Key messages

EMnet Working Group on
Business and Sustainability in Emerging Markets 2022

Driving inclusion in emerging markets

The Working Group on Business and Sustainability of the OECD Emerging Markets Network (EMnet) held a virtual meeting on 14 April 2022, to discuss how the private sector can contribute to driving inclusion across emerging markets in times of increased uncertainty. The Working Group featured the latest OECD analysis on blended finance and responsible business conduct and held focused discussions on the role of the private sector in an inclusive recovery; financing through a "Gender Lens"; and building a sustainable supply chain.

This Working Group also launched the EMnet dedicated Workstream on Gender, open to all EMnet members. This Workstream will help bring a gender lens to all EMnet's activities, from trade and investment to green economy and digital transformation.

The recovery from the COVID-19 pandemic is strong but imbalanced[1]: lower-income economies, particularly those where vaccination rates are low, are at risk of being left behind. The COVID-19 pandemic significantly impacted the financing gap for the Sustainable Development Goals (SDGs). Initially estimated in 2019 at USD 2.5 trillion per year until 2030, it increased to USD 3.7 trillion in 2020[2]. The increase is due to both global economic uncertainty and the emergency spending needed in developing countries. Governments in many of these economies are running out of policy space to respond to emerging challenges: new COVID-19 outbreaks, persistent supply-chain bottlenecks and inflationary pressures, and elevated financial vulnerabilities in large swaths of the world, worsened by the war in Ukraine. Even as divergent recoveries affect the global recovery, within countries, it continues to impact the most vulnerable hardest, with women particularly affected.

In the last decade, the sustainable finance market has grown, supported by institutions such as the World Bank or the European Investment Bank, pioneers in green bonds. Over 2021, Environmental, Social and Governance (ESG) products increased due to pandemic-related financing needs and the surge in climate-related borrowings across emerging markets, driven by Latin America. According to the IMF[3], ESG-linked debt issuance tripled to reach $190 billion. Sustainability-related equity fund flows also rose to $25 billion. Encouragingly, research has shown that a shift of 1.1% of the USD 4.2 trillion of the total financial assets held by banks, institutional investors or asset managers would bridge the gap for sustainable development[4].

ESG investments represent 18% of foreign investments in emerging economies, excluding China. If green bonds remain the main instrument in this ecosystem, social and sustainability-linked instruments are also enjoying a rapid growth, reaching half of total issuance in 2019-21. This trend concerns all emerging markets, as important players include Chile, Peru and Mexico but also lower-income countries from Africa such as Benin and Togo. Global sustainable bonds issuance is

[1] OECD (2022), Interim report : Economic and Social Impacts and Policy Implications of the War in Ukraine
[2] OECD-UNDP (2021), Closing the SDG Financing Gap in the COVID-19 era, Scoping note for the G20 Development Working Group
[3] IMFBlog (2022), Sustainable Finance in Emerging Markets is Enjoying Rapid Growth, But May Bring Risks
[4] OCDE (2020), Global Outlook on Financing for Sustainable Development 2021 : A New Way to Invest for People and Planet

expected to surpass USD 1.5 trillion in 2022, with sustainability-linked bonds growing the fastest, confirming an increased support to the 2030 SDG Agenda[5].

Applying a 'Gender Lens' for an Inclusive Recovery

Directing ESG investments to advancing gender equality can drive an inclusive economic recovery. Women were hard-hit by the COVID-19 crisis, the poverty rate for women was expected to decrease by 2.7% between 2019 and 2021. Projections now point to an increase of 9.1% due to the pandemic and its fallout[6]. Women's over-representation in hard-hit sectors meant their jobs were 1.8 times more likely to be hit by this crisis than men. This includes industries affected by supply chain disruptions such as garment manufacturing, where they represent over three-quarters of the workforce globally[7]. As a result, while representing only 39% of global employment, it is estimated women accounted for 54% of overall job losses[8].

Prior to the crisis, the World Bank estimated the foregone global wealth due to gender inequality in earnings at around USD 160.2 trillion[9] while OECD research highlights that half of the growth in GDP per capita in OECD countries 1960-2010 can be attributed to educational attainment, especially among women[10]. In 2015, McKinsey found that eliminating the global gap between men and women in terms of labour force participation, hours worked and a reasonable sector mix of employment could add up to USD 28 trillion in annual global GDP in 2025, compared with a business-as-usual scenario[11], and USD 4.5 trillion by 2025 in Asia only. Following the COVID-19 pandemic, an additional study by McKinsey estimates that including specific steps to advance gender equality in the recovery plans which have been deployed to counter the crisis could add up to USD 13 trillion to global GDP in 2030[12].

Yet currently less than 12% of the USD 300 billion issued in sustainability-linked debt carry a gender label[13] and only USD 17 billion in assets are gender-labelled, out of USD 40 trillion in global sustainable investment[14]. As highlighted by the IDB, gender-bonds are a new phenomenon, rapidly growing as two-third of the issuance took place since 2020[15]. In Africa, 13 gender bonds had been issued as of 2020[16]. Latin America is the most dynamic region in terms of gender bonds issuance, with 11 bonds issued between 2019 and 2021[17]. The need to engage private finance and the overall private sector is great as the International Finance Corporation estimates that only 7% of investment capital in emerging markets is targeted towards female-led businesses[18] while more than 70% of women-owned small and medium-sized enterprises (SMEs) have inadequate or no access to financial services[19].

OECD initiatives on blended finance including the Blended Finance Principles seek to promote a *Blended Finance 2.0* that can attract commercial investment for gender equality and the empowerment of women and girls. Blended finance instruments, most commonly guarantees and direct investments, have proven increasingly effective. In 2012-19, USD 257.6 billion of private sector investment was mobilised by official development finance interventions[20]. A recent study on Blended finance for gender equality found that of the blended finance vehicles surveyed, 84% claim to integrate gender equality into their investment strategy, 8% reported an investment strategy dedicated to

[5] S&PGlobal (2022), Global Sustainable Bond Issuance To Surpass $1.5 Trillion In 2022
[6] UNDP (2020), COVID-19 will widen poverty gap between women and men, new UN Women and UNDP data shows
[7] OECD (2021), Building more resilient and sustainable global value chains through responsible business conduct
[8] McKinsey (2020), Don't let the pandemic set back gender equality
[9] Wodon, Quentin T.; de la Brière, Bénédicte (2018), Unrealized Potential : The High Cost of Gender Inequality in Earnings. The Cost of Gender Inequality.
[10] OCDE (2020), « Putting finance to work for gender equality and women's empowerment : The way forward »
[11] McKinsey Global Institute (2015), The power of parity: how advancing women's equality can add $12 trillion to global growth
[12] McKinsey Global Institute (2020), COVID-19 and gender equality: Countering the regressive effects
[13] IDB Invest (2022), Colombia Leads the Gender Bond Market in Latin America & the Caribbean
[14] IISD (2022), Mainstreaming gender in sustainable bond
[15] IDB Invest (2022), Colombia Leads the Gender Bond Market in Latin America & the Caribbean
[16] FSD Africa, Viability of gender bonds in sub-Saharan Africa
[17] IDB Invest (2022), Colombia Leads the Gender Bond Market in Latin America & the Caribbean
[18] IFC (2019), Moving Toward Gender Balance in Private Equity and Venture Capital
[19] IFC, Bridging the gender gap
[20] OECD, Amounts mobilised from the private sector for development

advancing gender equality and women's empowerment as the main objective of the investment, and 8% did not identify gender equality as an objective when designing their investment strategy. The report covered a range of sectors from agriculture (25%) and banking and financial services (19%), to education (13%). Investors reported the rationale for investing in gender equality was the "potential for return enhancement" recognising women-led firms can outperform and enjoy higher returns, including across emerging markets[21].

In addition, the OECD Due Diligence Guidance for Responsible Business Conduct adopted in 2018, offers practical guidance on how to integrate a gender perspective into the due diligence process. The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector as well as the OECD-FAO Guidance for Responsible Agricultural Supply Chains, provide further details on how companies in these value chains can identify and address specific gender-related risks, such as sexual harassment and discrimination. As UNCTAD recently underlined[22], multinational enterprises can impact gender equality in host countries through employment practices and spillovers in local labour markets. About 70 per cent of the world's 5 000 largest MNEs now report on progress in this area.

Private Sector Insights

The private sector has a key role to play in advancing gender equality within the workplace through Diversity and Inclusion (D&I) measures as well as more widely through the impact of their operations. Sustainable finance and gender-lens investing can unlock capital from private investors and direct it to gender-based initiatives. However, a lack of clear frameworks and standards to measure the impact of social bonds are hampering financing for gender equality.

Sustainable supply chains can enhance resilience to future challenges. Transitioning away from fossil fuels will require significant capital investment, and has the potential to support wider sustainability and inclusion targets. The implementation of sustainable supply chains can be supported by coherent and stable regulatory frameworks. Innovative financing techniques and multi-stakeholder collaboration can help address these challenges.

COVID-19 had a detrimental impact on gender equality across emerging markets, with women traditionally responsible for much of the unpaid work at home, and the gender gap often larger in developing and emerging economies[23]. To address these effects and advance gender equality, companies need to tackle social norms and adopt a multi-faceted approach to gender. The crisis and its consequences led many companies to reinforce Diversity and Inclusion (D&I) measures and clearly target gender balance, improving accountability and disclosure to the board but also to consumers and suppliers. Even prior to the crisis, an increased number of companies had started put in place pledges to increase gender parity within the business world and reduce the pay gap, through coalition such as the Equal Pay International Coalition led by ILO, UN Women and the OECD. Others have announced company-specific targets a (e.g. Millicom has announced a goal of gender parity by 2030). The COVID-19 crisis also accelerated private sector initiatives on social issues, which risked being exacerbated by the pandemic. The "OneinThreeWomen" coalition is one example of a network of companies, joined by global firms such as L'Oréal, engaged against gender-based violence. Participants acknowledged that challenging social norms was also a men's issue, in particular traditional masculinities also detrimental to building inclusivity for all in the workplace. Failing to mobilise them will result in slower progress.

[21] Goldman Sachs (2021), Investing in EM Womenomics
[22] UNCTAD (2021), Multinational Enterprises and the International Transmission of Gender Policies and Practices
[23] OECD (2020), Women at the core of the fight against the COVID-19 crisis

Participants noted that emerging markets face specific challenges, ranging from difficulties in gender balanced hiring due to educational segregation still prevailing in some markets, to the risk of talents leaving their regions to pursue a career in more developed markets. The private sector has a role to play in tackling these challenges. American Tower Corporation (ATC) has launched more than 300 digital communities since 2012 in eight countries and has committed to build 2 000 communities over the next five years. These sites with broadband connectivity and uninterrupted power aim to increase digital inclusion and access to digital services providing job skills trainings but also health and financial services to underserved communities, in particular women who do not have access to ICT training. ATC partnered with NIIT Foundation in India to provide digital education and has seen a steady increase in female enrolment as of today 43% of attendees to this training are women.

EMnet participants agree that sustainable investment is part of the solution to bridge the gender gap, particularly where public finances are under pressure. One of the key barriers to progress towards gender equality is access to capital. Firms such as Organon are embarking on projects to enhance women's participation in the economy by partnering with Flat6Labs venture capital firm to launch a FemTech accelerator in the MENA region, a tailored program for women-led businesses addressing women's health issues providing them access to capital but also mentoring and support programmes. Investment in sustainable projects and infrastructures are essential to enhance outreach to underserved populations. Support from government and multi-stakeholder collaboration remains key to driving change. For example, in Egypt, the Ministry of International Cooperation (MoIC) and the National Council for Women (NCW), with the World Economic Forum (WEF) launched the "Closing the Gender Gap Accelerator" in July 2020. The accelerator aims to address current gender gaps, particularly in the labour force and leadership positions, and reshape gender parity for an inclusive future by driving systems change, highlighting the need for collaborative action.

Sustainability, Social and Gender bonds have the potential to attract investment to projects and fund private sector efforts to support those who are most vulnerable to the economic crisis, including women. Increased interest from investors in sustainable and social opportunities can be leveraged to support these initiatives. In addition, progress on gender equality can encouraged by non-financial corporate issuers through key performance indicators (KPIs) related to gender in sustainability-linked bonds, as developed in the B3 - Brasil, Bolsa, Balcão Sustainability Linked Financing Framework or the Bancóldex Social Bond Framework.

Participants noted the importance of designing clear frameworks on sustainable investing across emerging markets, building on existing initiatives, and the key role of international and regional institutions. The development of standards to measure the impact of social bonds at large, including gender bonds, will help private companies embrace their potential (e.g. Green Bond Handbook: A Step-By-Step Guide to Issuing a Green Bond, developed by the International Finance Corporation). Such developments have started with the recent launch of the UN Women's practitioner guide on sustainable debt for gender equality. The 2x Challenge, launched at the G7 Summit 2018 to inspire development finance institutions (DFIs) and the broader private sector to invest in the world's women, includes quality metrics; the Equileap Gender Equality Scorecard, the Gender Responsive Due Diligence platform, Women Win, and Partnering for Social Impact can also support the development of standards. Beyond standards, participants also pointed to the potential for linking different sustainability and inclusion targets. For example, studies have shown that one of the best ways to substantially reduce emissions through education initiatives for girls. Data from UNESCO shows that educating girls could result in a massive reduction in emissions of 51.48 gigatons by 2050. Project Drawdown estimated that giving women access to family-planning resources, to avoid early pregnancies and school dropout, can save additional 59.6 gigatons of carbon emissions by 2050. Finding such connections between green and gender or wider social issues could unleash more capital.

Sustainability can also support resilience when implemented across other areas of business. For example, supply chain turbulence has impacted the return to growth. Integration of sustainability considerations in supply chain strategy has the potential to de-risk supply chains and support inclusion across emerging markets. The COVID-19 crisis has revealed shortcomings in social safety nets and social protection systems which have deeply affected workers in emerging markets. The private sector has started to respond to this situation: Action in the Global Garment Industry, a coalition of more than 125 industry stakeholders, supported by ILO, who have come together to mitigate the negative impacts of the pandemic through sustainable systems of social protection. Future evolutions, such as the transition to a carbon neutral economy, will have a profound effect on consumption patterns posing a challenge for companies to de-risk their supply chains by transitioning away from fossil fuels without impacting their workers. Supply chain finance can play a key role in building sustainable supply chains, with a growing demand following the disruptions caused by the COVID-19 crisis. Indeed, the transition to greener models requires significant financing and working capital to pivot entire supply chains. Companies have been working with suppliers to improve their ESG scores to benefit from lower fees. Building innovative financing techniques allowing both companies and suppliers to plan and manage their capital needs is critical in order to drive positive change in supply chain and capital markets.

Yet participants noted significant challenges to implementing sustainability across global supply chains due to the fragmented regulatory landscape and the lack of harmonisation. The need for consistency has been exacerbated by geopolitical tensions, which can result in the breakdown of trust within multilateral systems and lead to further and sustained disruptions in supply chains. Participants signaled changing regulations during the COVID-19 crisis have at times caused delays due to lack of clarity in communications between authorities and businesses. Sectoral initiatives such as the G7 Sustainable Supply Chain Initiative can support dialogue between policymakers and businesses to accelerate the transformation.

Furthermore, there is a need to specifically address the needs of SMEs and the challenges they face in accessing global markets due to absence of coherent policies, lack of access to finance and bureaucracy. Private sector supply chain initiatives can be critical to their successful integration in global supply chains. DHL's GoTrade sustainability programme builds on the United Nations Sustainable Development Goals (SDGs) to increase the number and volume of SMEs in developing countries trading across borders thanks to capacity building and partnerships with international organisations. This is particularly important when it comes to emerging markets, where most formal jobs are generated by SMEs, responsible for the creation of 7 out of 10 jobs[24].

For further information, please contact:
Melanie Vilarasau Slade, EMnet Co-ordinator,
Tel: +33 1 45 24 68 54, melanie.vilarasauslade@oecd.org

[24] World Bank, Small and medium entreprises (SMEs) finance