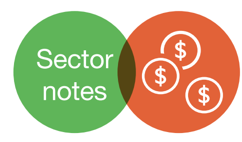


Ways to Gender-Smart Climate Finance: Financial Services

A gender-smart climate finance investment can be defined as Paris aligned and meeting climate finance and 2X criteria.

With the right products and services, financial institutions (including providers of digital financial services) can deliver climate finance across the global economy while also investing in women as leaders, entrepreneurs, and consumers. For example, insurance companies can provide climate risk insurance in a gender-sensitive manner, enabling more resilience in women-led businesses.[1] By adding a gender lens to their climate finance products, banks and microfinance institutions can focus on women-led or owned businesses and women consumers – helping increase gender and climate benefits.

For development financiers and impact investors, providing debt capital to partner financial institutions helps deliver both gender and climate outcomes. Green credit lines, green/sustainability bonds, climate risk insurance policies or other facilities can help a partner bank provide more climate finance to small businesses or retail consumers.[2]

To deliver on the gender and climate nexus, development financiers can:

- Take a minority share in a financial institution and work through an action plan on new climate finance products for women;
- Invest through risk-sharing mechanisms and concessional finance that reaches more microfinance institutions or fintech companies helping women access financing for climate adaptation or mitigation; and
- Support trade and supply chain finance in the market that targets women-led or owned businesses active in the climate space.

Ultimately, we know companies that perform well on sustainability[3] and gender diversity[4] return greater profit, making gender-smart climate finance investing a good strategy for financial institutions.

The climate emergency is the greatest challenge of our generation. In the landmark 2015 Paris Agreement, 196 countries signed a treaty countries to limit global warming to below 2°C compared to pre-industrial levels, to pursue efforts to restrict the average global temperature rise to 1.5°C, **and to make financial flows consistent with this goal**.[5,6] The activities required to limit climate change bring both significant opportunities and risks for the financial services industry. To respond, it is crucial the industry acts:

1. **Align all financial flows with the goals of the Paris Agreement** to limit rising temperatures and deliver on climate adaptation and resilience goals, while ensuring a just transition.
2. **Rapidly ramp up finance for the investments needed** to shift to a zero-carbon, resilient global economy. The climate investment opportunity in emerging markets alone amounts to $23 trillion by 2030.[7] These investments should also be gender responsive. The business case for investing in women is strong: companies founded by women deliver twice as much revenue per dollar invested, yet women only receive a fraction of investment capital.[8] Climate-lens and gender lens investments often remain siloed. By employing only one of the lenses we miss the opportunity to achieve greater returns, sounder competitiveness and stronger impact.[9]
3. **Ensure climate risk (both physical and transition) is considered as a mainstream financial risk**, by adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Without this mainstreaming, the financial services industry will face a rapid disorderly transition characterised by sudden value shifts and destabilising costs.[10]
4. **Ensure women have access to financial products and services** that expand women entrepreneurs' contributions to climate action, as well as women's resilience to climate change. The financial exclusion of women globally is leaving billions of women and billions of dollars behind: 1 billion women have no access to banking services, $330 billion in banking revenue is uncaptured and $500 billion in insurance premiums are unwritten.[11] What's more, the significant social returns that often accompany women's access to finance represent an addition, not a trade-off, to those financial returns.

This brief is part of a series of gender and climate finance thematic and sector briefs produced by the 2X Climate Finance Taskforce. You can access the series here.

What is a gender-smart climate finance investment?

Put simply, it is an investment that delivers both significant climate outcomes and promotes gender equality and women's empowerment. A gender-smart climate finance investment can be defined as:

1. Being 'Paris aligned' – assessed as consistent with a pathway towards low GHG emissions and climate-resilient development in line with the objectives of the Paris Agreement. Paris aligned projects are characterised by:
    - A carbon footprint or carbon intensity that is limited or declining in line with a Paris aligned trajectory;
    - Limited vulnerability to physical climate hazards;
    - Low transition risk and carbon lock-in risk; and
    - Does not indirectly support non-aligned activities.
2. Meeting climate finance criteria.
3. Meeting 2X criteria.

Methodologies that assess Paris alignment at the transaction and institution level are emerging, for example Multilateral Development Banks (MDBs) have developed a joint Paris alignment approach and CDC has also published its own approach. Climate finance eligibility, either as mitigation or adaptation finance (or both), can be defined through established criteria or taxonomies, such as the joint MDB methodology for tracking climate finance or the European Union (EU) taxonomy for sustainable finance.

We encourage users of this guide to select a credible Paris alignment approach and climate finance definition which can then be overlaid with the 2X criteria to reveal the intersection of gender and climate finance. 2X is an industry standard aiming to mobilise investments in businesses that contribute to gender equality and women's economic empowerment.

When should I use this sector note?

This sector note supports development finance institutions (DFIs), MDBs, fund managers, and other financial institutions to pursue gender-responsive climate investments in line with the 2X criteria, and respective climate eligibility frameworks, as well as other specific impact frameworks (such as environmental social and governance (ESG) development impact and transition impact).

Click on each section to access relevant thematic information:

1 Why? Applying a gender-smart climate lens to investments through the financial services sector • page 3

Explain the rationale, trends, business and impact drivers, and barriers and opportunities.

2 How to invest with a gender-smart climate lens: investments through financial services • page 5

Meet both climate finance and 2X gender finance eligibility.

3 What? Gender-smart climate finance in practice • page 6

Review best practice and 2X gender-smart climate business solutions.

Alternative investment strategies focused on female fund managers has grown 61% since 2018[12]

1. Why? Applying a gender-smart climate lens to investments through the financial services sector

Increasing women's access to climate finance to support an inclusive transition to net zero, resilient economies

The shift towards a green economy is estimated to require around $1 trillion of investments annually, and could yield direct economic gains of $26 trillion by 2030.[13] Research has shown women entrepreneurs are more likely to start businesses with a sustainability focus, but currently often lack credit to start or scale up their businesses. This funding gap is opening new opportunities for investors.[14] Through their roles as employees and leaders, entrepreneurs and consumers, women can speed up the transition towards net zero by 2050 in a way that is more profitable, efficient and, at the same time, more inclusive and sustainable. A recent review shows inclusive businesses and investments can deliver a range of financial benefits including improved business performance of up to 15 per cent; as well as $5.9 trillion estimated additional global market capitalisation.[15] Moreover, gender-balanced leadership teams in private equity have been found to generate a 20 per cent higher net internal rate of return (IRR).[16] Recognising this, the field of gender-smart investing is growing fast. More than $12 billion in assets were managed by gender lens investment (GLI) vehicles by the end of 2020[17] – and this extends more and more to financial services operating in the climate space.

One of the major barriers women entrepreneurs face globally is lack of access to finance: about 85 per cent of women-owned businesses have unserved or underserved credit needs.[18] This is also true for equity, seed and venture capital, where the lion's share of capital is channelled towards male-led businesses. Compared to men, women entrepreneurs also face a disproportionately higher number of financial barriers, such as a lack of collateral, inadequate financial infrastructure, or increased cost of funding. There are also non-financial barriers, such as underrepresentation of women as decision-makers in finance organisations, social and cultural biases around women's role in society and legal barriers (for example, inheritance laws), to borrowing. Moreover, women entrepreneurs often work in smaller groups, lack access to information and networks and are inhibited by lack of access to education.[19]

Given women consistently have lower access to finance than men, meeting women's climate financing needs and improving their access to capital is critical to finance the solutions needed for climate mitigation and adaptation. For example, women comprise 43 per cent of the agricultural labour force in developing countries, with variations across countries and regions[20], forming the backbone of agriculture-based economies.[21]

Yet women in the agriculture, food, forestry sectors are rarely able to access climate finance that would allow them to adapt to the impacts of climate change. This is often due to persistent gender inequalities such as limited access to and ownership of land that could be used as collateral to access finance.[22] Overcoming these barriers can result in considerable climate mitigation and adaptation outcomes. For instance, in Tajikistan a survey of EBRD's ClimADAPT women borrowers indicated that, after women accessed climate finance, water supply reliability improved and soil erosion reduced, and the women borrowers enjoyed higher agriculture productivity through better land and water management practices.[23]

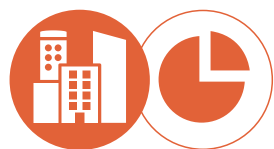
BOX 1: Water Equity

The Water Equity Global Access Fund catalyses the growth of water and sanitation financing by providing loans to local financial institutions (FIs), including non-bank financial institutions, banks, savings and credit cooperatives, housing finance companies, and non-profit microfinance institutions (MFIs), to help support the growth of their water and sanitation microloan portfolios. These investments accelerate water and sanitation access for millions of people living in poverty within target markets. So far, 94 per cent of people reached are women.[24]

BOX 2: DFC: Advancing women borrowers and SME loans in Ecuador (2x)

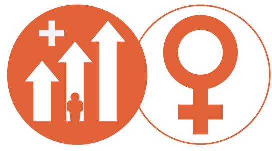
In 2021, the US International Development Finance Corporation (DFC) announced it had provided a $150 million loan to Banco de la Producción to advance its lending to women borrowers and women-led small- and medium-sized enterprises (SMEs) in Ecuador. Of the loan proceeds, at least 30 per cent will support DFC's 2X Women's Initiative, at least 20 per cent will support 'green lending' and the remaining 50 per cent will support other SME loans, which are especially important since the COVID-19 pandemic.[25]

Business Case



- **Expanding market reach to underserved clients:** Evidence shows women are more likely to start sustainability-focused businesses.[26] However, women-led businesses have unmet credit needs, presenting a huge untapped market for retail and corporate lenders. According to the IFC, 6.6 million women-owned and women-led formal SMEs, and 39 million micro-enterprises in developing markets, have a total estimated unmet credit demand of $1.7 trillion.[27]
- **Finance more successful businesses:** Investing in companies that prioritise gender supply chain diversity can yield significant financial returns. Companies that prioritise supplier diversity have a 133 per cent greater return on procurement investments and spend 20 per cent less on buying operations.[28] Frontier Markets found in India that, by engaging women entrepreneurs and developing marketing strategies that particularly targeted the needs of women, they were able to open up last-mile markets and grow their sales by 30 per cent, while improving access to clean energy.[29] A study also found that lending to women-owned SMEs means lower non-performing loans (NPLs) across countries and over time.[30]
- **Manage risk:** Climate action failure and extreme weather have consistently been rated by business leaders as top macroeconomic risks over the next ten years according to World Economic Forum's Risks Perception Survey (GRPS).[31] Climate action failure and extreme weather also present significant financial risks. While the TCFD provides a framework to manage climate risk, ignoring gender aspects can create additional market, operating, or reputational risks. Early adopters of TCFD recommendations have also shown higher gender diversity than peer companies.[32]
- **Enhance decision-making to reduce GHG emissions and reduce costs:** Studies show companies with more women on their board of directors are more likely to improve energy efficiency, and invest in renewable power generation, thereby lower company costs.[33] Over time, companies with improved gender diversity on boards are 60 per cent, 39 per cent, and 46 per cent more likely than those without to reduce the intensity of energy consumption, GHG emissions and water use, respectively.[34]

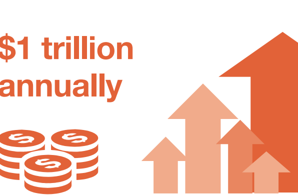
Impact Case



- **Drive the green economy transition:** Women-owned and women-led businesses can play a key role in driving the green economy transition. Gender-balanced leadership and decision-making in climate finance can unlock new investment opportunities in public and private markets – for example by tapping into previously underserved client segments. Enabling women entrepreneurs to access much-needed climate finance to meet their unmet credit needs[35] will be critical in spearheading the adoption of adaptation and mitigation practices and increasing climate-smart product and service offerings.
- **Increase gender responsive green innovation:** Gender-balanced leadership within financial intermediaries and fund management teams are likely to have deeper insights about women's needs, priorities and preferences, and be in a better position to support women innovators and entrepreneurs.[36] This can lead to the creation of green solutions and bring products and services to the market that are responsive to women's needs.
- **Drive inclusive economic growth:** Empowering women to participate equally in the global economy could add $28 trillion in GDP growth by 2025.[37] Credit lines that buy green products, technologies or services can improve women and girls' health and safety[38] and lead to significant time savings.[39] Giving women equal access to climate risk insurance increases the resilience of women-led enterprises by reducing the economic impact of extreme weather impacts or longer term climate change on their business.[40] These and other factors all contribute to the increasing productivity of women.

$26 trillion by 2030

$1 trillion annually



The shift towards a green economy is estimated to require around $1 trillion of investments annually, and could yield direct economic gains of $26 trillion by 2030

2. **How** to invest with a gender-smart climate lens: investments through financial services

A gender-smart climate finance investment can be defined as Paris aligned and meeting climate finance and 2X criteria. This section maps potential climate finance qualifying investments and explains how to interpret the 2X criteria.

Climate finance eligibility

Examples of climate finance through financial institutions where a gender-smart lens could be applied include:

- Finance of climate mitigation and/or adaptation activities including through financial intermediaries
- Investments into financial institutions which are solely dedicated to delivering climate finance.
- Investments in third-party green bonds that comply with the Green Bond Principles and whose proceeds are used for climate-related activities.
- Climate finance provided to microenterprises and SMEs including through financial intermediaries.
- Technical advice and capacity development that enable mitigation and adaptation activities.
- Trade and short-term financing specific to climate-related activities including through financial intermediaries.
- Guarantees supporting private sector investments in climate mitigation or adaptation activities.

Most development financiers align their climate-based lending facilities to the Green Loan Principles.[41] The GLP sets out principles for:

1. Use of proceeds;
2. The process for project evaluation and selection;
3. management of proceeds; and
4. Reporting.

The fundamental determinant of a green loan is the utilisation of the loan process for green projects, which should provide clear environmental benefits to be (where feasible) quantified, measured, and reported by the borrower. The 2X criteria can be overlaid with the GLP for climate lending to specifically benefit women, either as borrower (women-led or owned business, women consumer), or for corporate borrowers which demonstrate commitments to gender diversity.

2X eligibility

To qualify as a 2X investment, investments must meet or commit to targets under at least ONE of the 2X's criteria — women's entrepreneurship, leadership, employment, consumption, or financial intermediaries. More details on how to invest and apply the 2X criteria can be found in the 2X Challenge Working Group's 'Guide to the 2X Criteria'.

Examples of potential investments through financial intermediaries that are considered to align with the 2X criteria and are climate finance eligible:

Women Entrepreneurs

On-lending facilities and funds that finance women-founded or women-owned (51 per cent) companies that implement mitigation or adaptation practices qualifying as climate finance.

Example: A credit facility providing financing for the adoption of climate mitigation and adaptation technologies that set a target of lending to at least 40 per cent women-led businesses.

Women Leaders

On-lending facilities and funds investing in climate finance qualifying companies, in which the share of women in senior management stands at 30 per cent or the share of women on the board or investment committee is at least 30 per cent.

Example: Investment in a commercial bank to support a climate finance loan facility dedicated to low-carbon, resilient businesses. The bank has at least 30 per cent female representation on the investment committee for that facility.

Women Employees

On-lending facilities and funds investing in climate finance qualifying companies, where the share of women in the workforce stands at 30-50 per cent and there is one 'quality' indicator beyond compliance.

Example: A microfinance platform that invests in climate finance qualifying food and agriculture companies whose women share of employment is at least 30 per cent.

Women Consumers

On-lending facilities in small companies to implement climate adaptation or mitigation practices that specifically or disproportionately benefit women. Financial intermediaries that provide capital to individual women (such as MFIs, personal loans) are also qualified.

Example: A microfinance institution that provides loans to women to buy efficient irrigation systems for their crops in areas of water scarcity.

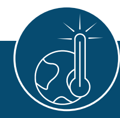
Impact via Financial Intermediaries

Investments where at least 30 per cent of a given portfolio or facility provided by an investor for green lending needs to target 2X eligible businesses meeting direct 2X criteria (such as women-led or women-owned, gender balanced leadership or employment, women-focused services or women consumers. The financial services provider also needs to demonstrate commitments to internal gender diversity.

Example: A commercial bank investee invests in climate finance qualifying water and sanitation services and 35 per cent of these businesses are 2X aligned based on the employment criteria. Per best practice, the bank monitors adherence to the employment threshold over time and develops an in-house Gender Action Plan to support women's access to longer than law-stipulated maternity leave.

3. What? Gender-smart climate finance in practice: investments through financial intermediaries

The following investments by 2X members provide an overview of what a gender-smart climate investment through financial intermediaries can look like.



- ENTREPRENEURSHIP, FINANCIAL INSTITUTIONS
- CLIMATE ADAPTATION

BlueOrchard InsuResilience provides climate risk insurance to help women farmers build resilience to climate change[42,43]

Setting the scene: The BlueOrchard managed InsuResilience Investment Fund (IIF) is the first of its kind to improve access to climate insurance across the developing world. The IIF's Debt Sub-Fund works with microfinance institutions that combines its loans to micro-entrepreneurs such as smallholder farmers (women in particular) with insurance products against extreme weather events and natural disasters, protecting vulnerable rural farmers. In December 2020, the European Investment Bank (EIB) announced its investment in the IIDF Debt Sub-Fund along with a commitment that 40 per cent of the Debt Sub-Fund's investments will be in line with the 2X Challenge Criteria, ensuring women can get improved access to climate insurance.

Approach and impact: The fund seeks to integrate gender-inclusive practices across its portfolio value chains and products by encouraging collection of sex-disaggregated data, provision of educational tools and resources, and by offering gender-responsive Climate Risk Insurance (CRI) schemes which recognise women and men's differentiated vulnerability to climate risks. The IIF has already made six investments across emerging markets, helping to protect more than 20 million poor and vulnerable people from the effects of climate change. So far, about 75 per cent of the end beneficiaries in BlueOrchard's flagship microfinance fund are female. It has the potential to reach between 100 and 145 million beneficiaries by December 2025, as part of a wider programme by the G20 InsuResilience Global Partnership which eventually aims to protect more than 500 million vulnerable people against the impacts of climate change.

- EMPLOYMENT, CONSUMPTION
- CLIMATE MITIGATION

Enhancing women's access to finance for green technologies through EBRD-GCF Green Economy Financing Facilities (GEFFs)

Setting the scene: In partnership with the Green Climate Fund, the EBRD via the Green Economy Financing Facility (GEFF) directs new climate finance flows to ten countries largely affected by the consequences of climate change, and with persisting gender gaps, thereby promoting the uptake of financing for green technologies and sustainable business practices.

Approach and impact: The EBRD provides dedicated credit lines to local financial institutions to open up new financing paths and new markets of sustainable development for people pursuing climate investments. Comprehensive technical assistance is offered to participating financial institutions and their clients to:

1. Assess women entrepreneurs and homeowners' awareness of climate risks and their obstacles in accessing green finance;
2. Build the capacity of the financial institutions through targeted staff training on gender-responsive lending and
3. Promote the awareness of green financing among women entrepreneurs and homeowners in the market.[44]

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- CIF, Private Sector Investment in Gender-Responsive Resilience: Tajikistan (2021)
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Investing with a gender and climate lens in this sector can help enhance your contribution to the following SDGs:

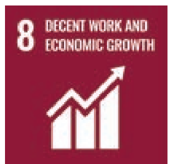
Ensure healthy lives and promote well-being for all at all ages

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Achieve gender equality and empower all women and girls

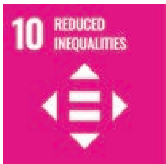
Ensure availability and sustainable management of water and sanitation for all

Ensure access to affordable, reliable, sustainable and modern energy for all



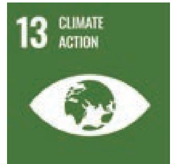
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation



Reduce inequality within and among countries

Ensure sustainable consumption and production patterns



Take urgent action to combat climate change and its impacts

2X Climate Finance Taskforce Sector Notes: Investing in Financial Services, 2021

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