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Gender bonds

Scoping study summary

JULY 2020

UN WOMEN

United Nations Entity for Gender Equality and the Empowerment of Women

Gender bonds and gender lens investing

Gender lens investing (GLI) is based on the premise that investing in companies that promote gender equality is not only morally responsible, but can lead to higher financial returns. To date, the majority of GLI has been carried out through dedicated investment vehicles. Now, a number of development finance institutions, development agencies and investor groups are looking to expand its footprint by leveraging the debt capital markets.

Gender bonds are broadly defined as bonds that support the advancement, empowerment and equality of women, though no official definition exists. Like other themed bonds, they can be issued as senior unsecured notes referencing the balance sheet of the issuer, but where proceeds are ringfenced for specific use on eligible 'gender' activities, or as securitisations referencing a pool of assets directly.

The state of the market

There are currently no dedicated guidance principles on how to issue a gender bond, nor any specific eligibility criteria for use of proceeds. Most bonds issued with a gender label have so far relied on the ICMA's Social Bond Principles, the UN's Sustainable Development Goals or the UN Women's Empowerment Principles as reference standards.

As of March 2020, 13 gender-labelled bonds[1] have been issued by a variety of entities, ranging from large commercial banks, to NGOs, to multilateral development banks. These can be grouped into three categories:

'Corporate behaviour' gender bonds: Capital is allocated on the basis of the borrower's internal practices on gender equality, rather than for specific activities or projects that benefit women.

'Financial inclusion' gender bonds: These focus on financial inclusion as a route to women's economic empowerment. They have typically been issued in emerging and frontier markets.

Multilateral and DFI social or SDG-labelled bonds: A number of institutions have issued labelled bonds that include gender-focused uses of proceeds. These bonds are not a focus of this report due to their issuers not being in the private sector.

[1] Not counting social bonds that include some gender considerations.

Comment on the market

The majority of gender bonds issued so far address financial inclusion of women and female entrepreneurship in emerging markets, or access to leadership positions and gender-positive corporate policies in developed markets.

Missing from the market are companies that provide goods and services which disproportionately benefit women, or bonds which look at women in the issuer's supply chain.

Reporting on the impact of gender bonds also needs further attention. For financial inclusion bonds, few bonds go beyond the 'loans disbursed' metric to look at the impact they have on women's lives. Similarly, for corporate behaviour bonds, it is not always clear whether the companies being lent to are required to improve on their current performance, and if so, how and at what rate.

Practical considerations for issuing a first gender bond

There are a few basic requirements which potential corporate issuers should seek to meet in order to credibly issue a gender bond in the near term:

1. **Credible investment strategy:** does the issuer have access to 'assets' which disproportionately benefit women? (this could include on-lending to companies seen as "best in class" on gender equality) And are these assets appropriate for a debt issuance?

2. **Economic viability:** does the size of the portfolio and investor interest warrant the additional cost of a gender-labelled issuance?

3. **Enabling factors:** is the local capital market equipped to support a gender bond issuance?

4. **Issuer and sponsor credibility:** investors are able to accept more complexity in use of capital if the issuing entity is a trusted market participant.

In the absence of criteria 2, 3 and 4, these can be supported by interested market participants such as DFIs who can act as anchor investors, providers of TA and lend credibility to an issuance.

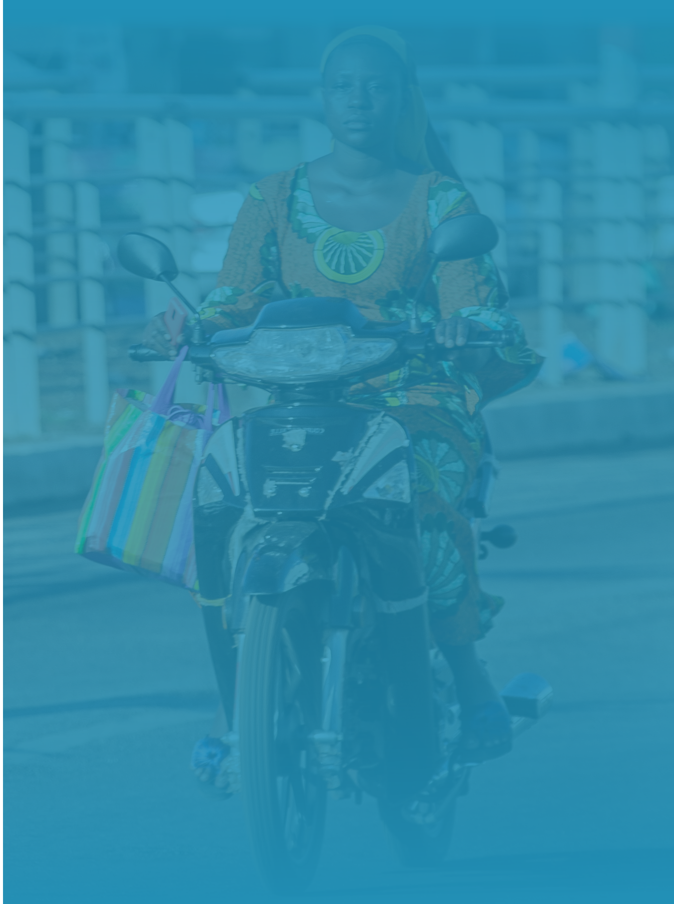
Recommendations

There is a need for further guidance on what a gender bond is and what uses of proceeds qualify. As demonstrated by other themed bonds, the availability of reference standards broadly accepted by market stakeholders would allow:

1. **Issuers to have a clear understanding of whether they could issue a gender bond and what benefits this might bring.**

2. **Investors to have a degree of comfort that the investment they are making is credible and meets 'market standards'.**

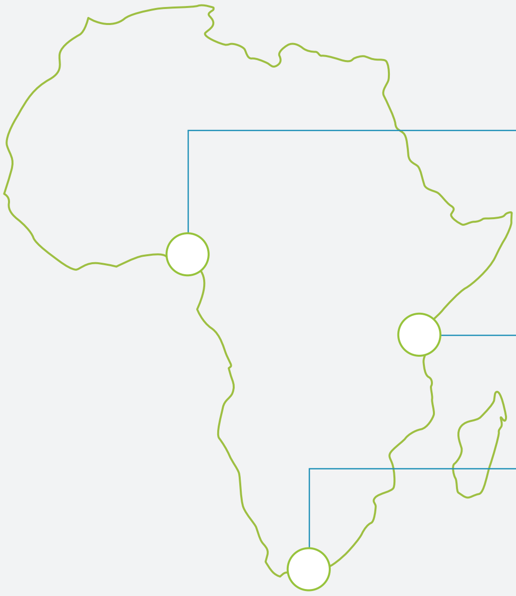
By making it easy for both investors and issuers to understand what a gender bond is, the potential for market growth increases significantly.



Potential for gender bonds in sub-Saharan Africa

While there is some interest in gender lens investing, no gender bond has yet been issued in sub-Saharan Africa. In our assessment, we focused on the countries with the most developed capital markets and most likely chance of success in the short and medium term: Nigeria, Kenya and South Africa.

We concluded that issuance in a local market will not be straightforward outside of South Africa, due to mismatched expectations and relatively conservative investors:



Nigeria has an active GLI sector, but it is focused on private capital markets, and there is no significant investor interest in themed listed debt outside of the typical risk-return profiles sought as part of normal business.

Kenya could be an interesting market for a gender bond, but the bond would need to receive concessional support in order to meet issuers' expectations of reduced cost of capital, and investors' risk-return profiles.

South Africa has a very receptive investor base and could likely support a more commercial instrument.

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