



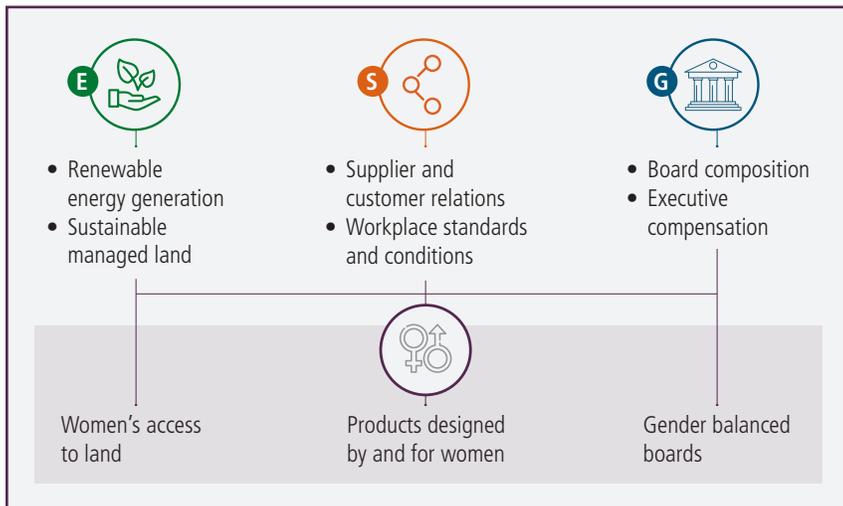
ENVIRONMENT, SOCIAL AND GOVERNANCE

DID YOU KNOW?

Firms with better environment, social and governance (ESG) performance than their peers produce higher investment returns for their shareholders,¹ are more likely to become high-quality stocks, are less likely to have large price declines, and are less likely to go bankrupt ([BofA Merrill Lynch, 2018](#)).

WHAT IS ESG?

Environment, social and governance represents non-financial factors that pose a material impact on financial performance. Illustrative ESG factors are depicted below:



Gender influences all components of ESG

Gender involves examining the socially constructed roles, relationships, and expectations of women and men and the ways that these are reinforced by educational, political, economic, and cultural systems (Criterion, 2012). Gender lens investors target impact in gender equality, which refers to fulfilling the equal rights, responsibilities and opportunities of women and men (UN Women, 2019).

Notably, gender is just one aspect of diversity, which encompasses race, ethnic group, poverty level, sexual orientation, age, etc. Investors have the opportunity to integrate gender-based data into ESG analysis to improve investment decisions, manage risk, promote innovation and inclusive business growth.

ESG is widely used by the investment industry to identify, analyze and upgrade company and portfolio performance. There is not one uniform standard for ESG, and many investors and industry associations have developed their own approaches, processes and tools. Although most investors integrate ESG for risk management purposes (e.g., improving employee health and safety, managing environmental degradation), ESG is also a useful frame for targeting impact and value creation. For instance, a financial services firm in Colombia developed a novel reverse mortgage product to diversify its product offering while improving access to finance for underserved low-income seniors (MEDA, 2016).

¹ Over a three year period.

WHY INTEGRATE ESG?

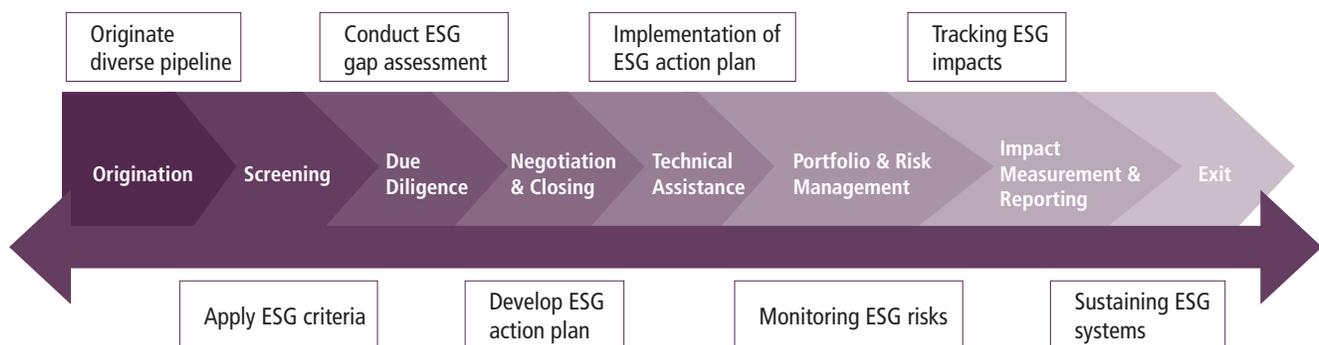
There are many benefits to integrating ESG in investments:

- Sustaining a company's competitive advantage ([Morgan Stanley, 2017](#)).
- Better managed and profitable firms ([Friede, Busch and Bassen, 2015](#)).
- Reducing non-financial risks most material to the business and financial performance ([Khan, Serafeim and Yoon, 2015](#)).
- Lowering volatility in stock prices ([Kumar et al, 2016](#)).
- Creating business value through improved governance, access to new markets, cost savings, innovation, increased worker and supplier productivity, boosted company reputation ([CDC, 2017](#)).
- Decreasing the cost of capital ([University of Oxford, 2014](#)).

HOW CAN INVESTMENT FUNDS APPLY ESG?



For fund managers, ESG can be applied at the fund level and along any point in the investment process – from deal origination and company selection, to identifying gaps and technical assistance requirements, through to impact measurement and exit.

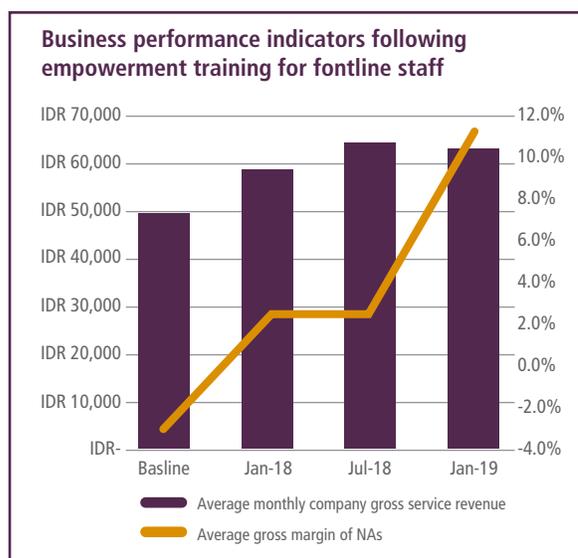


Due Diligence

Applying gender mainstreamed ESG criteria during due diligence can help evaluate opportunities for impact, key risks and financial returns. For example, an emerging and frontier markets private debt fund found that companies with higher percentages of women in leadership and board positions outperformed companies with the lowest percentages, as measured by return on sales, return on assets and return on equity ([Calvert, 2018](#)). Calvert has also published a [gender lens due diligence framework](#) based on their experience as a lender.

Technical Assistance

Providing ESG technical assistance to portfolio companies can spur business performance. For example, an India-based healthcare provider, in partnership with investors, sought to boost patient referrals and top line revenue using MEDA's [Gender Equality Mainstreaming \(GEM\) Framework](#). The company's frontline workforce were mostly low-income women and youth from rural states of India, the firm launched empowerment training on emotional intelligence and work-life balance, which led to greater staff self-confidence. Over the 12 months following the training, patient referrals increased seven-fold. Meanwhile, average monthly gross service revenue and gross margin of frontline workers rose steadily (pictured in right-hand graph).



WHAT FIRST STEPS CAN INVESTMENT FUNDS TAKE?

1. Establish expectations

Start discussions with your investors to understand their needs, requirements and priorities related to ESG, gender equality and impact.

2. Identify low hanging fruits

Determine the most material ESG factors to measure and manage based on your investment strategy, type of financing, sector, geography, among other factors. The [SASB Materiality Map](#) is a helpful tool for identifying sector-specific ESG issues. For instance, SASB identifies the following ESG factors as material for agribusinesses: GHG emissions, energy and water management, product quality and safety, employee health and safety, supply chain management and materials sourcing and efficiency.

3. Monitor and collect data

Collect and analyze gender-based ESG data to inform investment decision making and reporting. The MEDA [GEM Self-Assessment](#) is one such resource that can be completed by firms in less than an hour.

4. Implement most promising ESG opportunities

Explore engaging consultants to support ESG and gender lens investing integration at the fund and portfolio company level.



Sample questions to ask your fund and portfolio companies

	<ul style="list-style-type: none">• Is there an environmental policy and reporting mechanism in place?• Have women and men stakeholders (e.g., local community members) been consulted in the development and updating of the firm's environmental management system?
	<ul style="list-style-type: none">• What is the annual retention rate for women and men employees?• What types of training and development programs are offered for women and men-led distributors?
	<ul style="list-style-type: none">• How does executive compensation compare to the lowest paid staff position?• What is the percentage of women and men ownership in the company/fund?

ADDITIONAL RESOURCES

- [ESG Toolkit for Fund Managers](#), CDC (2019)
- [Repository of Gender Lens Investing Resources](#), GIIN (2019)
- [Development Impact Framework](#), FinDev Canada (2018)



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