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KEY POINTS

- Gender bonds are increasingly acknowledged as an effective mechanism for unleashing capital to women and contributing toward gender equality goals.
- Against the exponential growth in sustainable and green bond issuances globally, only a negligible amount of all sustainable bonds have gender as a priority objective.
- The low uptake of gender bonds is often linked to unfounded misconceptions about their benefits and complexity.
- Gender needs to be heightened as a key theme and an impact goal in debt capital markets—including in Asia and the Pacific—where advancing gender equality is a key driver of growth.
- Gender bonds raise awareness on women's financial inclusion and expand lending to women.
- Measuring impact is paramount to integrating gender into the sustainable bond markets.

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Gender Bonds: From Incidental to Center Stage

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INTRODUCTION

In a context of heightened vulnerability, gender bonds represent a unique instrument to catalyze financing to reduce gender finance gaps.

As humanity is ever more affected by external shocks—health pandemics, climate disruptions, wars, and economic downturns[1]—there is an undisputable need to support vulnerable businesses and entrepreneurs who bear the brunt of major dislocations.[2] Women—especially in Asia and the Pacific—are a particularly vulnerable group.[3] Empowering women and expanding their access to finance and economic inclusion can drive growth, especially in the post-coronavirus disease (COVID-19) pandemic recovery environment.[4]

Global debt capital market instruments are being increasingly deployed to channel financial resources in a way that combines financial returns with environmental, social, and governance (ESG) outcomes often linked to internationally recognized objectives such as the United Nations Sustainable Development Goals (SDGs). Referred to generally as sustainable finance, these themed instruments[5] include social bonds, sustainability bonds, and sustainability-linked bonds,[6] all of which can—

Note: In this brief, "$" refers to United States dollars and "¥" refers to Japanese yen.

1 Bank for International Settlements (BIS). 2022. *Old Challenges, New Shocks: Annual Economic Report*. 26 June.
2 K. Georgieva. 2022. Facing Crisis Upon Crisis: How the World Can Respond. *IMF Blog*. International Monetary Fund (IMF). 14 April.
3 UN Women. 2020. *Supporting the Recovery of Women Entrepreneurs and Women´s Micro, Small, Medium Enterprises from the Impact of COVID-19 in Bangladesh*.
4 World Economic Forum. 2020. *Investing in Women and Diverse Entrepreneurs to Boost the Post-pandemic Recovery*.
5 Refers to both loans and bonds, with bonds being the focus of this brief.
6 As defined under global frameworks: *Social Bond Principles, Sustainability Bond Guidelines, and Sustainability-linked Bond Principles.*

to different degrees—address gender inequalities.[7] Gender bonds specifically finance projects that support the empowerment of women, gender equality, and access to finance.[8] Yet globally—while a rising stream of sustainable and green bond issuances is underway—only a negligible amount have gender as their priority objective. One estimate suggests that only about $17 billion in assets are gender-labeled financial products within a global sustainable investment universe of over $40 trillion (footnote 7).

The scant and imperfect data available for gender bond issuances show that debt capital flows are not on track to meaningfully contribute to reducing gender gaps—particularly in access to finance—even as COVID-19 impacted women harder than men and made the call to action in this arena even more pressing.[9] And even though women-led businesses are seen as a particularly strong investment option because they are set up to optimize investment capital.[10]

THE LINK BETWEEN GENDER BONDS AND WOMEN, BUSINESS, AND THE ENVIRONMENT

Gender-themed bond instruments mix debt with some level of impact on a predefined group of women—e.g., leaders, entrepreneurs, employees, consumers, and community stakeholders—and under specific gender equality areas. Alongside the emerging gender bond market, other instruments for investing with a "gender lens" include direct equity investments through private equity or impact funds. In addition, direct financing of women-owned or -led micro, small, and medium-sized enterprises (WMSMEs) by private financial institutions has expanded, driven primarily by multilateral development banks (MDBs) and development financial institutions and programs such as the Women Entrepreneurs Finance Initiative.[11]

Together with all other gender-themed financial instruments, gender bonds fall under the gender-lens investing umbrella, which stands on the premise that investing in companies that promote gender equality through their internal policies or their business activities can lead to higher financial returns (footnote 9).[12]

Not only do companies that have more women on their boards and management perform better[13] on the stock market and are more profitable than their peers, but they also improve environmental performance.[14] For instance, a study found that companies with gender-diverse boards were more likely than those without to decrease energy consumption by 60%, greenhouse gas emissions by 39%, and water use by 46%.[15] These findings are echoed by another study that found that a 1% increase in female managers led to a 0.5% decrease in carbon dioxide emissions (footnote 14).

Gender bonds provide access to resources and women's economic empowerment by mobilizing much-needed financial resources from traditional financial institutions to WMSMEs, which on a large scale lack access to affordable financing. The WMSME financing gap in emerging markets is estimated at $1.7 trillion, of which women in Asia account for over $1.3 trillion.[16]

Although the potential of gender bonds is recognized, it is important to examine why these instruments are not being deployed more widely to close persistent gender gaps, as well as what the bottlenecks are and if they are justified.

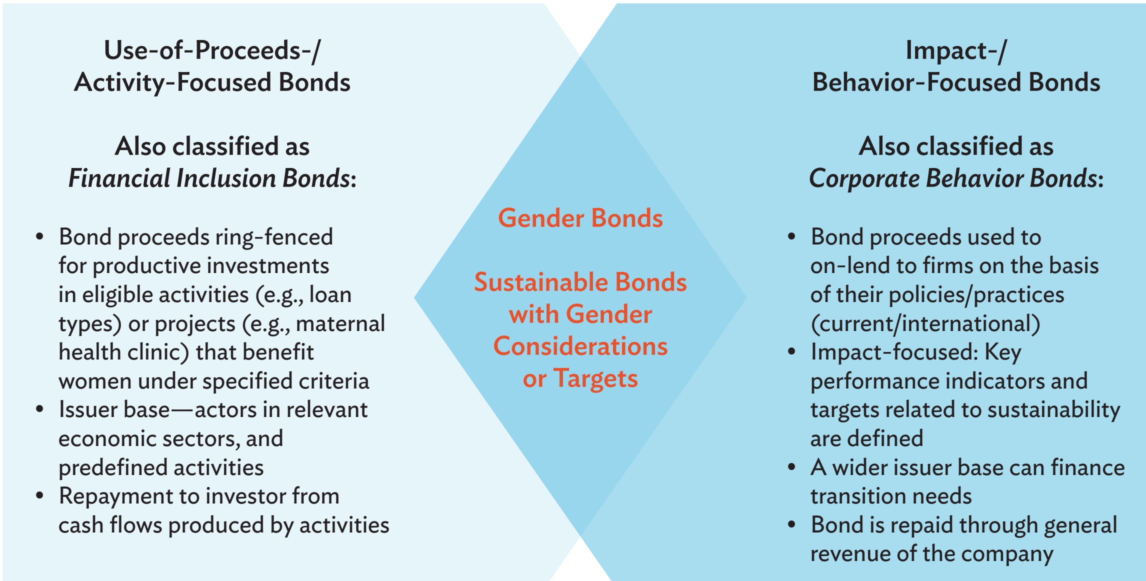
UNDERSTANDING GENDER BONDS

A clear view of how gender bonds work is needed. Gender bonds are "use-of-proceeds" bonds; however, gender considerations can also be integrated into performance-based bonds. While both embody sustainable finance strategies, the use-of-proceeds bonds represent activity-based instruments, and performance-based bonds reward the achievement of objectives (Figure 1).[17]

In the use-of-proceeds approach, issuers designate the proceeds from the bond issue to implement specific types of targeted projects codified in its gender bond framework where activities are well-defined and can be tracked. Based on a forecast of funding required for gender-related projects in their pipeline, issuers predefine how much of the proceeds will be allocated to gender equality-related projects, which can be for all or just a part of them. In the performance-based approach, they are combined with other types of projects eligible under a social or sustainability bond structure advanced by the Social Bond Principles or Sustainability

7 D. Uzsoki and S. Rahim. 2021. *Integrating Gender in Sustainability-Linked Bonds: Innovations in Multi-KPI Sustainability-Linked Structures*.
8 Asian Development Bank (ADB). 2022. ADB Issues Second Gender Bond in Kazakhstan. News release. 23 February.
9 FSD Africa. 2020. *Viability of Gender Bonds in SSA: A Landscape Analysis and Feasibility Assessment*. Nairobi.
10 Criterion Institute. 2020. 10 Points Why Gender Is Material to Investments in the Recovery. Connecticut.
11 Women Entrepreneurs Finance Initiative (We-Fi) is a collaborative partnership among 14 governments, 8 MDBs, and other public and private sector stakeholders, hosted by the World Bank Group. https://we-fi.org/.
12 CGAP. 2021. Leveraging Gender Lens Investments for Women's Financial Needs. Washington, DC; Global Impact Investing Network. Gender Lens Investing Overview.
13 S&P Global. 2019. When Women Lead, Firms Win.
14 BIS. 2021. Does Gender Diversity in the Workplace Mitigate Climate Change?
15 FP Analytics. Women as Levers of Change.
16 International Finance Corporation (IFC). 2017. *MSME Finance Gap*. Washington, DC.
17 International Monetary Fund (IMF). 2022. Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities. Washington, DC.

Figure 1: Sustainable Bonds Classifications



Source: Asian Development Bank.

Bond Guidelines, such as loans for affordable housing or access to green technologies.[18] Examples of eligible use-of-proceeds for gender bonds are financing WMSMEs and funding companies that implement meaningful gender-focused internal policies or advance gender equal standards.

Sustainability-linked bonds that adopt a performance-based approach offer an alternative way for bond issuers that want to include gender equality targets in a funding program yet lack a sufficient pipeline of eligible projects for a use-of-proceeds gender bond. In this case, bonds are designed to encourage the issuer to achieve sustainable outcomes or sustainability performance targets, and those outcomes are assessed via quantifiable key performance indicators (KPIs). Besides KPIs relating to the issuer´s core strategic business, they should reflect ambition and commitment on the part of the issuer to enact material improvements in gender equality at the organizational level, such as reducing pay gaps, increasing gender diversity in leadership, and increasing procurement from women-owned or -led businesses. These commitments build on a benchmark and comport a measurable goal and a deadline.

GENDER BONDS: THE NEXT FRONTIER IN SUSTAINABLE FINANCE

Recent studies indicate that ESG-oriented investments are positioned to grow exponentially, with the ESG share of overall assets under management projected to grow from 14.4% in 2021 to about 21.5% by 2026.[19] Asia and the Pacific is expected to lead the fastest relative growth in ESG assets until 2026, by at least tripling its 2021 figure of $1 trillion.

Induced by the effects of the COVID-19 pandemic, sustainable finance strategies became more mainstream in emerging markets and bond issuances increased sharply in 2021—reaching 13% of global bond issuances—outpacing advanced economies for the first time since 2016 (footnote 17). Leading the way in the Asia and Pacific region are the People's Republic of China and India, followed at much lower rates by Indonesia and Malaysia.

Most of the use-of-proceeds approach bonds are being deployed in emerging and developing economies, while performance-based approach bonds are mostly seen in more developed economies (footnote 17). The scope and reach of sustainable finance ecosystems are widening to include more social and sustainability-linked instruments, while still advancing green bonds as a paramount sustainability priority.

[18] International Capital Markets Association (ICMA). 2021. *Social Bonds Principles, Sustainability Bond Guidelines.*

[19] PricewaterhouseCoopers (PwC). 2022. Exponential Expectations for ESG.

While it is being recognized that sustainable finance markets in the Association of Southeast Asian Nations (ASEAN) region have significant potential to mobilize private capital to support inclusive and sustainable economic recovery, gender bond issuances are primarily driven by MDBs with scant participation from the private and public sectors, which is generally the case for Asia and the Pacific.[20]

Gender bond issuances lag green and sustainability bond issuances. Since the first women's bond issuance in 2013,[21] UN Women reported[22] that there have been less than 80 gender bond issuances globally that are aligned with International Capital Market Association (ICMA) principles.[23] Another source reported 13 gender-labeled bond issuances (footnote 9). In the ASEAN region, there are several prominent gender bond examples, including the ADB ¥10 billion gender bond issued in 2017; International Finance Corporation's investment in gender bonds issued by the Bank of Ayudhya in Thailand in 2019, and by Bank OCBC NISP in Indonesia in 2020; and the UN-backed $12 million Women's Livelihood Bond 2 by Impact Investment Exchange.[24]

SOME CHALLENGES AND EMERGING SOLUTIONS

For gender bonds to take center stage in the bonds market, it is important to understand the challenges that hinder gender bonds from scaling up to accelerate women´s access to affordable finance and advance gender equality goals. A road map must also be created on how sustainable markets can adopt a proactive gender focus alongside other sustainability priorities.

There are pressing challenges and emerging solutions for integrating gender into sustainable bonds:

1. When the market is not big enough to issue gender bonds, gender components can be intentionally integrated into sustainable finance solutions. Setting predetermined eligible project categories or activities has limited the participation of some issuers in gender debt markets because, arguably, they restrict the issuer base to activities in certain economic sectors, which makes tagging funds challenging in markets that are not susceptible to this. Alternatively, integrating gender projects and/or targets into the broader use-of-proceeds bond categories (social and sustainability), or integrating gender equality objectives into sustainability-linked bonds under the performance-based approach, can be considered.

2. There are emerging solutions that address the lack of know-how that fuels the misconception that gender bonds are too complex to structure and implement. Before the publication of new guidance[25] on how to structure gender bonds and define gender equality goals for sustainable bonds, there had been no global frameworks to support gender bond issuers.[26] Since its publication, several complementary tools have emerged including a collection of case studies that demonstrate that it can be done.[27] New insights guiding capital toward a largely nascent gender-lens investing movement at scale are organically becoming a natural element in the sustainable finance ecosystem.[28] In their own right, gender bonds belong in that category. Green, social, and sustainability-linked bonds advance other priorities and can include some gender components or targets, while gender bonds that raise funds for financing activities that advance the access of women to financial resources represent the one sustainable bond type that is entirely gender-focused (Figure 2).

3. As a precondition for dismantling misconceptions about gender bonds, it is necessary to clearly define for both issuers and investors the business and impact case for gender bonds. Integrating gender as a core theme in the sustainable finance agenda has long-term financial and social value. Gender bonds can contribute to mobilizing liquidity from local players, developing local capital markets, and improving the overall quality of financial systems by increasing the availability of diversified investment vehicles. They can also boost public awareness about the importance of funneling finance to WMSMEs. Furthermore, gender bonds can scale up lending to women and deepen the focus on this segment, which is especially relevant to addressing the climate finance agenda.

At the institutional level—private or public—gender bond issuances can induce positive changes in how issuers view and contribute toward the access of women to finance that goes beyond the life of the bond. Gender bonds can arguably "nudge" issuers and lenders to slowly widen the focus to substantially include women as a lending priority group. Incremental changes in their corporate behavior around lending to this segment can be induced, and changes in the gender equality arena at the institutional level can be motioned.

20 ADB. 2022. Developing the Sustainable Bond Market in ASEAN+3: Challenges and Opportunities. *ADB Briefs* No. 234. Manila.
21 A. Yukhananov. 2013. First Women's Bond from World Bank Raises $165 Million. *Reuters*. 7 November.
22 C. Morrison. 2021. Gender Bonds Haven't Been a Big Hit Globally, but a Japanese Bank May Change That. PassBlue. 6 December.
23 ICMA. 2021. Social Bonds Principles.
24 United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). 2020. *Asia-Pacific's First-Ever Multi-Country Listed Gender Bond Series Gains New Support from the United Nations*. Singapore.
25 ICMA, IFC, and UN Women. 2021. *Bonds to Bridge the Gender Gap: A Practitioner's Guide to Using Sustainable Debt for Gender Equality*. Washington, DC: IFC.
26 International Institute for Sustainable Development. 2021. Integrating Gender in Sustainability-Linked Bonds. Manitoba, Canada.
27 GenderSmart and partners. 2022. Integrating Gender Considerations into Sustainable Bonds: A How-to Guide.
28 Dechert. 2022. The Growing Trend of Gender Bonds in 2022. *News and Insights*. 6 July.

Figure 2: Sustainable Bonds—A Classification That Acknowledges Gender

Green Bonds	Social Bonds	Sustainability-Linked Bonds	Gender Bonds
Raise funds for projects that deliver positive environmental outcomes	Raise funds for projects that deliver positive social benefits	Raise funds to deliver combined positive environmental and social benefits	Raise funds to finance projects and strategies that advance gender equality objectives
Include climate adaptation and mitigation, nature conservation, biodiversity, etc. **Can include gender targets**	Include affordable basic infrastructure and housing, access to essential services, employment generation, food security, etc. **Can include gender targets**	Include both climate action and social goals as described under green and social bonds: **Can include gender targets**	**Are gender-focused:** Include financial inclusion projects and financing of entities that advance gender equality commitments, e.g., internal gender-inclusive policies for women's inclusion and leadership in quality employment, etc.

Source: Asian Development Bank. Includes data from FSD Africa. 2020. *Viability of Gender Bonds in SSA: A Landscape Analysis and Feasibility Assessment*. Nairobi.

A challenge to issuing gender bonds or integrating gender considerations into social, sustainable, and sustainability-linked bonds is the additional costs it would generate for the issuer. Examples include procuring gender expertise, developing a robust and measurable gender action plan, and integrating gender framing into the bond rationale. However, these costs must be seen in light of the potential benefits. Gender bonds offer an opportunity for issuers to persuasively demonstrate their leadership in advancing gender equality, while at the same time diversifying their investor base and leveraging new sources of financing. They can subsequently be included in sustainability indices and considering that business performance increasingly hinges on social and environmental performance, the time to do it is now.

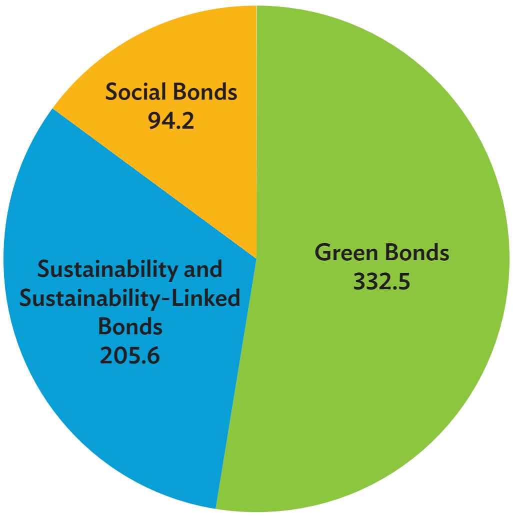
The sustainable bonds debate is increasingly emphasizing accelerating organizational change to advance environmental and social impact. As sustainable bonds become more established and demand for these instruments rises, the attention is focused on where impact can be expected. From the perspective of investors, gender bond investment impact is of the essence, and efforts in this area need to be furthered.

4. Data on gender bonds is available but requires consolidation as measuring is paramount to embedding gender as a key theme in the sustainable bonds market.
The tangible impacts of both gender bonds and integrating gender considerations into other sustainable bonds are difficult to assert, while evidence of gender additionality is not properly defined and reported. Transparency needs to be improved in the gender bond space, which can only be done if data gathering analysis shows that they are delivering impact beyond "business as usual" for the involved financial institutions and companies, as well as toward the intended beneficiaries.

As of 2022, no systematic tracking of gender bond issuances like that of green bonds, for example, is available, and the issuance of gender bonds can only be deduced from social bond issuances (Figure 3).[29] In this scenario, the justification for the use of themed "gender bonds" and the gender impact of the activities financed thereunder cannot be accurately presented, and transparency is elusive. Because data are dispersed, more data consolidation is needed; first, to track gender bond allocations and second, to understand which sustainable bonds have gender considerations. Consequently, this would also enable a better assessment of the intended impact of these instruments on the financial inclusion of women as well as on broader gender equality outcomes (footnote 9). Efforts exist that can be built on.

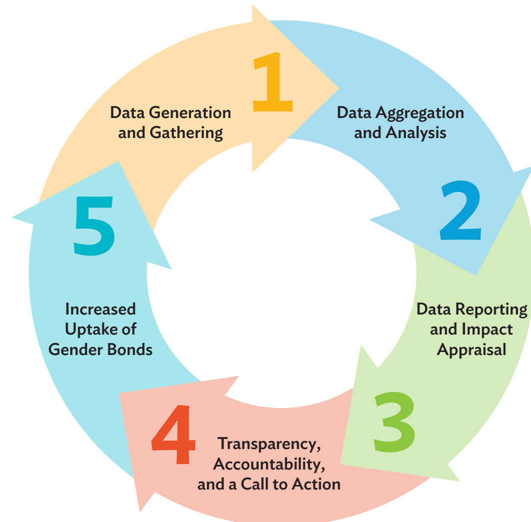
[29] Climate Bonds Initiative. 2022. Green Bond Market Hits USD2tn Milestone at end of Q3 2022. Press release. 11 November.

Figure 3: Gender Bonds in Global Calculations—Where Is Gender Hiding?



Source: Asian Development Bank; with data from November 2022 by the Climate Bond Initiative.

Figure 4: Gender Bonds Reporting Cycle



Source: Asian Development Bank.

For example, ICMA's Sustainable Bonds Database has been tracking green, social, and sustainability bonds issued since 2016 and sustainability-linked bonds since 2021.[30] The UN Conference on Trade and Development's World Investment Report tracks sustainable-themed financial products including green, social, and sustainability bonds, although it is mostly focused on developed markets.[31]

Almost as a corollary to sustainable finance becoming mainstream, there is a growing demand from investors for proof of social returns in addition to financial returns. Impact measures of gender bonds that finance on-lending to WMSMEs primarily track the value and number of loans made to women (Figure 4). These financial metrics do not address whether this lending was truly additional or only reinforced given portfolio outcomes. Neither do they offer insights on whether new or improved conditions for lending were advanced or whether social and economic impacts were experienced by the targeted beneficiaries. In corporate behavior, gender-sensitive bonds, while rewarding good practices, may enable further positive changes that contribute to gender equality, measuring the link between the activity being financed and the long-term impact on the beneficiaries is not an easy task, as there is no mechanism for ensuring gender additionality beyond the status quo at the corporate level.

Defining measurement targets that allow appraisal of improvements in gender equality areas would help to reinforce the case for closing women´s finance gaps and contributing to gender-inclusive corporate standards. Reliable information is the substance for performance against sustainable objectives and for assessing results as compared to investments, which is especially true for gender bonds (footnote 19). To add a decisive focus on women, gender equality, and desirable social impact within the sustainable finance agenda, measuring outreach and impact are essential.

CONCLUSION

Gender bonds are nascent, with only 1% of sustainable bonds referencing the SDGs being tied to SDG 5: Gender Equality.[32] There are indications that the market has grown steadily and that it will continue its growth trajectory amid an expanding range of issuers. Investors have become more sensitive to (i) sustainability issues; (ii) regulatory pressure (e.g., on disclosures of gender pay gaps and gender diversity on corporate boards); and (iii) global initiatives to support gender bond issuances in practical terms. This seems to indicate that gender bonds and gender-sensitive sustainable finance are decisive features of future global sustainable finance.

[30] Sustainable Bonds Database (accessed 9 January 2023).
[31] UNCTAD. 2022. World Investment Report 2022.
[32] Moody's. 2002 Breaking the Bias: How gender equality will transform economies, finance and business. https://www.moodys.com/sites/products/ProductAttachments/Moodys_Breaking_The_Bias_Report_2022.pdf.

While all these are essential, four catalysts could unleash the gender bond market:

(i) MDBs and development finance institutions—which are the standard bearers of gender bonds—should consider continuing with and expanding the catalytic role they have played thus far as investors, advisers, and co-issuers with private partners in emerging markets.

(ii) Issuers should lean in on gender bonds and leverage the expanding range of resources available to them (e.g., 2X Collaborative, GenderSmart, Bonds to Bridge the Gender Gap).

(iii) Social impact investors would deliver on their strategic imperative by demanding a deeper and quantified understanding of both the financial returns that a gender bond can generate as well as the impact it can deliver on women's economic empowerment and the broader gender equality objectives.

(iv) Standard setters such as ICMA could go further in carving out principles and guidelines for issuing a gender bond distinct from those established for social bonds. Centrally tracking and publishing gender bond issuances—both in their own right and when gender is a component of other sustainable bonds as they do for other thematic bonds—would also help gender bonds take center stage.

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