

# Mainstreaming Gender Objectives in Sustainable Bonds

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Achieving gender equality is essential for a prosperous and sustainable world, as it affects all aspects of sustainable development. The most pressing environmental and social challenges of our time impact women disproportionately. For example, women are particularly vulnerable to climate change, as it can worsen structural gender-based inequalities and further increase existing gender disparities. At the same time, dedicated gender-focused financing has been limited to date. Only USD 17 billion<sup>1</sup> in assets are in gender-labelled financial products globally, which is a fraction of the global sustainable investment universe of over USD 40 trillion.<sup>2</sup>

As discussed in a recent [IISD article](#), one way to significantly scale up gender-smart financing is through mainstreaming gender considerations in all-new sustainable bond issues. In the case of use-of-proceeds bonds, this would mean including requirements on gender diversity in the eligibility criteria used for the selection of projects. For sustainability-linked bonds, this would imply including an additional set of key performance indicators (KPIs) and sustainability performance targets (SPTs) on gender in the bond framework, along with the environmental or social KPIs.

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<sup>1</sup> Based on estimates of Catalyst at Large, Parallele Finance, Sagana, Veris Wealth Partners and Suzanne Biegel, Co-Founder of GenderSmart

<sup>2</sup> <http://www.opimas.com/research/570/detail/>



Applying a gender lens across all-new sustainable bond issues represents a significant opportunity for advancing gender equality. Total new issuance of sustainable bonds (green, social, sustainability, and sustainability-linked bonds) was worth USD 532.3 billion<sup>3</sup> globally in 2020, which is almost 70 times the size of all outstanding gender-lens investments today across asset classes.

Even in the case of social and sustainability bonds, which are financial instruments designed to achieve social objectives, bond frameworks explicitly targeting gender inequality are relatively rare. One notable example is the sustainability bond framework of Millicom,<sup>4</sup> a provider of fixed and mobile communication services. It has a dedicated social project category on “Empowering Women,” in which eligible projects include training programs for women and women-led small and medium-sized enterprises on the use of digital tools and other information and communications technologies. Banco del Estado de Chile<sup>5</sup> is a good example of a bank using a gender-integration framework in social bonds. One of its social project categories is “Woman Entrepreneurs,” which supports initiatives to help women access financial and non-financial services.

The current low level of gender integration in social and sustainability bonds is due to issuers prioritizing other sustainability objectives rather than to the lack of technical know-how of including gender considerations in bond frameworks. In the case of green bonds, which are designed to address environmental objectives, integrating gender targets is less straightforward. Green bond frameworks cannot have social project categories, so issuers cannot just follow the example of social and sustainability bonds when integrating gender targets. At the same time, there are a couple of examples of green bonds, which will be discussed in this article, that have taken into account gender diversity in the allocation of their proceeds.

In addition, this article will also explore how gender KPIs have been included in sustainability-linked bonds (SLBs) alongside other sustainability KPIs. The International Capital Market Association (ICMA) defines SLBs as “any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives.”<sup>6</sup> The examples presented here demonstrate how new sustainability-linked bond issues have dealt with dual-or triple-KPI structures, including a dedicated KPI on gender diversity.

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<sup>3</sup> Social bonds: USD 147.7 billion; sustainability bonds: USD 68.7 billion; green bonds: USD 305.3 billion; sustainability-linked bonds: USD 10.6 billion; <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>

<sup>4</sup> <https://millicomprdw02.tigocloud.net/media/3729/millicom-sustainability-bond-framework-march-18-final-final-clean-version.pdf>

<sup>5</sup> [https://www.corporativo.bancoestado.cl/sites/default/files/documentos\\_archivos/bancoestado-social-bond-framework.pdf](https://www.corporativo.bancoestado.cl/sites/default/files/documentos_archivos/bancoestado-social-bond-framework.pdf)

<sup>6</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>



The purpose of this article is not to share a list of gender bonds and other gender-labelled sustainable debt instruments.<sup>7</sup> Instead, it attempts to showcase promising examples of how sustainable bonds focusing on a range of sustainability objectives have integrated some type of gender criteria into their bond frameworks. While the examples presented here are from developed countries, they are equally relevant and applicable for issuers based in emerging or developing countries.

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## Gender Integration: Green bonds

The integration of gender considerations in green bond frameworks is a novel idea. Therefore, to date, there have not been any exceptional examples that can serve as a best practice for other green bond issuers. At the same time, there have been some early efforts in this area that can be a good starting point for gender-smart green bond issues.

### 1. City of Minneapolis – Series 2019 GO Green Bonds<sup>8</sup>

Issuer	City of Minneapolis
Country	USA
Issuance date	2019
Issue size	USD 114,420,000
Maturity date	2022 to 2046 <sup>9</sup>
Use of proceeds	Finance the construction of the city's new Public Service Center.
Gender component	The city aims to achieve a diverse construction workforce comprised of 20% women and 32% minorities.

The City of Minneapolis has issued green bonds to continue the construction of a certified green building that is aligned with the ICMA's Green Bond Principles. The bond framework also outlines some social objectives, such as in employee health, public art, and diversity.

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<sup>7</sup> For more information on gender bonds and their role in furthering gender equality, please check out a recent article on the topic: <https://www.iisd.org/publications/equality-gender-bonds>

<sup>8</sup> [https://www.icmagroup.org/Emails/icma-vcards/Minneapolis\\_External%20Review%20Report.pdf](https://www.icmagroup.org/Emails/icma-vcards/Minneapolis_External%20Review%20Report.pdf)

<sup>9</sup> <https://www.bondbuyer.com/news/minneapolis-offering-second-green-bond-deal>



For the latter, the city “aims to achieve a diverse construction workforce comprised of 20% women and 32% minorities.” Furthermore, the bond framework states that as part of its project evaluation and selection process, all projects and related activities must comply with its environmental and social directives.

This example demonstrates two different ways that green bonds financing infrastructure can apply a gender lens in project selection: (i) by adding a requirement on women’s participation in the workforce and (ii) by integrating gender criteria into the internal policies that determine eligibility for the use of proceeds.

## 2. Agence Française de Développement – SDG bond<sup>10,11</sup>

Issuer	Agence Française de Développement
Country	France
Issuance date	2020
Issue size	EUR 2 billion
Maturity date	2027
Use of proceeds	Access to essential services, affordable basic infrastructure, affordable housing, energy efficiency, renewable energy, socio-economic advancement, and empowerment.
Gender component	Eligible projects need to receive a neutral or positive grade on gender equality.

Agence Française de Développement (AFD) has developed a new SDG Bond Framework for green, social, and sustainability bond issues in October 2020. To date, AFD has only used this framework to issue an SDG bond (see box above). Therefore, instead of a green bond, this will be used as an example of how a green bond framework can integrate gender targets. Considering that AFD has been an active green bond issuer, with a total issuance size of EUR 3.25 billion since 2014,<sup>12</sup> we might see a new green bond issue using this SDG Bond Framework later this year.

Among other eligibility criteria, the bond framework requires new projects and loans to receive a neutral or positive grade in six sustainable development dimensions, which include gender equality alongside climate objectives.<sup>13</sup> Projects are assessed based on the following sub-criteria for gender equality:

<sup>10</sup> <https://www.environmental-finance.com/content/news/bond-round-up-afd-morgan-stanley-nsw-ico-barclays-...-and-more.html>

<sup>11</sup> Second-party opinion on the bond framework: <https://www.afd.fr/sites/afd/files/2020-10-07-38-45/vigeo-eiris-second-party-opinion-sdg-bond-framework.pdf>

<sup>12</sup> <https://www.environmental-finance.com/content/news/bond-round-up-eu-star-energy-getlink-fannie-mae-...-and-more.html>

<sup>13</sup> <https://www.afd.fr/sites/afd/files/2020-10-07-38-47/sdg-bond-framework-afd.pdf>



- Access to services
- Control over resources and income
- Access to justice
- Combating violence against women
- Participation in economic, social, and political decision-making bodies
- Project governance considered with regards to gender.

Each sustainable development dimension receives a score ranging from -2 to +3. This assessment is conducted by the AFD's project team during the appraisal phase. In addition, Proparco, an AFD subsidiary, conducts socio-economic, environmental, and climate impact analyses to determine project eligibility. This includes four dimensions, one of which is "Gender: contributing to the fight against discrimination against women and creating economic opportunities." The output of the assessment is a "DEV" score that ranges from 1 to 6, with 1 being the best score. Projects need to have a rating of DEV 1 or 2 to be eligible.

This example demonstrates how green bond frameworks can take into account different sustainability objectives at the same time. It also highlights how a scoring system can be used to develop exclusion criteria to determine project eligibility for the use of proceeds.

## Gender Integration: Sustainability-linked bonds

A notable difference between SLBs and use-of-proceeds sustainable bonds is how project eligibility is determined. While the proceeds from SLBs can be used for general corporate purposes, a use-of-proceeds green bond can only finance projects that fall into one of the eligible project categories, as outlined in the bond framework. This also means that the sustainability KPIs of SLBs are not linked to the project(s) that the proceeds are spent on but instead to the issuer's commitment to improving predetermined sustainability outcomes. Therefore, the integration of gender considerations also requires a different approach than what was discussed earlier for green bonds. There are a few good examples of SLBs and sustainability-linked loans that have managed to include a gender KPI alongside other sustainability KPIs, such as carbon dioxide emissions and renewable energy. These dual- and triple-KPI structures are good examples of the flexibility of sustainability-linked debt instruments that have contributed to their rapid growth in recent years.

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### 3. Schneider Electric – Sustainability-linked convertible bond<sup>14</sup>

Issuer	Schneider Electric
Country	France
Issuance date	2020
Issue size	EUR 650 million
Maturity date	2026
Key Performance Indicators	<p>KPI 1: Saved and avoided CO2 emission to customers</p> <p>KPI 2: Gender diversity from hiring to front-line managers and leadership teams</p> <p>KPI 3: Number of underprivileged people trained in energy management</p>
Sustainability Performance Targets <sup>15</sup>	<p>SPT 1: Deliver 800 megatonnes saved and avoided CO2 emissions to customers</p> <p>SPT 2: Increase gender diversity, from hiring to front-line managers and leadership teams: 50% women hiring, 40% women among front-line managers, and 30% women in leadership</p> <p>SPT 3: Train 1 million underprivileged people in energy management</p>

Schneider Electric, a French company focusing on energy management and automation, can use the proceeds of this sustainability-linked bond for general corporate purposes. At the same time, it will have a strong incentive to meet the SPTs that it has committed to in its bond framework. If it does not meet the “KPI Minimum Score Threshold” by 2025, there will be a margin step-up, or a premium payment, as outlined in the transaction document of each issue. The “KPI Minimum Score Threshold” represents, on average, an 85% achievement for each KPI, which corresponds to an average score of 9/10. This is calculated by first giving a performance score to each KPI on a 10-point scale. The equal-weighted average of the scores for the three KPIs determines whether the “KPI Minimum Score Threshold” has been met.<sup>16</sup>

Schneider Electric provides a great example for structuring triple-KPI SLBs. It demonstrates that from a technical perspective, there is no reason for a sustainability-linked bond issuer not to set gender diversity targets alongside other sustainability priorities.

<sup>14</sup> <https://www.environmental-finance.com/content/news/bond-round-up-chile-nwb-lafargeholcim-schneider-electric-vinci-...-and-more.html>

<sup>15</sup> <https://www.se.com/ww/en/assets/564/document/174194/schneider-electric-sustainability-linked-financing-framework.pdf>

<sup>16</sup> <https://www.se.com/ww/en/assets/564/document/174194/schneider-electric-sustainability-linked-financing-framework.pdf>



#### 4. EQT – Sustainability-linked credit facility<sup>17</sup>

Borrower	EQT
Country	Sweden
Starting date	2020
Size	EUR 2.3 billion – 5 billion
Key Performance Indicators	KPI 1: Gender equality on the board of directors KPI 2: Renewable energy transition supported by a fundamental sustainability governance platform
Sustainability Performance Targets <sup>18</sup>	SPT 1: Improve female board representation across portfolio companies to at least 40% SPT 2: Increase the use of renewable electricity across portfolio companies to at least 85%

EQT, a Swedish private equity firm, has set up a sustainability-linked credit facility. While this is not a sustainability-linked bond, it provides another example, equally applicable to bonds, of how to design debt instruments with both gender- and climate-related KPIs. Any company that EQT invests in must have at least 40% female board representation within 24 months of the time of acquisition. In addition, at least 85% of the total electricity purchased by each portfolio company must come from renewable sources within 30 months of the time of acquisition. A failure to meet any of these KPIs will automatically increase the interest rate the lender charges for the credit facility.

This example is particularly interesting, as companies with low gender and climate performance are not immediately excluded from EQT's investment universe. Instead, EQT has 24 and 30 months, respectively, to improve gender diversity and increase the share of renewable energy use for the companies acquired. This is certainly in line with the ultimate goal of sustainability-linked instruments of rewarding improvement in sustainability performance.

<sup>17</sup> <https://www.eqtgroup.com/news/Press-Releases/2020/eqt-introduces-largest-ever-esg-linked-subscription-credit-facility/>

<sup>18</sup> <https://cib.bnpparibas.com/sustain/can-private-equity-drive-change-in-sustainable-finance- a-3-3606.html>



## Conclusion

This article aimed to showcase some early examples of sustainable bonds with the dual mandate of integrating gender considerations alongside other sustainability objectives. Mainstreaming gender targets across all sustainable bonds is an innovative way to significantly scale up gender-smart financing.

These promising examples demonstrate that there is no technical barrier for making sustainable bonds gender smart. Instead, the question is whether gender equality is among the issuer's sustainability priorities. If this is the case, how does the issuer align its bond financing with its vision for gender equality or its gender strategy? Considering the social, economic, and financial benefits of gender diversity, every issuer should have a gender strategy that sets clear objectives and outlines a plan of action with credible gender KPIs. Eligibility criteria for the use of bond proceeds and gender KPIs for sustainability-linked instruments must be aligned with these objectives.

Issuers also need to realize that any type of sustainable bond issuance can contribute to a range of sustainability objectives at the same time. This is also true for thematic bonds, which are designed to focus on a specific sustainability theme. For example, a green bond that finances the construction of green buildings can also have criteria on the gender diversity of suppliers. Similarly, a blue bond for marine protection could set an additional target to promote the economic empowerment of women.

The rapid growth of gender-lens investing in recent years demonstrates that there is increasing investor demand for gender-smart financial products. As this trend is expected to accelerate, demand might even outstrip supply. This could potentially have a positive impact on the cost of financing for issuers, as sustainable bonds with an explicit gender component could be priced higher than traditional bonds with the same financial characteristics.

The examples presented here are a good starting point. They are good examples of the flexibility issuers have when integrating gender considerations into sustainable bonds. However, the real opportunity to address gender inequality lies in making gender-smart sustainable bonds the business-as-usual standard, therefore scaling up gender-lens investing. This will require issuers to have a lot more ambition to innovate. Considering the fast pace of innovation we have seen in sustainable investing in recent years, mainstreaming gender considerations in sustainable finance seems entirely feasible.





## **MALAYSIAN SUSTAINABLE FINANCE INITIATIVE**

The Malaysian Sustainable Finance Initiative (MSFI) is an initiative under Capital Markets Malaysia (CMM) to support the Malaysian financial sector in further embracing the tenets of sustainable financing. The objective of this Initiative is to provide the necessary impetus for industry stakeholders to facilitate capacity building, upskilling, awareness and thought leadership on sustainable finance. The MSFI is funded by the Capital Market Development Fund and the UK Government's Prosperity Fund through the ASEAN Low Carbon Energy Programme (LCEP).

## **ASEAN LOW CARBON ENERGY PROGRAMME**

The ASEAN LCEP is an overseas development assistance programme of the UK Government's Prosperity Fund. In close collaboration with local and international entities from both the public and private sectors, the programme will help ASEAN harness the benefits from the deployment of low carbon energy by leveraging the UK's extensive and proven expertise in green finance and energy efficiency.

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