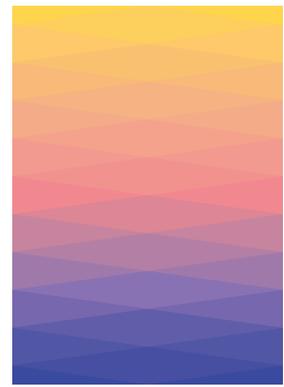




Frontier
Brokers



The Evidence Base for Gender Lens Investing

This handout outlines the evidence base for gender lens investing (GLI) as identified in a literature review conducted by Moonshot Global (Moonshot), the monitoring, evaluation, and learning (MEL) partner for the Scaling Frontier Innovation Program (SFI), an AUD 15 million initiative of the Australian Government Department of Foreign Affairs and Trade's innovationXchange, which supports social enterprises to scale their development impact in the Asia-Pacific region. SFI's three components support social enterprises to scale their development impact in the Asia-Pacific region: Frontier Innovators, Frontier Incubators and Frontier Brokers.

In addition, this handout identifies areas where SFI's work may contribute to addressing gaps in the existing GLI literature. Although the broad case for GLI is well-established, gaps in the evidence base exist on specific issues concerning the design and delivery of GLI initiatives:

- How to embed the value of gender-inclusive financing within investor perspectives and practices;
- How best to understand women's needs across the value chain;
- Which specific gender-inclusive financial products to prioritise, based on demand and the needs of women in a particular context; and
- What non-financial support can best synergise with financial resources to unlock growth.

Insights surfaced during a Gender Lens Investing Investigative Study on these issues from the vantage point of the SFI Program will not only inform SFI implementing partners' GLI initiatives but will also be shared for discussion with other interested stakeholders who are exploring similar lines of inquiry.

The broad case for GLI

There is an abundance of global evidence which reveals that gender-inclusive investment strategies result in financial gains for businesses and economies. Women play a critical role in the world economy; investing in women can strengthen their role and benefit the global economy at scale. A McKinsey Global Institute analysis concludes that achieving gender parity could add up to **\$28 trillion to global GDP by 2025**.¹ In the Asia-Pacific region alone, this represents a gain of \$4.5 trillion to the region's GDP, an increase of 12% compared to the current trajectory.

Increasing gender-inclusive investments through GLI can add economic value through wider participation of women in the economy, reduced gender inequality, and increased market and investment opportunities for investors and businesses. Moreover, women's economic opportunity is strongly correlated with GDP per capita.² Women entrepreneurs, particularly in developing countries where women own one-third of small businesses, generate economic growth and create jobs, thereby representing a compelling force for economic prosperity.³

The benefits are not just economic: unleashing women's economic empowerment not only enhances their social status and reduces gender inequality; it also creates positive ripple effects across social dimensions. Since women spend roughly 90% of their income on food, healthcare and education for their family,⁴ improvements in women's salaries spills over into improved standards of living and community-wide benefits.⁵ From the perspective of investors, a GLI approach can also generate superior returns⁶ through encouraging innovation and employee engagement, thereby unlocking economic growth.

Measuring GLI through six lenses

Although a substantial amount has been written about GLI over the past few years, the majority of the literature concentrates on women in leadership positions as a primary GLI metric — especially in portfolio investments and developed markets. This statistic is straightforward to

¹ [McKinsey Global Institute](#), *The power of parity*, 2015

² [Ethical Corporation](#), *Why supply chains are key to empowering women – and increasing GDP*. Ethical Corporation, 2018

³ [IFC & Goldman Sachs](#), *10,000 women deploy \$1.45b to women entrepreneurs in emerging markets*, 2019

⁴ [Women Deliver](#), *Get the facts*

⁵ [OPIC](#), *2X Women's Initiative*, 2019

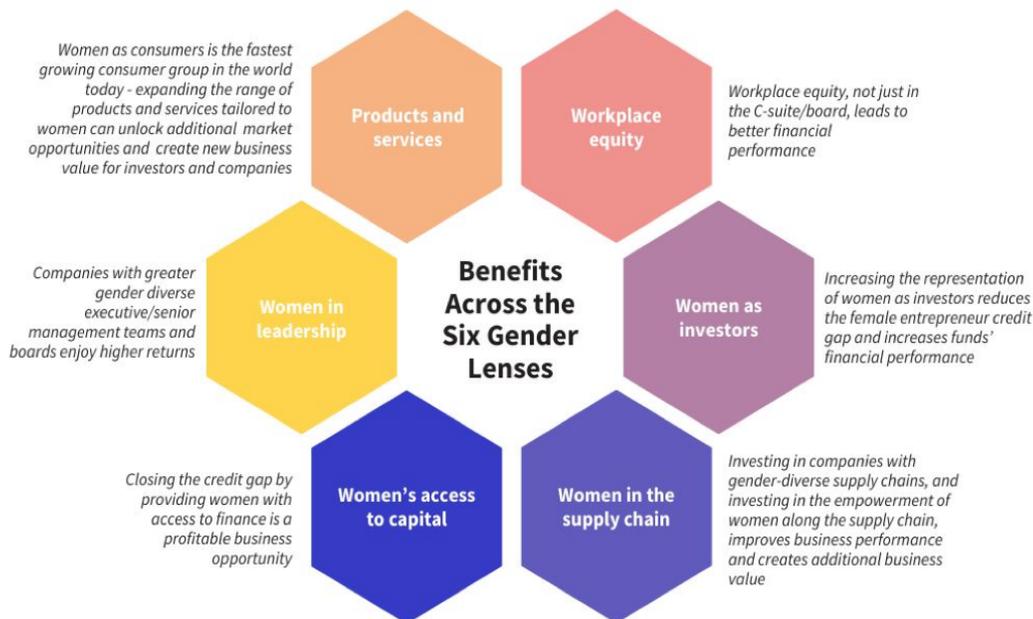
⁶ [IFC & Goldman Sachs](#), *10,000 women deploy \$1.45b to women entrepreneurs in emerging markets*, 2019

disclose, and is easily understood by investors; however, fully understanding the impact of GLI requires unpacking considerations of gender at all levels of the investing value chain.

Building on years of careful work from GLI practitioners and researchers, particularly Suzanne Biegel from Catalyst-at-Large and Cathy Clark from Duke University, we have organised the literature on GLI using a six lens framework (Exhibit 1). The six gender lenses enable SFI to orient its implementation and evaluation strands around a comprehensive GLI approach and shared vision for impact.

Exhibit 1: Six gender lenses in the SFI Program

SFI understands GLI benefits through six lenses



The six gender lenses

- Are grounded in years of research
- Cut across the investing value chain
- Orient implementation and evaluation around a unified vision of impact
- Provide a framework for identifying gaps in the GLI evidence base

SOURCE: SFI Program; adapted from Suzanne Biegel (Catalyst-at-Large) and Cathy Clark (Duke); Moonshot analysis

Achieving **workplace equity** improves investor and enterprise performance

Having a gender balance across all levels of a company translates into better financial performance. A Morgan Stanley study found that an increased number of women in a company's workforce correlates with higher annual returns.⁷ From an investor perspective, the research also found that gender-diverse companies yield a 1.1% higher one-year return on equity, with lower volatility than companies with low female representation.

Workplace gender diversity can achieve these gains through a variety of mechanisms:

- **Increased employee engagement** and satisfaction due to more accommodating business cultures and practices, and increased recognition of the needs of women
- **Better recruiting** of talented employees and retention through attractive benefits such as generous maternity or paternity leave
- **Increased innovation** from including and valuing diverse perspectives
- **Reputation**, both in terms of appealing to women consumers and mitigating risk from gender pay gaps, sexual harassment, etc.

Further, the Women and Girls Equality Strategy (WGES), an investment approach for a portfolio of stocks developed by U.S. Trust (known today as the Bank of America Private Wealth Management division) in collaboration with the Women's Foundation of California, compares companies with sector peers on various gender metrics such as pay equity, recruiting, retaining and promoting women. A 2013 analysis of WGES found that the gender lens used in this portfolio outperformed the S&P 1500 benchmark by 3.6 percentage points. These companies also tended to have fewer environmental penalties and labor violations.⁸

Within developing countries, Root Capital, a non-profit organization that provides loans to agricultural small and growing businesses (SGB) that are too big for microfinance but too small or too risky for commercial banks, introduced the Gender Equity Grants program to fund

⁷ [Morgan Stanley](#), *Why Gender Diversity May Lead to Better Returns for Investors*, 2019

⁸ [Stanford Social Innovation Review](#), *The Rise of Gender Capitalism*, 2014

activities that directly responded to the needs of the women farmers and employees working for these businesses in order to improve gender equality within the agricultural businesses they serve.

As a result, the companies' reputations were enhanced, stakeholder satisfaction and loyalty to the companies increased, and women's absenteeism and tardiness decreased, all of which led to gains in productivity and cost savings that improved the financial performance of these businesses.⁹ Layering gender over an SGB investment strategy is increasingly common, with large organisations such as VisionFund explicitly applying a gender lens in implementing and evaluating their SGB loan portfolios.¹⁰

Increasing representation of women as investors is good for firms and for entrepreneurs

Globally, women are vastly underrepresented as decision-makers of investment capital. In private equity and venture capital firms, for example, women hold only 10% of senior positions. This exacerbates the gender gaps in investment we see today, particularly in emerging markets where these firms provide entrepreneurs with a unique and sizable source of capital. As women investors are more likely to invest in women-led companies, the increasing representation of women in investment firms can unlock financing for female entrepreneurs:

- A study by the International Finance Corporation (IFC) that focused on private equity and venture capital funds and their portfolio companies within emerging markets found that female partners were 2X more likely to invest in female entrepreneurs than male partners.¹¹
- Beyond helping to reduce the female credit gap, the study found a positive relationship between gender balance and fund performance. Gender balanced funds experienced excess net internal rate of return of 1.7 percentage points higher than either male or female dominated funds and the median gender

⁹ [Root Capital, Value for Women, & Wagner Foundation](#), *Gender Equity Grants*, 2018

¹⁰ [Devex](#), *Opinion: 5 tips for boosting the success of small and growing businesses*, 2020

¹¹ [IFC](#), *Moving toward gender balance in private equity and venture capital*, 2019

balanced funds performed better than median unbalanced funds by upwards of 20% in annual returns.¹²

- When exploring potential pathways to higher returns, the research team suggested that it is largely driven by better investment decision-making and wider entrepreneurial networks that lead to expanded deal sourcing. In essence, gender balanced teams are better at separating “good from great” businesses, especially those that serve female consumers.¹³

Empowering women in the supply chain creates business value

Having a more gender diverse supply-chain is becoming an increasingly important trend as evidence reveals the positive impact on both a company’s bottom-line and local community development.¹⁴ For example, after doubling the number of women in its supply-chain, Walmart experienced increased productivity, innovation, and reduced costs due to increased competition within their supplier base.¹⁵ Another study by the Bill and Melinda Gates Foundation found that by increasing the participation of women in the supply-chain, international food companies can improve the quality and productivity of crops, improve access to high value markets and grow the supply base of smallholder farmers.¹⁶ And a study by the IFC revealed that companies that have more gender diverse supply-chains have a 133% greater return on procurement investments and reduced buyer operation costs by 20%.¹⁷

Beyond looking at the financial returns companies can enjoy, the women themselves can also be positively impacted in terms of greater access to jobs, increased income, and improvements in agency over time.¹⁸ For example, after APROCASSI launched a

¹² [IFC](#), *Moving toward gender balance in private equity and venture capital*, 2019

¹³ *Ibid.*

¹⁴ [IFC](#), *Women-owned businesses and the supply chain*, 2016

¹⁵ [Saïd Business School, University of Oxford](#), *Private sector engagement with women’s economic empowerment: Lessons learned from years of practice*, 2017

¹⁶ [Business Fights Poverty](#), *Is there a business case for women as part of global supply chains?*, 2013

¹⁷ [IFC](#), *Women Entrepreneurs are Essential for Private Sector Development in Emerging Markets*, 2015

¹⁸ [Saïd Business School, University of Oxford](#), *Private sector engagement with women’s economic empowerment: Lessons learned from years of practice*, 2017

brand of coffee sourced entirely from women farmers that they sell at Whole Foods, the women farmers enjoyed an increase of \$10,000 in earnings than they otherwise would.¹⁹ However, gender gaps remain a barrier to growth, profitability, and sustainability for businesses within value chains that heavily involve women in the production process. For companies looking to strengthen their supply chains, helping women producers and suppliers tackle these gaps is imperative.²⁰ Through a learning series on women's economic empowerment in market systems development, the Arab Women's Enterprise Fund shares the business case for how empowering women as producers and suppliers, by ensuring policies and practices in place advance their health, rights and wellbeing, can also lead to improved business performance in the following ways:

- Helps firms enhance their reputation and access to premium markets;
- Reduces supply chain management costs;
- Improves supply chain responsiveness and reliability;
- Improves their quality of products; and
- Improves compliance with sustainability standards.²¹

For example, the HERproject, a workplace-based women's empowerment program implemented by BSR, a global nonprofit business network and consultancy, showed that investing in women's health knowledge and access to goods and services along the supply-chain can lead to a 4:1 return on investment for businesses as a result of cost savings from reduced absenteeism and staff turnover.²²

Increasing women's access to capital unlocks growth and improves profits

Collectively around the world, women starting and expanding ventures have an estimated credit gap - the difference between the credit to which they have access and the capital they are seeking - of \$320 billion. In developing economies alone, the credit gap stands between \$260 and \$320 billion,²³ and closing the gap would result in a 12% growth in per capita income by

¹⁹ [Root Capital](#), *What We've Learned Through Seven Years of Our Women in Agriculture Initiative*, 2019

²⁰ [Arab women's Enterprise Fund](#), *Working with the Private Sector to Empower Women: What to Measure and How to Build the Business Case for Change*

²¹ Ibid.

²² [BSR, Women Deliver & the Ministry of Foreign Affairs of the Netherlands](#), *Women's Empowerment in Global Value Chains: Framework for Business Action*, 2016

²³ [Centre for Gender Lens Investing in Asia](#), *Why the Centre for Gender Lens Investing in Asia?*, 2019

2030.²⁴ By tapping into this unfulfilled demand, investors can capitalize on this immense opportunity and unlock financial gains.

Within private equity, Women's World Banking Capital Partners, promoted by the global nonprofit Women's World Banking, makes direct investments in women-focused financial institutions in developing countries under the strategy that providing women with access to financial services is a profitable business opportunity for banks.²⁵ The fund has experienced returns that are comparable to emerging private equity funds with an impact focus.²⁶ For example, their first exit, the Ujjivan IPO in India, broke records in terms of shares sold, and yielded 30% internal rate of return, demonstrating the value that lies in serving low-income women with financial services in developing countries.²⁷

Women borrowers also tend to be less risky, as they are, on average, more likely to pay back loans. An IFC study of their financial institution group clients found that the average non-performing loan ratio (NPL) for loans to women SMEs in emerging markets was 3.5%, which was lower than the 4.3% average NPL for the overall SME loan portfolio.²⁸ Similarly, another study assessed banks' sex-disaggregated data and found that women customers were less risky and had better repayment records, resulting in a higher rate of return.²⁹ Yet another study of the Women Entrepreneurs Opportunity Facility, an initiative by IFC and Goldman Sachs which provides loans to WSMEs in developing countries, discovered the same - women make up a stronger borrower base, thereby generating bottom-line value for banks as a result of a boost in the asset quality of their wider SME loan portfolios, enhanced brand, and strengthened competitive position by appealing to the growing women's market through products and services tailored to women entrepreneurs.³⁰ For example, FINCA Afghanistan, a microfinance institution offering various loan products to women and other vulnerable populations in the country, discovered that their women-only branch achieved profitability three months faster than the average FINCA Afghanistan branch.³¹

²⁴ [IFC](#), *Women-owned businesses and the supply chain*, 2016

²⁵ [Women's World Banking](#), *On International Women's Day, A Look at How We Have Invested for Gender Equality*, 2018

²⁶ Ibid.

²⁷ [Women's World Banking](#), *What does gender-lens investing have to do with the most successful (microfinance) IPO in India's history?*, 2016

²⁸ [IFC & Goldman Sachs](#), *10,000 women deploy \$1.45b to women entrepreneurs in emerging markets*, 2019

²⁹ [Saïd Business School, University of Oxford](#), *Private sector engagement with women's economic empowerment: Lessons learned from years of practice*, 2017

³⁰ [IFC & Goldman Sachs](#), *10,000 women deploy \$1.45b to women entrepreneurs in emerging markets*, 2019

³¹ [Arab women's Enterprise Fund](#), *Working with the Private Sector to Empower Women: What to Measure and How to Build the Business Case for Change*

Women in leadership positions create value all the way down

Substantial evidence reveals that gender diversity in a company's leadership team leads to better financial performance. Many studies have found that, in general, companies with more than one woman in senior management experience returns 3.7% higher than their sector counterparts with lower levels of female representation.³² More specifically, a global survey by the Peterson Institute for International Economics found that profitable firms where 30% of its leaders are women can increase their profitability by 15% in comparison to firms with no female leaders.³³ Further, a study by McKinsey & Company found that, in comparison to companies in the fourth quartile for gender diversity on their executive teams, companies in the top quartile were 21% more likely to experience above-average profitability.³⁴ Within emerging markets, Investing in Women found that in the Philippines, for example, profitable firms that move from 0% to 30% women in leadership roles increase their net revenue by an estimated 15%.³⁵

Furthermore, evidence of returns when applying this gender lens was found across investor entity/investment vehicle. Within private and public equity, a study by McKinsey & Company found that public companies with more women leaders can experience a higher Return on Investment (ROI) of 46% and EBITDA margin of 51%.³⁶ Another study by Credit Suisse found that for companies around the world, those where 25% of decision-making roles are held by women generate 4% higher cash flow ROI than the overall MSCI All Country World Index.³⁷ And a study by Catalyst found that companies with the most number of women on the board performed better than those with the least by 16% on Return on Sales and by 26% on Return on Invested Capital.³⁸ Lastly, Nia Impact Capital, an impact investing firm that is women-led and manages public and private equity portfolios, has an all-cap global equities portfolio which applies a gender lens, and that portfolio has beat the S&P 500 year-to-date, returning 23.4% versus S&P 500 index's 20.5%.³⁹

³² [IRIS+ & 2X Challenge](#), *Gender lens indicators*, 2019

³³ [Peterson Institute for International Economics](#), *Is Gender Diversity Profitable? Evidence from a Global Survey*, 2016

³⁴ [McKinsey & Company](#), *Delivering through diversity*, 2018

³⁵ [Investing in Women](#), *Invest in a Gender Equal Workplace (Philippines Data)*, 2018

³⁶ [Women Effect](#), *Why invest with a women effect?*

³⁷ [Credit Suisse](#), *Thought Leadership from Credit Suisse Research and the world's foremost experts*, 2016

³⁸ [USSIF](#), *Investing to Advance Women: A Guide for Individual and Institutional Investors*

³⁹ [Nia Impact Capital](#), *Nia Impact Capital Tops \$100 Million in Assets*, 2019

Across venture capitalists, First Round Capital, which provides seed investments to start-ups in the U.S., conducted a review of all their holdings and discovered that companies founded by women out-performed their male peers by 63% in creating value for investors.⁴⁰ And an IFC study found that gender balanced leadership teams in venture capital and private equity funds outperform unbalanced funds in terms of higher annual returns.⁴¹

Within private debt as the investment vehicle, a study by Calvert Impact Capital, a non-profit impact investment firm which pools dollars to make loans by allowing the public to invest in their portfolio through the purchase of a “Community Investment Note”, analyzed their portfolio across 11 years and 160+ borrowers globally and found that companies with the highest female representation in board and leadership positions outperformed those with the least by a factor of 2 on ROI and 10+ on ROA. They concluded that financial performance significantly increases at or above 33% of women in leadership positions.⁴²

Products and services geared toward women improve lives while generating strong profits across markets

Women’s consumer spending power is increasing. Research shows that female consumers will control \$15 trillion of global consumer spending⁴³. Within emerging markets, women’s earning power is growing faster than men’s - as of 2015, their earned income grew at a rate of 8.1% in comparison to men, which grew at a rate of 5.8%.⁴⁴ As the new “emerging economy”, the female consumer market represents a growth market larger than China and India combined - a tremendous market opportunity that investors cannot ignore.⁴⁵ Indeed, it is estimated that addressing the gender gap in access to products and services could unlock \$300 billion in annual spending globally by 2025.⁴⁶ Women in the developed world, for example, not only have significant purchasing power, but they also care about the social responsibility of the companies they buy from and whether they’re women-owned. After conducting a customer insight study, Walmart found that their customers, most of which are women, will be more likely to purchase a

⁴⁰ [First Round Capital](#), *10 Year Project*, 2015

⁴¹ [IFC](#), *Moving toward gender balance in private equity and venture capital*, 2019

⁴² [Calvert Impact Capital](#), *Why gender matters to your portfolio and what you can do about it*, 2018

⁴³ [OPIC](#), *2X Women’s Initiative*, 2019

⁴⁴ [IDB Invest](#), *Gender Lens Investing: How Finance Can Accelerate Gender Equality in Latin America and the Caribbean*, 2019

⁴⁵ [Harvard Business Review](#), *The Female Economy*, 2009

⁴⁶ [IDB Invest](#), *Gender Lens Investing: How Finance Can Accelerate Gender Equality in Latin America and the Caribbean*, 2019

product made by a woman-owned business. They also realized that women suppliers are better positioned to create products with women in mind. As such, they've made efforts to increase the number of women-owned businesses in their supply chain in order to better cater to their female customer base.⁴⁷

By tapping into the market that women as a group represent, companies can broaden their customer base and add new sources of revenue.⁴⁸ Presently, women have influence over 70-80% of all consumer purchasing.⁴⁹ The Arab Women's Enterprise Fund found that by tapping into this consumer base, the private sector can improve brand reputation, reach new customers, improve customer satisfaction and retention, and increase sales to existing customers.⁵⁰ For example, Tanager, an international nonprofit, helped MFIs in Burkina Faso develop financial products that are aligned to the needs of female poultry farmers (more gender-sensitive products and services) resulting in an increase of their client base by 400% and their portfolio and profits by 300%.⁵¹ Another example comes from a collaborative effort between the Shell Foundation, an institutional donor, and Value for Women, a gender-specialized advisory firm, to pilot a holistic framework for gender inclusion in SME operations. After implementing a gender-specific messaging to customer service calls, call centers experienced a 33% reduction in technical support calls from clients, leading to increases in productivity - this serves as another piece of evidence of the positive financial returns businesses can experience by creating products/services that are gender-sensitive.⁵²

⁴⁷ [Saïd Business School, University of Oxford](#), *Private sector engagement with women's economic empowerment: Lessons learned from years of practice*, 2017

⁴⁸ [Morgan Stanley](#), *Why Gender Diversity May Lead to Better Returns for Investors*, 2019

⁴⁹ [Forbes](#), *Top 10 Things Everyone Should Know About Women Consumers*, 2015

⁵⁰ [Arab women's Enterprise Fund](#), *Working with the Private Sector to Empower Women: What to Measure and How to Build the Business Case for Change*

⁵¹ Ibid.

⁵² [UKaid, Value for Women & Shell Foundation](#), *A business-first approach to gender inclusion: How to think about gender inclusion in small and medium enterprise operations*, 2018