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Gender-responsive climate finance: a key opportunity for the New Collective Quantifiable Goal (NCQG)

By 2X Global

Introduction

1. This paper is a **non-party submission to the ad-hoc work programme on the New Collective Quantifiable Goal (NCQG)** developed by **2X Global**.

2. 2X Global[1] is a global membership and field-building organisation for investors, capital providers, and intermediaries working in public and private markets, across both developed and emerging economies. Its members span large private asset managers to asset owners such as the largest Development Financial Institutions (DFIs) that deploy their capital in alignment with the 2X Criteria[2], which enables the integration of agender analysis alongside financial analysis and due diligence.

3. This paper is a distilled version of the "*2X Global Climate Finance: The Policy Angle*"[3] report, published in December 2023. The report emphasises the importance of integrating a gender lens and underpinning principles into investment frameworks that are used to deploy climate finance and how by doing so we can collectively achieve climate outcomes that are inclusive, resilient and sustainable.

4. This input paper to the NCQG work programme offers the members of the Technical Expert Dialogues (TEDs) evidence-based insights and practical suggestions for integrating gender-informed strategies into climate finance policies and procedures, thus supporting the advancement of gender-responsive climate finance as a **key part of its quality dimension** and as a driver of what constitutes **inclusive climate finance** without which a just transition cannot be achieved. While case studies and details are provided in

[1] https://www.2xglobal.org/membership
[2] https://www.2xchallenge.org/2xcriteria
[3] https://static1.squarespace.com/static/638cb83455f20147b91df430/t/65d84618876bfd5b70e2cb58/1708672550259/2X+Global+Climate+Finance+Policy+Angle.pdf

the full paper [4] referenced in paragraph 3, this short input paper is meant as a **summary for policymakers and discusses why the final NCQG and underpinning processes should capture the gender dimensions well**. It also provides recommendations that can be taken into consideration by the TEDs members working on the COP29 NCQG policy for the Parties' consideration and resolution.

The business case for gender-smart climate finance

5. **Despite the Paris Agreement's Article 73 stressing gender-responsive actions, gender has historically been under-prioritised in climate finance**. Incorporating gender perspectives into climate finance is an equity issue and a rational choice from an investment perspective: the IFC found gender-balanced investment teams in private equity and venture capital **generate 10% to 20% higher returns[5].** In addition, a report by McKinsey titled "*Delivering Through Diversity*"[6] indicates that **companies with gender-diverse executive teams are 21% more likely to outperform their counterparts** in terms of profitability and 27% more likely to create superior value for the investors. **In the context of climate finance, this suggests that investments that integrate gender considerations have the potential to yield better financial returns and reduce operational and financial risks for all stakeholders**. Climate investors recognising women as critical agents can enhance inclusion and business outcomes: for example, the European Central Bank found that a 1% rise in the share of female managers decreases CO2 emissions by 0.5%[7]. Gender-diverse companies tend to see significant reductions in energy consumption (60%), greenhouse gas emissions (39%), and water use (46%), with those in the top quartile for women on boards having a 36% higher environmental rating than those in the bottom quartile[8]. A Bloomberg study[9] noted that 30% more women on boards correlate with improved climate governance and innovation in key sectors.

6. In developing countries, women constitute 80% of those displaced by climate change[10] and face significant vulnerabilities, particularly in agriculture, often leading to increased familial responsibilities and the potential for girls to leave school, as an example of some of the negative impacts. Despite these challenges, **women are key agents of change for climate adaptation and mitigation solutions**.

7. However, there is **not enough funding flowing to gender-responsive climate finance**. For example, in 2020/21, DAC members of the OECD committed 44% (US$ 57.4 billion) of their finances to gender equality[11], mainly through programmes with gender equality as a general policy objective, lacking specific analysis on climate objectives alignment. Contrarily, a Global Gender

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[4] https://static1.squarespace.com/static/638cb83455f20147b91df430/t/65d84618876bfd5b70e2cb58/1708672550259/2X+Global+Climate+Finance+Policy+Angle.pdf
[5] https://www.ifc.org/en/insights-reports/2019/gender-balance-in-emerging-markets
[6] https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/delivering-through-diversity
[7] https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2650~3b693e6009.en.pdf
[8] https://womenasleversofchange.com/
[9] https://about.bnef.com/blog/more-gender-diversity-on-corporate-boards-makes-for-better-climate-governance-and-innovation/
[10] https://static1.squarespace.com/static/638cb83455f20147b91df430/t/64070f50f99b9a75bffc663d/1678184289978/2XG+Inclusive+Report_Final.pdf
[11] https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/development-finance-for-gender-equality-and-women-s-empowerment.htm#:~:text=DAC%20members%20committed%2044%25%20of,%25%20of%20total%20bilateral%20aid).

and Climate Alliance (GGCA) 2016 report highlighted that only 0.01% of global funding supported projects addressing both climate change and gender[12]. The UNFCCC Standing Committee on Finance's 2021 report[13] recorded US$ 803 billion in climate finance for mitigation and adaptation, with US$ 6 billion raised for gender lens funds in private markets by mid-2021, not primarily focused on climate goals[14].

Mounting evidence of how incorporating gender perspectives into climate finance enhances the effectiveness and sustainability of investments can be found in the seminal publication "*Gender & Climate Investment: A Strategy for Unlocking a Sustainable Future.*"[15] It highlights how, **when gender equity is prioritised, it creates new market opportunities and encourages innovation, resulting in comprehensive and effective climate solutions[16]**. It showcases how gender-smart investing can optimise climate impact beyond financial targets.

One of the key themes of this publication is the opportunities presented by implementing a gender lens into climate finance for infrastructure projects. Whilst climate factors have been recognised for longer as having visible and immediate financial relevance within infrastructure projects, gender has not[17]. The infrastructure sector has traditionally taken on a gender-blind approach to the design and implementation of its projects. This has not only meant missing out on key economic and social inclusion opportunities for women and girls, but due to the longevity of infrastructure assets, they have run the risk of reinforcing existing inequitable systems and outcomes for women, and locking these in for the lifecycle of the asset. We know from numerous case studies and research that infrastructure resilience is particularly critical for women because, when infrastructure systems fail, women and girls are usually disproportionately negatively impacted[18].

Conversely, if from early on infrastructure is planned, designed, implemented and managed with a focus on the needs of women and girls, these projects can offer the potential to increase women's economic opportunities, provide appropriate services that free up their time and increase their mobility, agency and improve their access to education and health services. Moreover, given women's key role in managing land, water, food and energy at the household and community level, the urgency of applying a gender lens into nature conservation, restoration, and regeneration infrastructure initiatives becomes apparent.

More broadly, the report elaborates how applying gender-smart investing principles in climate finance paves the way to tailoring investment strategies that, downstream, more efficiently address the most pressing climate issues identified in countries' National Determined Contributions (NDCs) and National Adaptation Plans (NAPs).

[12] https://www.undp.org/sites/g/files/zskgke326/files/publications/UNDP%20Gender%20and%20Climate%20Finance%20Policy%20Brief%205-WEB.pdf
[13] https://www.google.com/url?q=https://unfccc.int/sites/default/files/resource/cp2023_07_adv_0.pdf&sa=D&source=docs&ust=1710438898273601&usg=AOvVaw2nRlYMBWCADoyQqJa4Yue0
[14] https://www.wharton.upenn.edu/story/new-gender-lens-investing-research-insights-from-project-sage-4-0/
[15] https://static1.squarespace.com/static/6089294d7cb43b4cffb93591/t/60ec750cdcef4a49b3a96120/1626109200947/GenderSmart+Climate+Report.pdf
[16] https://www.2xglobal.org/climate-toolkit-home
[17] Kell,G. (2018, July 11).The Remarkable Rise of ESG
[18] https://content.unops.org/publications/UNOPS-Infrastructure-for-Gender-Equality-and-the-Empowerment-of-women.pdf

8. **An accessible entry point to integrating gender analysis and considerations is the 2X Criteria**. In 2018, the "2X Challenge" was launched at the G7 Summit 2018 as a commitment by DFIs to collectively mobilise US$ 3 billion in private sector investments in emerging markets over 3 years using the 2X Criteria. To date, the total investments under the 2X Challenge are well over US$ 27.7 billion. 2X Global collaborates with other standard-setting bodies, such as IIN's IRIS+, HIPSO, OECD DAC Gender Equality Policy Marker, and UN Women's Empowerment Principles, to harmonise the Criteria and underlying indicators.

9. Moreover, the growing body of research to date provides insights on how **investments that overlook gender issues are more exposed to systemic social vulnerabilities and introduce risks** that can undermine the final goal: ensuring that every dollar deployed in climate action, whether from public or private sources, produces a transformational impact beyond just financial returns. The risks of overlooking gender issues in deploying climate finance can be summarised into three categories:

    a. **Operational risks**. Climate projects that neglect women's contributions, perspectives and roles can lead to inefficiencies. For instance, a climate resilience initiative that does not factor in women's pivotal roles in agriculture might miss out on essential water and soil management aspects, resulting in suboptimal outcomes.

    b. **Reputational risks**. In today's interconnected societies, stakeholders, including investors, consumers, and civil society organisations, demand greater gender equality. Moreover, ignoring aspects such as gender-based violence and harassment can expose entities to increased absenteeism, difficulty in recruiting new staff or even impact businesses and growth potential due to a loss of confidence among the investors and partners. Organisations that sideline gender considerations risk reputational damage, which can translate into long-term financial repercussions.

    c. **Missed opportunities**. Gender-unaware investments, more often than not, fail to tackle the full potential of the underlying projects. Women are creating innovative, proximate solutions, and also bring gender considerations that can be integrated into the design and implementation of climate projects. Ignoring their contributions can lead to missed avenues for innovation, growth and financial returns.

10. Ultimately, **integrating gender considerations into investment decisions is a de-risking strategy**, which can, in turn, increase climate projects' "bankability" and financial appeal for a broader basis of investors and, by doing so, directly contribute to the final goal of the NCQG process of unlocking capital at scale for climate action. Importantly, the accountability of any financial institutions approaching their investment in climate finance through a gender-smart approach can be measured and verified by quantifiable criteria and standards which have already been adopted and created[19].

[19] An example of independent assessment of gender-smart investing and certification, which applies to climate finance is the 2X Certification: https://www.2xglobal.org/2x-certification

Three key recommendations for ensuring a gender-smart NCQG outcome

11. The integration of gender-smart principles into climate finance represents a critical pathway toward achieving more effective, inclusive, and sustainable climate action. The following recommendations provide practical suggestions on the references that the NCQG policy paper can consider to ensure that the **quality dimension of climate finance** does not miss out the gender-smart investing as a driver for inclusivity and equity:

    1. Call for the climate finance deployed through the financial mechanism of the climate convention, and broadly the multilateral and bilateral institutions, to apply internationally recognised criteria that ensure the climate projects they invest in foster gender equality, leading to transformative impacts on environmental and social sustainability, enhanced returns, and additional finance for climate action.

    2. Recognise the need for all the Parties to foster partnerships with reputable organisations that are recognised as standard setters in gender-smart investing to integrate a gender lens into all their climate investments.

    3. Request the international financial institutions supporting the implementation of the Paris Agreement to establish clear gender integration parameters and define and implement clear guidelines for incorporating gender considerations into climate finance. This could include undertaking more participatory and locally rooted and contextual gender studies, developing gender action plans with allocated budgets, integrating these plans into project implementation, and setting measurable targets as well as broader learning goals for gender equality to improve transparency, accountability, and the effectiveness of climate finance.

The 2X Global Climate & Gender Finance team, in collaboration with several 2X Global Members, has contributed to this submission.