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Gender equality makes investments more profitable. Here's how.

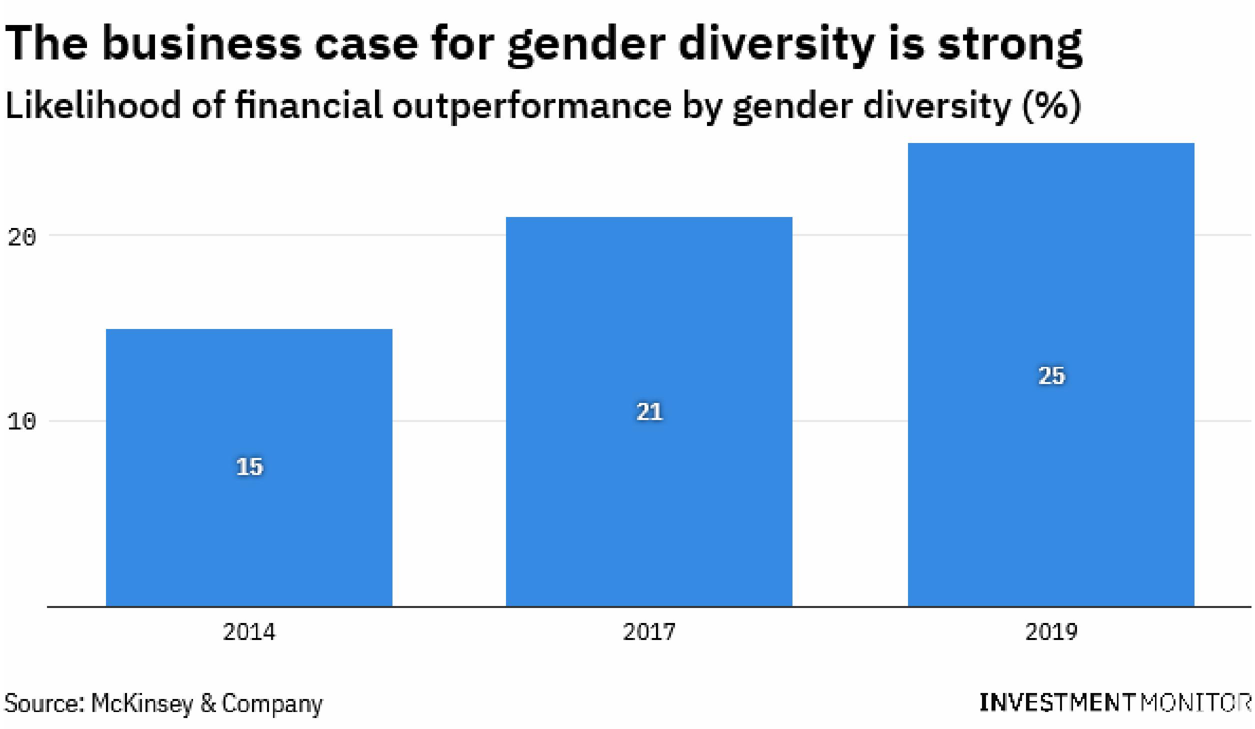
IPAs and corporates should join forces to put gender equality at the forefront of their investment strategies, as it makes sense financially as well as working towards reaching the targets of the fifth SDG.

By Sofia Karadima 16 Mar 2021

A World Bank report states that globally there could be a gender dividend of $172trn if the lifetime labour earnings gap between women and men is closed. (Photo by Jack Taylor/Getty Images)

"Gender equality is not a problem for investors to solve, but it does provide a means for them to increase the value of their investments," says Fatima Hadj, initiator and co-founder of Climate Action Women, a platform focused on advocating climate action and empowering women to act for a healthier planet.

Indeed, an analysis published by management consulting firm McKinsey & Company in 2020 found that companies "in the top quartile of gender diversity on executive teams were 25% more likely to experience above-average profitability than peer companies in the fourth quartile". In fact, the data shows that the profitably of these companies has been increasing over the past few years, averaging 21% in 2017, up from 15% in 2014.



"From an economic perspective, gender inequality resulting from the loss of jobs or the lack of reskilling opportunities could have a significant impact for investors, as it could result in a fall in consumption rates, people's net worth, or their ability to access capital, all of which can dent the growth of a country's gross domestic product [GDP]," says Amelia Lopez Huix, owner and corporate partner on gender economic governance at management consulting firm MCI Partners. "This can have a negative impact on long-term investment performance, especially for large investors and asset owners that depend on long-term economic growth."

In fact, embracing gender equality is key to delivering higher profitability, not only at a company level but also on a country level, according to data from consulting firm PwC. Its Women in Work Index 2021 states that "increasing female employment rates across the OECD could boost the GDP [of member countries] by $6trn, while closing the gender pay gap could boost the GDP of OECD members by $2trn".

Gender pay gap stands out on the agenda

Putting more effort into closing the gender pay gap is hugely important, and the wheels of progress must turn faster on gender equality, according to *Investment Monitor* editor-in-chief Courtney Fingar, given the grim prognosis of the World Economic Forum's Gender Gap Report

2020. The report states that if progress continues at the current pace, this gap will take 257 years to close.

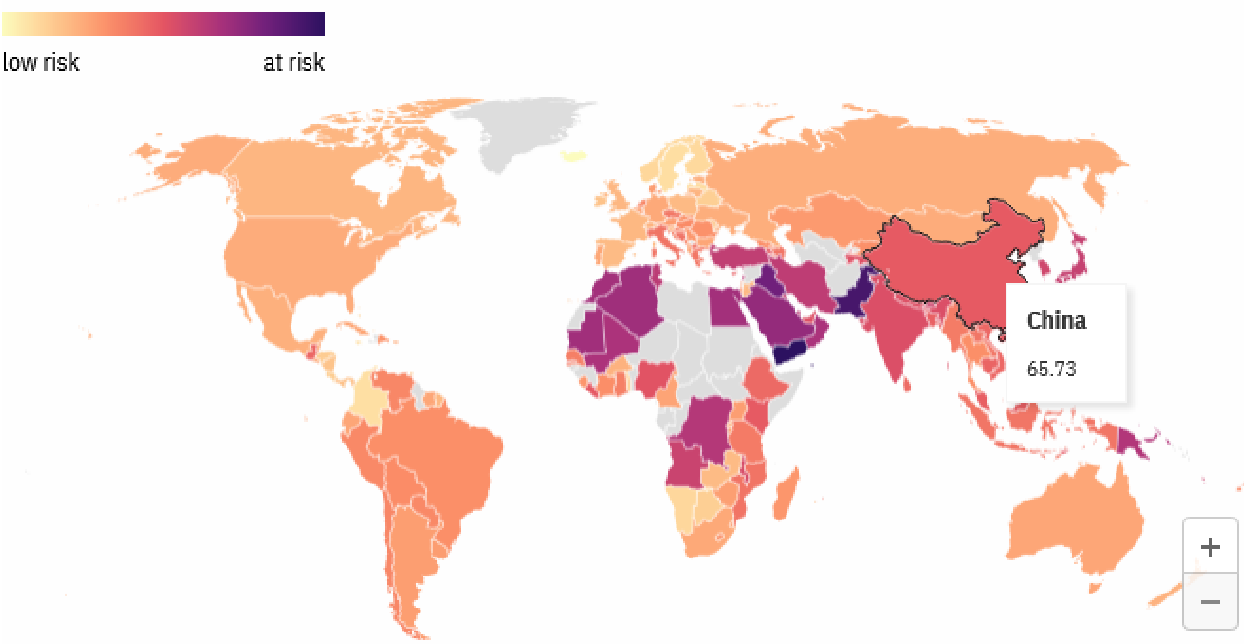
With adequate policies in place to reduce gender gaps in labour force participation, both investment promotion agencies (IPAs) and corporations can benefit from the gender dividend, according to Lopez Huix.

Indeed, putting adequate policies in place is key as a World Bank report suggests that the "world could achieve a gender dividend of $172trn by closing gaps in lifetime labour earnings between women and men".

Losses in human capital wealth as a result of gender inequality have a negative effect on both developed and developing countries, although south Asia and the Middle East and Africa are the regions facing the most challenges in regard to gender empowerment and achieving the UN's fifth Sustainable Development Goal (SDG) – gender equality and empowering all women and girls – by 2030, according to an analysis by *Investment Monitor*.

Gender empowerment risk index 2020

Scores based on Global Gender Gap report, percentage of women in management, primary girls in education and women in salaried work



Source: Investment Monitor based on World Economic Forum, ILOStat and World Bank INVESTMENT MONITOR

The Gender Empowerment Risk Index 2020 shows a top ten of Pakistan, Yemen, Iraq, Papua New Guinea, Mali, Morocco, Algeria, Saudi Arabia, Egypt and Angola.

The Covid-19 outbreak has only served to heighten the risk for gender empowerment, on top of setting back hopes to achieve SDG5 by 2030. However, other more recent developments are adding momentum to the drive towards gender equality in corporate boardrooms, according to John Boyd of New Jersey-based location consultancy Boyd Company.

“Gender equality is no doubt a dominant part of equitable development goals in corporate boardrooms today,” he says. “This, of course, has much to do with the success and power of the #MeToo movement and corporate boardrooms recognising the value of a proactive social impact strategy. We know that the investment banking community prefers companies that are engaged in social impact issues such as diversity, sustainability and gender equality, and the millennial workforce prefers to work for companies engaged in these matters.”

Should gender equality lead investment strategies?

It would seem, listening to industry leaders and looking at the many pieces of research on offer, that achieving gender equality and empowering all women and girls should be a key priority not only for governments but also for IPAs and large corporations, given how much policies will deliver sustainable development, societal value and higher profits.

“It is important that we put gender equality at the forefront of investment strategies, and there are several ways to address SDG5 as far as IPAs are concerned,” says Cedric Grignard, director for new business and innovation at Invest in Lyon. “That comes first from within the agencies. Secondly, from foreign direct investment [FDI]… for example an idea would be to encourage woman-led ventures. The third is about activities that foster and work towards achieving SDG5. The fourth could be to ensure that the venture or the FDI project will contribute to the SDG in its destination location.”

What can IPAs and corporations do to aid SDG5?

Grignard’s emphasis on this move towards IPAs being at the forefront of foreign investment embracing gender equality issues makes sense, as one of their missions is to assist in achieving diversity and more inclusion in the workplace. A report by the UN Conference on Trade and Development (UNCTAD) shows that IPAs should be at the centre of investment attraction, entry and establishment, expansion and transformation, policy advocacy, and human resource management.

Summary of actions by IPAs to mainstream gender equality in investment promotion

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Investment attraction	*and may be incorporated into the country's value proposition.* *Ensure that image-building activities reflect any national commitments to gender equality and women's empowerment.* *Consider the impact of women when prioritising investment leads.*
Entry and establishment	*Ensure that information provided to investors about the local investment climate is gender-inclusive.* *Facilitate equal access for men and women to capacity-building, certifications and supplier development programmes.* *Identify, propose and facilitate opportunities for MNE operations to have a greater impact on gender equality and women's empowerment.*
Expansion and transformation	*Offer services to established foreign companies to increase their impact on gender equality and women's empowerment.* *Facilitate the insertion of women in reskilling or expansion projects.* *Define criteria to evaluate the impact of reinvestment projects on gender equality and women's empowerment.*
Policy advocacy	*Include recommendations to address the gender gap in target investment sectors as part of policy advocacy activities.* *Engage in partnerships or programmes that aim to strengthen data and understanding of the gender gap across sectors and at the national level.* *Report on specific needs and challenges faced by women in the economy.*
Human resource management within the IPA	*Set targets and report on women's participation at all levels.* *Promote training on gender equality in the workplace.* *Establish an in-house IPA gender focal point.*

Source: UNCTAD

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“There are interesting initiatives being taken by IPAs to promote gender equality,” says Hadj at Climate Action Women. “But we have to go further and faster. We need to accelerate the achievement of SDG5. The most efficient actions taken by the IPAs will be the ones correlating the achievement of pre-defined gender equality criteria with the access to their services. I think that the multinational enterprises will welcome these gender equality key performance indicators because their shareholders and stakeholders will track their progress in terms of gender equality anyway.”

What’s more, multinationals have also the power to spread gender equality practices across borders. A report from UNCTAD states that multinationals “can promote gender equality in developing countries directly, via employment practices in their foreign affiliates, and indirectly, through spillovers in local labour markets”.

Thus, it emerges that the roles of multinational enterprises and IPAs, as well as local government, are significant when it comes to encouraging activities that promote gender equality and encourage the relevant investments. However, it remain to be seen whether this will be enough to meet the SDG5 targets by 2030, as the pandemic has provided an extra obstacle in achieving this goal on time.