by queer communities (see above), we need to start creating an ecosystem in collaboration with grassroots organisations, government agencies, diversity and inclusion leaders as well as allies. In the medium term, we envisage the creation of accelerator programmes in order to provide more institutionalised platforms for queer entrepreneurs.

Blended Finance

We do not intend to limit our investment strategy to certain structures, because we want to focus the investments on the specific enterprise’s needs. Hybrid solutions (e.g. convertible notes), cash flow- and revenue-linked structures, equity, debt, as well as recoverable grants for technical assistance will all be at our disposal. Our hope is that over time, standards will emerge that allow us to streamline the investment process and provide the industry with a set of templates.

Technical Assistance

We strongly believe in assisting and mentoring any team we support. The entrepreneurial journey can be a lonely endeavour at times with many ups and downs. Having a sounding board to bounce off ideas and getting independent input from third parties are key to the success of any venture. We will therefore always assess the technical assistance requirements with the management team to agree on the most pressing priorities and an action plan. Given the geographical distance, we will work closely with experts in the country of investment to nurture the ecosystem and empower people locally.
Conclusion

The queer investment lens does not exist today — while some investors may utilize elements of a queer lens, there are no systematic approaches or frameworks to date. We offer a first take on how to scope and size the queer impact investment universe in the Global South and East. While our framework is focused on non-public SMEs as we believe we can achieve the highest impact in that space, it could easily be adapted to the listed universe.

Applied to the initial set of countries, this framework gives us a first feel for the magnitude of the queer investment lens opportunity. Considering the many obstacles faced by queer people, it is crucial to take action and empower the entrepreneurial drive of queer communities.

We see ourselves as a facilitator and incubator and will nurture and support queer impact investments going forward, while producing new narratives and productive debates about queer impact enterprises and a queer investment lens. In the long run, we hope that queer investment lenses will become redundant once equality has been achieved across societies, but in the meantime we will closely engage with queer communities, supporting them to the best of our abilities, and hope others will join us on this exciting journey.

[1] To this day a whopping 71 countries still have laws punishing consensual sexual activity between individuals of the same sex (you can check the current status here)


[3] The countries were chosen based on Dreilinden’s internal views and its network in the countries. We will describe our systematic approach to country selection in greater detail in one of our future articles

[4] In the case of Slovakia, for instance, the field investigation concluded that the geographic area was too small; hence Poland was added. In order to generate a sustainable deal pipeline, it may be necessary to take a regional approach. Conversely, in
large countries such as India, we would expect that a state-by-state approach may be more fitting.


[8] SBI (2018), The number of formal micro, small & medium businesses in South Africa

[9] Particularly as it relates to gaining access to tenders and supply contracts

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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.