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Meaning and Purpose Network (MaPNet) thought-piece series

Women in sustainable finance

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'For most of history, 'anonymous' was a woman.' – Virginia Woolf

While the finance sector used to operate as a boys' club, as the glass ceiling gradually cracks, women are beginning to take on more leadership roles. As the capital provider to other economic sectors, the finance sector plays an increasingly vital role in incorporating environmental, social and governance (ESG) initiatives into the business operations of financial institutions. Given the rising pressure from their clients to increase their levels of sustainable investment, financial institutions now care more about the ESG performance of the firms that they invest in because their financial outlook may depend on it.

Sustainable finance is important to policymakers aiming to maintain an accountable, balanced, and transparent economic and political environment. For example, the European Union (EU) refers to sustainable finance as the process of taking ESG considerations into account when making investment decisions, leading to more long-term investments in sustainable economic activities and projects.

The United National Environmental Program (UNPE) traces the concept of sustainable finance back to the 1992 Earth Summit that sparked the UNEP Finance Initiative which focused on how the banking sector could facilitate green projects implementing environmentally friendly

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practices and technologies to create a more sustainable future. Environmental considerations of sustainable finance include, for example, climate change mitigation and adaptation to preserve environmental sustainability, including biodiversity preservation, pollution prevention, and the circular economy.[1]

In 2021, led by the Principles of Responsible Investment, a UN-supported network of 161 institutional investors endorsed a statement of commitment on their part to treat climate and social issues in a holistic, rather than an isolated way. Such an holistic approach enables institutional investors to assess long-term drivers of risk and return in their portfolio investment and to understand the ESG issues that are financially material to the business and strategy of their invested firms.

The integration of ESG considerations into investment decisions helps financial institutions focus on the associated climate risks, which enhances their understanding of the systematic risk faced in investing client assets under their management. By looking at the potential investee firms through an ESG lens, financial institutions can also uncover the material drivers of long-term firm value creation and identify relevant investment opportunities which, in turn, help them better fulfil their fiduciary duties to the clients. These benefits provide financial institutions with the incentive to consider the ESG performance of their investee firms in investment decisions.

Female leadership in sustainable finance

A crucial change taking place behind the scenes is the growing visibility of women in sustainable finance, propelling them forward as leading actors in the ESG revolution, both in terms of investment decision-making and in the operation of firms. The fact that female leadership in the sector is on the rise at the same time as considerations of sustainable finance is not purely coincidental.

From a global perspective, statistics from the UN seem to suggest that women and men are not equally vulnerable to climate risk. According to the recent UN progress report on the achievement of the Sustainable Development Goals, women earn between 30–80% of men's annual wages and account for 70% of the 1.3 billion people living in conditions of poverty.[2] At a global level, women produce 45–80% of the world's food supply and bear most of the responsibility for sourcing food, water and fuel for their families. Since women

1 https://www.globalpolicyjournal.com/blog/09/02/2023/sustainable-finance-rise-e-esg

2 *Progress on the sustainable development goals: the gender snapshot 2022*, United Nations. Available at: https://www.unwomen.org/sites/default/files/2022-09/Progress-on-the-sustainable-development-goals-the-gender-snapshot-2022-en_0.pdf

40%

In Norway, the law states that there is a requirement for at least 40% of board directors to be female

are more likely to face poverty and produce food supplies that rely more on environment, they are exposed more to climate change risks than men. Consequently, the UN report estimates women to be 14 times more likely than men to be killed or injured during climate-related natural disasters.

Given women's exposure to climate risk, it is not surprising that women appear to be somewhat more concerned about environmental issues than men.[3] Women may be particularly sensitive to, and exercise influence on decisions pertaining to certain organisational practices, such as corporate social responsibility (CSR) and environmental politics, and hence foster increased corporate environmental investments.[4,5]

Awareness of environmental issues may have provided fertile ground for female directors or female top managers to play important roles in influencing firms' environmental and social performance. US-based companies with more female directors spend more on environmentally-related activities and hence receive more positive CSR ratings for their environmental strengths than those with fewer women on the board.[6] Female directors seem to favour the presence of CSR Committees that manage a firm's socially responsible actions and reputation.[7] Cross-country evidence shows that having a female chair of the CSR committee leads to positive impacts on a firm's CSR performance.[8] In Norway, the law states that there is a requirement for at least 40% of board directors to be female. As a result, there are more opportunities for women to take on top management positions, giving them more influence over firms' financial and CSR performance.[9]

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3 Albaum, G., & Peterson, R. A. (2006). 'Ethical attitudes of future business leaders: Do they vary by gender and religiosity?' *Business & Society*, 45, 300–321.
Burton, B. K., & Hegarty, W. H. (1999). 'Some determinants of student corporate social responsibility orientation'. *Business & Society*, 38, 188–205.
Forte, A. (2004). 'Antecedents of managers' moral reasoning'. *Journal of Business Ethics*, 51, 315–347.
Jaffee, S., & Hyde, S. J. (2000). 'Gender differences in moral orientation: A meta-analysis'. *Psychological Bulletin*, 126, 703–726.
Smith, W. J., Wokutch, R. E., Harrington, K. V., & Dennis, B. S. (2001). 'An examination of the influence of diversity and stakeholder role on corporate social orientation'. *Business & Society*, 40, 266–294.

4 In this article, I treat the terms ESG and CSR as if they are interchangeable. However, where citing specific references, either ESG or CSR is used in line with authors' original choice of terminology.

5 Nielsen, S., & Huse, M. (2010). 'The contribution of women on boards of directors: Going beyond the surface'. *Corporate Governance: An International Review*, 18(2), 136–148.

6 Post, Corinne, Noushi Rahman, and Emily Rubow (2011). 'Green Governance: Boards of Directors' Composition and Environmental Corporate Social Responsibility'. *Business & Society*, 50 (1):189–223.
Marquis, C. & Lee, M. 2013. 'Who is governing whom? Executives, governance, and the structure of generosity in large US firms'. *Strategic Management Journal*, 34: 483–497.

7 Velte, P., & Stawinoga, M. (2020), 'Do chief sustainability officers and CSR committees influence CSR-related outcomes? A structured literature review based on empirical quantitative research findings'. *Journal of Management Control*, 1–45.

8 Eberhardt-Toth, E. (2017). 'Who should be on a board corporate social responsibility committee?' *Journal of Cleaner Production*, 140(3), 1,926–1,935.

9 Wang, M. and Kelan, E., 2013, 'The Gender Quota and Female Leadership – Effects of the Norwegian Gender Quota on Board Chairs and CEOs', *Journal of Business Ethics*, 117(3): 449–466.

Empowering women to enter leadership positions seems to be a plausible top-down solution to allow women fair access to resources and to address the environmental consideration of sustainable finance

One study found that the greatest financial performance benefits can be achieved if the Chief CSR Officer is female and has a CSR functional background.[10] Other research has shown that firms in China with a more equitable gender balance also display stronger levels of CSR performance.[11] These academic research findings suggest that by empowering women with decision-making roles relating to ESG investment projects, firms can facilitate a greater awareness of the importance of gender-responsive climate action in their business operations and generate better environmental and social performance.

Empowering women to enter leadership positions seems to be a plausible top-down solution to allow women fair access to resources and to address the environmental consideration of sustainable finance. The finance sector has offered some promising initiatives to support women by providing financing for scholarships and opportunities for additional training and skill building. For example, in 2021 Chief Executive Women, an organisation engaged in Australian business and government to achieve gender balance, along with the Australian and New Zealand Bank, launched a scholarship designed for female leaders working across the fields of ESG and sustainable finance with at least five years' leadership experience looking to develop their skills and enhance their capabilities. The KBC Group, a Belgian bank, created the 'Thrive Project' for women in technology as a trail-blazing programme supporting innovative entrepreneurship amongst the female founders.

Banks are pivotal in making access to finance more inclusive for women and in supporting female-led business opportunities

Amongst various financial institutions, banks are pivotal in making access to finance more inclusive for women and in supporting female-led business opportunities. For example, the Asian Development Bank aims to bridge sustainable and gender equitable finance by advancing innovative finance in economic sectors where women predominantly do business, such as in agricultural processing, food services, or hospitality.[12] Such innovative finance is provided under conditions that work for women by offering them sizable, long-term debt-financing to purchase the technologies that they need to make business infrastructure climate resilient and energy efficient.

The NatWest Group, a British banking and insurance company, has set a target of providing £100bn in climate and sustainable financing by the end of 2025. As part of this commitment, NatWest supported 1,300 entrepreneurs in 2022

10 Wiengarten, Frank, Chris KY Lo, and Jessie YK Lam (2017). 'How does sustainability leadership affect firm performance? The choices associated with appointing a chief officer of corporate social responsibility'. *Journal of Business Ethics*, 140: 477–493.

11 McGuinness, P. B., Vieito, J. P., Wang, M., 2017, 'The Role of Board Gender and Foreign Ownership in the CSR Performance of Chinese Listed Firms', *Journal of Corporate Finance*, 42 (February):75–99.

12 https://www.adb.org/publications/innovative-financial-products-services-women

1,300

In 2022 the NatWest Group supported 1,300 entrepreneurs through their 'Accelerator' programme

35%

In the UK in 2022 the average female representation in the finance sector was 35%

through the NatWest Group 'Accelerator' programme, of whom 50% were female-led businesses.[13] The KBC Group launched an acceleration programme called 'Start it @KBC' and has actively committed to fostering female entrepreneurship in start-ups. KBC aims for an equal number of female and male entrepreneurs, and currently, 46% of the 'Start It @KBC' start-ups are found and led by women, representing an increase of 34% since 2017.[14]

Ironically, although the finance sector plays such an active role in fostering the ESG performance of their investee firms and in promoting female leadership, the presence of women in executive positions in the finance sector has been historically low (for example, in the UK in 2022, the average female representation in the finance sector was 35%).[15] Arguably, the low representation of female leadership in the finance sector can be partially explained by the belief that women on average are poorer in financial literacy, tend to shy away from competition, and do not perform as well as men under pressure in competitive environments.[16] While women typically exhibit less financial management experience and spend less time networking, female entrepreneurs are more likely to work part-time and to work in the service sector.[17]

Although knowledge about sustainable finance is a highly significant factor for the ownership of sustainable products, one survey of Swiss households found that women perform worse than men in answering multiple-choice questions related to sustainable financial literacy, although this difference disappears for open-ended questions asking respondents to write text responses.[18]

Growing interest in sustainable finance means demand for associated jobs in the finance sector will rise. Sustainable finance asset management seems to be more gender-balanced than more traditional finance sectors. The gender-balanced sustainable finance workforce may hopefully set an example and inspire others to bring more women, and a growing emphasis on sustainability, into the wider finance industry. However, despite the greater proportion of women

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13 https://www.natwestgroup.com/who-we-are/at-a-glance/our-purpose/enterprise.html
14 https://startit-accelerate.com/en
15 https://www.gov.uk/government/news/women-in-finance-charter-shows-continued-improvements-in-female-representation
16 Van Rooij, Maarten, Annamaria Lusardi, and Rob Alessie (2011). 'Financial literacy and stock market participation'. *Journal of Financial Economics*, 101.2, pp. 449–472.
Lusardi, Annamaria and Olivia S Mitchell (2011). 'Financial literacy and planning: Implications for retirement wellbeing'. Tech. rep. National Bureau of Economic Research.
17 Verheul, Ingrid and Roy Thurik (2001). 'Start-up capital: does gender matter?' *Small Business Economics*, 16.4, pp. 329–346.
18 Filippini, Massimo, Markus Leippold, and Tobias Wekhof. 'Sustainable finance literacy and the determinants of sustainable investing.' Swiss Finance Institute Research Paper 22-02 (2021).

in sustainable finance, the evidence suggests that men are responsible for most investment decisions. Even though women occupy senior roles, such as Head of ESG/CSR, this often entails no direct investment responsibility as asset managers. There is even concern amongst female leaders that sustainable finance could become the only option for advancing female careers in the finance industry. Nevertheless, with the growing visibility of women in senior positions in sustainable finance, this domain does seem to provide a pathway towards gender equality.

Sustainable female leadership in sustainable finance

Female leadership in sustainable finance represents the tip of the iceberg in terms of the efforts made by women in combatting environmental and climate risk. To sustain the representation of the female leadership in decision-making roles for sustainable finance, gender parity should be addressed for the workforce in society at large. This forms a bottom-up approach that complements the top-down approach of empowering female leadership. As the world's economy responds to climate change, an inclusive 'just transition' for workers and communities was included as part of the 2015 Paris Agreement.[19]

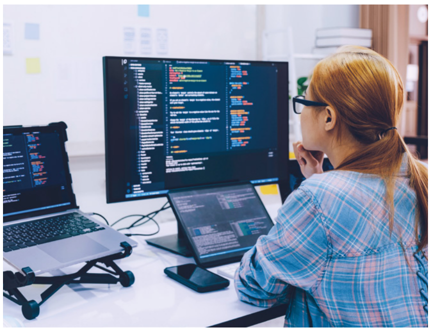
In 2021, the European Commission introduced the just transition mechanism as a key tool to ensure that the transition towards a climate-neutral economy happens in a fair way, leaving no one behind.[20] The transition to a climate-neutral economy creates immense potential for economic growth, with the number of clean energy jobs estimated to nearly triple by 2050 to 29 million globally. The renewable energy sector, along with forestry, manufacturing, aquaculture, agriculture, and others, are expected to experience significant structural changes in the future. Involving women as active participants can lead to greater adoption of clean energy technologies. However, women, as a traditionally underrepresented group in energy sector, risk being denied access to the economic opportunities presented by these structural changes. Women only comprise of 32% of the global clean energy workforce within the formal economy and 22% of the workforce in the non-renewable energy sector, well below gender parity.[21]

> **The transition to a climate-neutral economy creates immense potential for economic growth**

19 https://www.diplomatie.gouv.fr/en/french-foreign-policy/climate-and-environment/the-fight-against-climate-change/2015-paris-climate-conference-cop21/

20 https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en#:~:text=The%20Just%20Transition%20Mechanism%20(JTM,way%2C%20leaving%20no%20one%20behind

21 https://www.unepfi.org/themes/climate-change/gender-climate-and-finance-how-financial-institutions-can-support-a-gender-just-transition/



A fundamental solution for gender workforce equality in sustainable finance is to encourage more female students into the STEM disciplines

With the rise of science-based targets embedded in sustainable solutions, Science, Technology, Engineering and Mathematics (STEM) related skills are becoming increasingly coveted in sustainable finance jobs. Given that the STEM disciplines have traditionally been dominated by males, this may tilt the gender balance in the technology sector workforce. According to the World Economic Forum, only 3% of students joining information and communication technology courses across the globe are women, 5% in mathematics and statistics courses, and 8% in engineering, manufacturing, and construction courses.[22] Sustainable finance will also increasingly be shaped by fintech, artificial intelligence and big data modelling. These new industries are likely to enlarge historical gender inequalities given the low numbers of women in fintech startups (just 7% according to Deloitte).[23] Therefore, a fundamental solution for gender workforce equality in sustainable finance is to encourage more female students into the STEM disciplines, which will help advance women's expertise in vital skills such as coding, programming, and data analysis skills.

What do women in sustainable finance really need? It may not be just the skills, or even the ambition. What they need is a future with more opportunities to thrive, to be visible, and most of all, they need each other – creating a more gender balanced workforce will help empower female leaders not only in sustainable finance, but also in society at large.

22 https://www.weforum.org/agenda/2020/02/stem-gender-inequality-researchers-bias/
23 https://www2.deloitte.com/us/en/insights/industry/financial-services/women-in-fintech.html

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