

Furthering gender equality – Gender Bonds

By Matthew Gouett

Business case for gender considerations and the need for gender bonds

In 2019, prior to the Covid-19 crisis, the World Bank (2021) estimated global gross domestic product (GDP) to equal almost USD 88 trillion. McKinsey (2015), in its report *The Power of Parity*, calculated that a scenario whereby women participated in the global economy identically to men could increase annual global GDP by \$28 trillion. It also found that economies of the Asia Pacific specifically could add USD 4.5 trillion by 2025, or 12% above business as usual. Although 2021 is expected to offer the region a strong recovery from the 2020 economic contraction, this recovery can be supercharged by a greater focus on including women in the recovery (Biswas, 2021).

Aside from the benefits to women and the economies in which they live, the business case for investors to invest in firms that strive toward gender equality is clear. Firms in the top quartile of companies based on the gender diversity of their executive teams are 25% more likely to outperform firms in the bottom quartile (McKinsey & Company, 2020). Moreover, McKinsey also found that executive teams with more than 30% female members are 48% more likely to outperform companies in which women accounted for less than 10% of the executive team. Aside from documented outperformance, academic literature points to gender diversity on boards lessening the frequency of securities fraud (Cumming et al., 2015), enhancing a firm's corporate social responsibility (Shaukat et al., 2016) and a positive relationship between board gender diversity and renewable energy consumption (Atif et al., 2020). With these significant benefits associated with investing in gender equality, gender bonds provide a clear mechanism to match investors with investment opportunities in these firms that have shown heightened levels of success.

The current landscape of gender bond issuances in ASEAN region

Getting a sense of the size of the bond market that impacts gender equality can be difficult. For example, while most bonds specifically targeted toward gender equality would be classified as social bonds, sustainability bonds¹, such as those issued by the World Bank, do mention empowering women (International Capital Market Association, 2018c). Nevertheless, the recent data from BloombergNEF (2021) that both the social bond and sustainability bond market have grown quite substantially since 2018, with social bond issuances increasing sevenfold in 2020 alone.

With this growth in mind, it is also important to recognize that, to this point, the number of investors in gender bonds has been quite limited. Gender bonds have been typically offered to a limited number of large institutional investors and allow for customization to meet the financial and impact-related needs of both the issuer and investor. Prominent examples of these private placements include the Asian Development Bank's ¥10 billion gender bond, issued in 2017, and purchased in its entirety by Dai-ichi Life Insurance Company, Limited of Japan; the International Finance Corporation's (IFC) and Deutsche Investitions- und Entwicklungsgesellschaft's (DEG) USD 220 million subscription of Bank of Ayudhya's Gender Bond issuance in 2019, and the IFC's 2020 commitment to fully support Indonesia bank OCBC NISP's gender bond.²

Issuer	Issuance description	Issuance date	Size	Key performance indicators and metrics
ADB Gender Bond	To finance projects that promote gender equality and women's empowerment, such as ADB's support for financial inclusion for women	November 2017	¥10 billion (≈USD 90 million)	Not specific. Part of ADB's wider operations and support of ADB's Strategy 2030 which includes accelerating progress in gender equality
Bank of Ayudhya's Krungsri Women SME Bond	This offering aims to boost lending to women-led small and medium-sized enterprises in Thailand	October 2019	USD 220 million	Loans outstanding to women-led small and medium-sized enterprises in Thailand
OCBC NISP Gender Program	Enable the Bank to increase lending to women entrepreneurs and women-owned small and medium enterprises.	March 2020	IDR 2.75 trillion (≈USD 200 million)	Not disclosed

¹ Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects whereas sustainability bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects (International Capital Market Association, 2018b, 2020).

² The World Bank's International Bank for Reconstruction and Development (IBRD) also privately placed four SDG 5-linked bonds in 2019 (De Battista et al., 2020).

IIX Women's Livelihood Series	Goal is to create sustainable livelihoods for 250,000+ underserved women in the Asia-Pacific region	December 2020 (third bond)	USD 150 million	<ul style="list-style-type: none"> • Social Return on Investment, which tabulates the total net impact generated (monetized) per dollar of investment across the life of the bond. • Number and percentage of female beneficiaries • Number of households positively impacted
-------------------------------	---	----------------------------	-----------------	--

The publicly-traded gender bond market is less diverse with respect to the number of issuers; in the ASEAN region, it has only been IIX that has led the way. The IIX Women's Livelihood Bond (WLB) Series is a series of innovative debt securities that are intended to raise USD 150 million to support sustainable livelihoods for over 3 million women across developing countries (Impact Investment Exchange, 2020). The third iteration, WLB3, closed its USD 27.7 issuance in December 2020 and is focused on supporting women-focused enterprises in India, Indonesia, Cambodia, and the Philippines that are directly supporting women to respond to, recover from, or rebuild their livelihoods in the COVID-19 pandemic. The fourth issuance in the WLB series is scheduled for the fourth quarter of 2021.

Despite the modest size of the gender bond market in the ASEAN region, and globally³, there is reason for optimism regarding its expansion given the example of the trajectory of the green bond⁴ market. As investors have become more sensitive to issues of sustainability, demand for green bonds seems to outstrip supply, issuer premiums have increased, and issuers are enjoying lower costs of capital. Even as the green bond market continues to mature and the issuances increase, there remains plenty of capital ready to invest. Gender bonds will likely follow a similar path as greater acknowledgement by investors will induce demand for more bonds and induce more capital from a more diverse set of investors. A key catalyst to this acknowledgment will be a deeper understanding of the impact that gender bonds can deliver alongside the financial returns they can generate.

³ De Battista et al. (2020) reported that as of March 2020, there had only been 13 gender-labelled bonds that had been issued. The issuers ranged from large commercial banks, to NGOs, to multilateral development banks.

⁴ Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects (International Capital Market Association, 2018a).

How do gender bonds respond to issues of gender equality (SDG 5) and other SDGs

While recognizing the business case for investors to invest in gender bonds and the growing popularity of these bonds, it is important to reflect on what these bonds can and cannot accomplish. As can be observed from the multiple ambitions of UN SDG 5 on gender equality, women face unequal treatment in many facets of their lives. Gender bonds offer one way for investors to address some of these issues, mostly economic inequality, but may also offer other forms of auxiliary impact. One can conceive of scenarios in which women who are economically empowered as business leaders and entrepreneurs are also empowered to take on leadership positions in political and public life, resulting in increased agency and influence to shape public policies that address gender inequality.

Although there may be these longer term, indirect benefits of gender bonds, it is important that gender bonds are precise regarding how the eligible investments from the bond proceeds will impact gender equality. When reviewing current bond frameworks and second party opinions, both discuss tackling SDG 5 and are quick to put the SDG 5 logo on their materials. These bonds, for the most part, are focused on women's full and effective participation and equal opportunities for leadership in economic life; however, this narrow focus on one subgoal of SDG 5 is not explicit. By stating that they are addressing gender equality, issuers and authors of frameworks and opinions imply they are addressing other elements of SDG 5 when this is in fact not the case.

United Nations Sustainable Development Goal 5: Gender Equality Goal Targets

- 5.1 End all forms of discrimination against all women and girls everywhere
- 5.2 Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation
- 5.3 Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation
- 5.4 Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate
- 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decisionmaking in political, economic and public life
- 5.6 Ensure universal access to sexual and reproductive health and reproductive rights as agreed in accordance with the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action and the outcome documents of their review conferences
- 5.A Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws
- 5.B Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women
- 5.C Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels

Despite cautioning against overclaiming the impact that gender bonds may have on all the subgoals of SDG 5 and pinkwashing, the High-Level Political Forum for Sustainable Development Thematic Review of SDG 5 highlighted significant interlinkages between subgoals of SDG 5 and other SDGs (United Nations Executive Committee on Economic and Social Affairs Plus Members, 2017). Gender bonds, by investing in the full and effective participation of women in economic life, also have the potential to support efforts

on poverty eradication (SDG 1), full and productive employment and decent work (SDG 8 and 9), peaceful and inclusive societies (SDG 16) and the promotion of sustainable industrial development (SDG 9).

Ways to expand the gender bond market and deliver more impact

With the impacts of gender bonds adding toward the achievement of numerous SDGs, there are good reasons to expand the gender bond market. One way to do this is not by simply issuing more gender bonds, but rather by creating bonds that are gender equality-focused but have use of funds policies that address multiple issues. For example, the Women's Livelihood Bond 3 (WLB3) is very much focused on advancing gender equality in India, Cambodia, Indonesia and the Philippines (IIX Global Charitable Limited, 2020). Nevertheless, the underlying borrowers of the bond are primarily from the microfinance and SME sectors, as well as the sustainable agriculture and ethical apparel industries. Therefore, an investor may consider investing in WLB3 because they want to advance gender equality but may also invest in WLB3 for the sole reason of wanting to invest in the microfinance and SME sectors of these four countries. By diversifying the use of proceeds policies of gender bonds, issuers may attract a wider investor base who may not have considered gender bonds beforehand.

The greatest potential to increase flows to gender equality via bonds is by creating gender bonds that have green mandates as well. Biegel and Lambin's (2021) research has noted that climate change disproportionately affects women, but that climate-lens and gender-lens investment remains siloed. By integrating these lenses, investors can formulate a more comprehensive view of the systemic risks posed to their investments which may include environmental risk due to climate change or social risks that may include gender-based violence and harassment. By employing only one of the lenses, investors leave themselves exposed and miss an opportunity for greater returns and impact.

Going beyond mere risk mitigation, bringing climate-lens investing and gender-lens investing together offers plenty of opportunity for societal impact. By understanding how climate change impacts women and how women can contribute to adaptation and mitigation efforts, Biegel and Lambin predict access to new markets, new customers, and new investment opportunities. The integration of these lenses can future-proof investments and decrease downside risk for investors. Gender bonds that stress having a climate lens can enact this integration and attract investors that want to go beyond the traditional green bond market.

Aside from widening the gender bond market by adding different mandates and key performance indicators, the market could also shift toward different understandings of gender impact. Currently, most gender bonds indicate that the use of proceeds will be to invest in firms with a certain level of female board representation, proportion of women in leadership positions, and/or proportion of women employed. These are important indicators that reward companies that already value gender equality; however, one could argue that these indicators do not incentivize progress. Does a firm that has a credible, verifiable plan to raise its proportion of women employed from 20% of its workforce to 31% do less toward gender equality than a company that already has 31% of its workforce being women, but no plan to increase that figure? If a gender bond's eligibility policy can only fund the latter because the bond requires a 30% threshold of women in a firm's workforce, it seems as if the eligibility is rewarding good performers, not the firms that are necessary to close the gender equality gap. Having gender bonds that have lower

thresholds, but with eligibility requirements and KPIs that capture progress would provide investors greater selection regarding the types of gender bonds in which they could invest.

A final measure to increase understanding of, and ultimately flows to, the gender bond market would be to develop a standard like the Center for International Climate Research's (CICERO) Shades of Green. CICERO (n.d.) provides independent environmental assessments of green and sustainability bond frameworks and assigns Dark Green, Medium Green, and Light Green ratings to offer investors better insight into the environmental quality of green bonds. A similar rating system could be developed that rates gender bonds. The rating could span from bonds that simply ensured that gender inequality is addressed in such a manner so as to minimize social risk to bonds that delivered significant impact for women across numerous aspects of their lives. Investors would then be left to make informed choices based on transparent information as to the extent of their commitment to gender equality. This fine-tuning of the investment universe, similar to the previous suggestion, allows a larger group of investors to find themselves in the gender bond market and should allow for an increase in total investment addressing the issue of gender equality.

Gender bonds are still a nascent market and despite the significant increase in 2020 of social bond issuances, issuances of gender-specific bonds did not keep pace. Nevertheless, increasing gender equality remains the most obvious way to improve the lives of women, to improve the economies in which they live, and to improve potential returns for investors. Although there is a worsening funding gap to meet all of the SDGs, investing in women offers 'quick wins' toward SDG 5 and gender bonds provide an efficient method for public and private capital to meet the SDG 5-specific gap. If, as hoped, the gender bond market increases, it will be important that issuers are precise regarding the investments they will make and are clear regarding how these investments improve the lives of women. Focusing on how investments can and will impact women has an important role in meeting SDG 5; a role that requires including gender considerations and using gender lenses in other types of bonds and sustainable financial instruments. Progress toward gender equality is not solely a question of greater investment but having a wider variety of gender investments available to investors can accelerate this progress toward a more equal future.

References

- Atif, M., Hossain, M., Alam, M. S., & Goergen, M. (2020). Does board gender diversity affect renewable energy consumption? *Journal of Corporate Finance*. <https://doi.org/10.1016/j.jcorpfin.2020.101665>
- Biegel, S., & Lambin, S. (2021). *Gender & Climate Investment: A strategy for unlocking a sustainable future*. GenderSmart. <https://www.wocan.org/resources/gender-climate-investment-strategy-unlocking-sustainable-future#>
- Biswas, R. (2021). *APAC Economic Outlook for 2021: A year of uncertainty*. IHS Markit. <https://ihsmarkit.com/research-analysis/apac-economic-outlook-for-2021-a-year-of-uncertainty-Jan21.html>
- BloombergNEF. (2021, January 11). *Sustainable Debt Breaks Annual Record Despite Covid-19 Challenges*. <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>
- CICERO Shades of Green. (n.d.). *About*. Retrieved February 23, 2021, from <https://cicero.green/about>
- Cumming, D., Leung, T. Y., & Rui, O. (2015). Gender Diversity and Securities Fraud. *Academy of Management Journal*, 58(5), 1572–1593. <https://doi.org/10.5465/amj.2013.0750>
- De Battista, G., Bukuru, M., Musili, D., Oyoyo, I., & Calder, R. (2020). *Viability of Gender Bonds in SSA - A Landscape Analysis and Feasibility Assessment*. FSD Africa. https://www.fsdafrica.org/wp-content/uploads/2020/09/20-09-22-Gender-Bonds-Report_AK.pdf
- IIX Global Charitable Limited. (2020). *Women's Livelihood Bond 3: Social Bond Principles*. IIX Global Charitable Limited.
- Impact Investment Exchange. (2020, December 7). *IIX Accelerates Gender Bond Issuances with Pricing of Women's Livelihood Bond 3*. <https://iixglobal.com/wlb3close/>

- International Capital Market Association. (2018a). *Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds*. International Capital Market Association. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>
- International Capital Market Association. (2018b). *Sustainability Bond Guidelines*. International Capital Market Association. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainability-Bonds-Guidelines-June-2018-270520.pdf>
- International Capital Market Association. (2018c). *Sustainability Bond / Sustainability Bond Programme Information Template*. https://www.icmagroup.org/Emails/icma-vcards/World%20Bank%20IBRD_Market-Information-Template_Sustainability%20Bond.pdf
- International Capital Market Association. (2020). *Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds*. International Capital Market Association. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>
- McKinsey & Company. (2020). *Diversity wins: How inclusion matters*. McKinsey & Company. <https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.pdf>
- McKinsey Global Institute. (2015). *The Power of parity: How advancing women's equality can add \$12 trillion to global growth*. McKinsey & Company. https://www.mckinsey.com/~media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/How%20advancing%20womens%20equality%20can%20add%2012%20trillion%20to%20global%20growth/MGI%20Power%20of%20parity_Full%20report_September%202015.pdf
- Shaukat, A., Qiu, Y., & Trojanowski, G. (2016). Board Attributes, Corporate Social Responsibility Strategy, and Corporate Environmental and Social Performance. *Journal of Business Ethics*, 135(3), 569–585. <https://doi.org/10.1007/s10551-014-2460-9>
- United Nations Executive Committee on Economic and Social Affairs Plus Members. (2017). *2017 HLPF Thematic review of SDG 5: Achieve gender equality and empower all women and girls*. United Nations Executive Committee on Economic and Social Affairs. <https://sustainabledevelopment.un.org/content/documents/14383SDG5format-revOD.pdf>
- World Bank. (2021). *World Development Indicators Data Catalog*. World Bank. <https://databank.worldbank.org/source/world-development-indicators>