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Furthering gender equality – next generation gender bonds

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This International Women's Day (IWD) we are delving into a growing segment of the Responsible Investing market known as gender equality bonds. These financial products are at the very early stages of development with the potential for further growth. Pendal has been working with issuers to promote development of the space and is one of the early investors in gender bonds. With the team at Regnan and Pendal coming together under the one roof it presents an opportune time to collectively review these emerging financial products which are designed to deliver social as well as financial outcomes for our clients. In this article we provide an update on the gender bonds market and consider what the next generation of gender bonds might hope to achieve in advancing women's equality and empowerment.

Gender equality bonds:

A gender bond finances (or re-finances) projects or companies that meet gender-related criteria.

The few gender bonds that have been issued to date have garnered significant investor interest. Like other social bonds, gender bonds have proved to be of particular appeal to investors targeting responsible investment objectives, such as support of the United Nations (UN) Sustainable Development Goals (SDGs). A welcome new financial product, these bonds can draw attention to gender inequality and provide a mechanism through which to direct capital to entities and initiatives that actively address the associated issues.

Examples of recent corporate gender bond issuance include:

- The Canadian Imperial Bank of Commerce's Women in Leadership Bond;
- QBE Insurance Group's Gender Equality Bond; and
- National Australia Bank's Social Bond (Gender Equality)

The 'first generation' of gender bonds has revealed strong investor demand for such a product and we expect to see more issued in the future – with an opportunity for further important developments to more precisely target gender equality and women's empowerment to capture its accretive value.

Features of 'first generation' gender bonds

Some of the first generation gender bonds focus on workplace gender equality initiatives, using third party research to identify companies eligible for financing. Examples of requirements for eligibility include the following:

- Issuers must be listed among the Australian Workplace Gender Equality Agency's (WGEA) Employers of Choice or in the top 200 rankings compiled by gender equality advocacy group, Equileap. Both WGEA and Equileap assess how well companies demonstrate leading corporate practices that support gender equality, such as flexible working arrangements, pay equity and programs that support women to enter senior ranks.
- The issuer is a signatory to the UN Women's Empowerment Principles (a set of principles for business offering guidance on how to empower women in the workplace, marketplace and community).
- The issuer has a minimum of 30% female representation at either the board or executive level (or both).

Still far to go for gender equality

Despite efforts to date, there remains a significant gap between the genders globally. The UN identifies multiple factors which contribute to this overall gap. For example, girls and women suffer reduced access to education, healthcare and decent, fairly paid work – especially in less developed countries. They are also subject to higher rates of discrimination and violence. Inequality is further entrenched by the underrepresentation of women in decision-making processes, whether this be in the formation of public policy or in the boardroom.

It is clear that significant work remains to be done. Addressing the gender equality gap is a key focus for the UN and others – eradicating Gender Inequality by 2030 is the fifth of the 17 SDGs. Diverse projects, initiatives and enterprises exist to address inequalities and support women's empowerment at almost every scale. But to become effective in promoting change, a near-universal prerequisite is capital. Asset managers like Pendal have a distinct and important role to play in applying the collective pool of capital towards issuers with a progressive stance on gender equality.

So what improvements would the next generation of gender bonds require in relation to design and ambition in order to maximise their impact in supporting this challenging goal? Based on Regnan's assessment, the next generation of gender bonds should include two critical features.

UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) have been devised as a blueprint to achieve a better and more sustainable future for all. They address global challenges including poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The SDGs form an interconnected set of aspirations targeted for achievement by 2030. Investors have an important role to play in this initiative.

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Critical feature 1:

More directly supporting (and impacting) women

How do these funds change women's circumstances?

If the objective truly is the equality and empowerment of women, social impact vehicles such as gender bonds must set their sights on change – that is, organisations or initiatives involved in actively closing gaps, rather than simply rewarding current practices or performance. For example, a gender bond that invests in companies with comparatively better support for women employees may offer recognition to the company or encouragement for peers to engage in such practices, although this a comparatively passive means for change and may not incentivise further improvement at those companies.

In contrast, bonds that raise funds for project finance and/or loans made to women entrepreneurs and women-led small-medium enterprises (SMEs) can directly improve their circumstances and are actively addressing gaps in equality.

Critical feature 2:

Targeting additionality

What is the 'extra' that these funds support?

To enhance impact, next generation gender bonds will also require a greater focus on additionality. This distinguishes activities that are enabled by the funding from those that would happen anyway. Additional activities have the potential to accelerate progress towards women's equality and empowerment, where change would otherwise be more gradual. These bonds would go beyond simply re-labelling existing practices – which paradoxically can reverse progress by re-framing such practices (like flexible working arrangements) as niche concerns.

Additionality is not only important in the activities funded, it is also important in the product offering itself. One means to issue a gender bond is to assemble a portfolio of corporate bonds issued by companies that meet gender-related criteria. This re-packaging of normal bonds is unlikely to drive improved gender performance in the original issuers, nor does it provide an additional product to the market. The view from George Bishay, Portfolio Manager of the Pendal Sustainable Australian Fixed Interest Fund, is the next generation of gender equality bonds needs to feature a more explicit link between diversity initiatives and the use of capital. “At Pendal we have seen the accretive benefits of gender diversity in bringing new ideas and broadening perspectives. This forms part of our thought processes when it comes to the factors we look for in new gender equality-linked issuance. When looking at gender equality bonds, one area of focus is on what innovative approaches are being taken to progress gender diversity through the underlying businesses before considering inclusion in our portfolio.”

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>
> **George Bishay,**
> Portfolio Manager, Pendal Sustainable Fixed Interest Fund

Critical features in action

Bond examples demonstrating these features include the World Bank’s International Finance Corporation’s (IFC) gender bond (the very first gender bond) which supports it’s Banking on Women initiative, a lending program to female-led business. Last year Turkey’s Garanti Bank launched an Emerging Market Gender Bond, with ties to IFC’s gender equality initiatives, to support similar financing in Turkey. The Asian Development Bank has also followed the IFC model.

> “Women own a third of small businesses but they can only secure 3% of business loans…

This model has tied use of proceeds to more directly support women via new funding. For example, in Turkey about 9 per cent of SMEs are owned by women and these face a credit gap of US$5 billion. Garanti Bank’s bond helps these businesses, who struggle to get finance, get off the ground, providing women with greater financial independence and the opportunity to lift themselves out of poverty. A case study[1] by IFC highlights the extent of inequality in developing markets like Lebanon. Women own a third of small businesses in Lebanon but can only secure 3% of business loans— a clear limitation on growth. In efforts to address the funding gap, proceeds of an IFC gender bond have gone to women in Lebanon to support their entrepreneurial efforts.

How can next generation bonds embed these features?

If greater impact can be achieved via a focus on direct change and additionality, investors serious about investing in women’s equality and empowerment will seek out bonds whose issuers can demonstrate their impact.

This is likely to be a virtuous circle as bonds that better align with progressing women’s equality and empowerment will also provide investors with the confidence that this instrument can support the achievement of the SDGs.

Structuring of social bonds

It is typical for gender bonds to refer to being informed by the ‘Social Bonds Principles’, voluntary guidance issued by International Capital Market Association (ICMA). The principles emphasise four components for issuers to consider: use of proceeds; processes for project evaluation and selection; management of proceeds; and reporting. Overall, the principles encourage integrity, in particular via clear communication of objectives, transparent management of proceeds, and undertaking external reviews.

To do this, the next generation of bonds will need to employ imaginative and outcomes-focused eligibility criteria:

What if gender bonds directed capital towards companies who not only engage in positive workplace practices for its employees, but whose business models and activities support the advancement of women and equality for their customers and the communities in which they operate?

What could be unlocked through the use of debt covenants, mandating criteria for use of proceeds to ensure better outcomes?

How could these be more forward-looking, to engrain ambition and incentivise ongoing improvement when it comes to gender equality (rather than rewarding gains already made)?

Collaborative initiatives to find and develop solutions to these questions will likely present an opportunity to investors and issuers. Transparency and accountability will be key to ensuring that these bonds have credibility and more widespread appeal.

[1] World Bank International Finance Corporation, “ Leading in Banking on Women: A Case Study”, July 2016

Ensuring credibility to grow investor support

Measuring impact has always been challenging. However, without reporting via meaningful metrics that demonstrates change has occurred, gender (and other social) bonds will be unlikely to enjoy the rates of growth seen by other types of impact financing such as green bonds. We expect that the more directly linked the use of proceeds are to a specific activity, the easier it will be to report on outcomes. Where the proceeds are more general – say, as long as a company meets eligibility criteria as assessed via a third-party researcher – it will be more challenging for the bond issuer to report meaningful impact metrics, especially independently of such researchers. Nevertheless, as gender bonds mature, so will investors' reporting standards.

Gender bonds have untapped potential. If issuers of the next generation of bonds can enhance frameworks to maximise positive impacts for women, and better measure and report on the use of proceeds, we can expect investor appeal to grow. Should this happen, it would represent a true win-win – for equality-conscious investors, and for the empowerment of women around the world.

> “To succeed in what will be a very different future environment we must bring together diverse perspectives, educational areas of study, skills and life experiences to maximise creative insights that will enable good performance. Increasing gender diversity will be an important part of achieving this outcome, something which we hope to promote via gender bonds.
>
> **Richard Brandweiner**,
> CEO Pendal Australia

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