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Gender Lens Investing and Green Financing: The role of women-owned small and medium businesses in climate vulnerable communities

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The natural environment and women's labour are both treated as infinite resources and undervalued, even though they are the foundation for all economies.
UN Women, 2021

Introduction

The launch of the UN Women Feminist Plan for Sustainability and Social Justice issued a challenge to global leaders. The plan supported the adoption of feminist economics and reminded stakeholders of the finite nature of economies. It purported the need for increased accountability, reduced public debt burdens, and gender-based decision making in job creation and market recovery plans. Participatory planning was heralded as the benchmark for feminist planning and programming.

Participatory, engaged, and accountable recovery is particularly important when discussing the recovery and survival of Small Island Developing States (SIDS). Markers of progress in SIDS must be equally measured by the successful management of people, economy, and environment. Restricted by size, SIDS are faced with limited financial and physical resources. In 2020, three economies (United States of America, China, and Japan respectively) made up 47% of the $85 Trillion[i] world economy, while SIDS contributed less than 10%.

SIDS are more exposed to the effects of climate change. As smaller populations or physical territories, SIDS are experiencing the loss of traditional livelihoods, erosion of land lost to rising sea and water levels, and greater damage to infrastructure and crops caused by harsher droughts, more violent storms, and pollutants to once potable water sources. In response to emerging challenges, SIDS are also taking on greater external debts. Governments in SIDS apply the external financing to programs that seek to diversify and grow economies, respond to, and mitigate disasters, and improve social and other government services. The result is that SIDS carry external debts that on average, make up more than 60% of their GDP. The debt burden has since increased, as many SIDS sought additional funds to support pandemic management and recovery efforts. The debt crisis faced by SIDS is so prominent in global forums, that in April 2021, the UN held a dialogue to discuss the merits of Debt-for-Climate Swaps, a panel that included representatives from the AOSIS for Climate Change and the Green Climate Fund, among others.

Economic growth that balances people, environment and economy is best placed under localized economic development. Local initiatives, set out under a development plan can:

i) reinforce the accessibility of local leaders
ii) create a platform for regular and engaged accountability
iii) highlight the importance of local businesses
iv) benefit investors by listing targeted priority areas based on the skills and needs of community members

Small and medium enterprises occupy the centre of all strong local development plans.

Why Small and Medium Enterprises?

Globally, small and medium enterprises (SMEs) are the bedrock of markets. Highlighted as the primary sources of job creation in both the developed and developing world, SMEs make up approximately 90% of global businesses[ii]. The World Bank estimated a USD 5.2 Trillion gap facing formal SMEs, with a USD 1.7 Trillion gap facing formal women-owned SMEs[iii]. Latin America and the Caribbean (LAC) had the third highest gap facing formal economies (USD 98 Trillion), a figure that did not account for the high number of informal[iv] SMEs operating in the Region. The OECD, citing research by Dini and Stumpo[v], noted that:

a. 99.5% of Latin America and Caribbean enterprises are categorized as SMEs
b. SMEs in LAC employ more than 60% of the formally engaged population
c. Productivity of LAC based SMEs in relation to GDP is substantially smaller when compared to other regions

Exports from SMEs in LAC were mostly through indirect sales, e.g., sub-contractors, sales groups, or partnerships; or as part of global value chains such as licensing, transfers, or franchising agreements[vi].

Another component of SME analysis is the presence and effectiveness of women-owned SMEs. The 2021 global study on entrepreneurship reported that "one in five women, or more, are starting or running a new business in each of the six Latin America & Caribbean economies."[vii] The International Labour Organization, OECD and the Global Entrepreneurship Research Association observed that traditional service sectors dominate LAC economies, and that women-owned SMEs are often launched out of necessity. The main risks to economic growth in LAC was listed as disruptions due to policy changes by major trade partners, natural disasters or policy implementation shifts post election.[viii] Often lumped into SMEs are micro-enterprises, that are largely informal, unbanked, and owned by women. It is these informal micro and smaller enterprises that are most often excluded from aggregate analyses of SME trends, needs and performance across countries.

The LAC region has systems in place for supporting SMEs, with annual improvements seen to enhance ease of doing business. Enabling factors, such as start-up financing, lines of credit and loans, guarantees, angel investors, and structured funds are offered by various creditors – development finance institutions (DFIs), banks, credit unions, multilateral development banks (MDBs) and private investors. Instruments to support SMEs are varied, with gender bonds, blended finance and targeted loans or grants, such as financing for women-owned SMEs, gaining traction. Groups like the Colombia National Guarantee Fund (Fondo Nacional de Garantías) and FOGAPI in Peru offer guarantees, that make up the bulk of private finance from MDBs and DFIs[ix].

Globally, SMEs also have dedicated programs to improve access to fiscal spaces through nationally led and international programs. For women-owned SMEs, there are initiatives such as the 2X Challenge[x], that mobilized US$11.4 billion between 2018 and 2020 to support financing for women-owned SMEs. The 2X Challenge also includes the 2XCollaborative, and investor focused initiatives under the 2X Gender and Climate Finance Taskforce that promotes gender-smart investing. Despite ongoing initiatives, it was estimated that women-owned SMEs faced a USD 98 billion financial gap, with 5% of that figure evading women-owned micro-enterprises.[xi] Women were also more likely to face barriers to entry in navigating registration or other regulatory requirements, or meeting supplier conditions to access lines of credit.

SME aggregate reporting can suffer from data gaps. The findings on SME trends were SIDS silent for Latin America and the Caribbean region. All three reports (ILO, OECD, and Global Entrepreneurship Report) sampled larger economies, and only included Latin American countries.

There was no evidence of Caribbean Community (CARICOM) countries being sampled, and those voices, along with Cuba and the Dominican Republic are noticeably absent. There was also no evidence of indigenous focused approaches to data-gathering, so any gender-related biases, gaps or gains evident in indigenous communities or among indigenous women-owned SMEs could not be measured. Limitations in methodology are not uncommon in global reports. Binary tracking and analysis of SMEs dominate most reports, with the LGBTQI+ and 2S community often being invisible. Intersectional analyses that include location, disability, and level of education of SME owners are more visible but are not as widely distributed or referenced in global aggregate reporting. The informal economy is regularly mentioned, but as a fringe economy, it is vastly undocumented. The ILO report (2020) does mention the informal economy and **estimated that 740 million women were engaged in the informal economy in 2020**. This means that women in the informal economy, that more than doubled the size of the United States' total population, were mostly absent from policy dialogues on SMEs.

The missing voice of the most vulnerable in SIDS is not unique to entrepreneurial or trade reports. Aggregate policy making relies on methodology that needs volume to present a business case to policy makers, private investors, development finance institutions, and public-private partners. In keeping with the feminist approach, the principles of intersectionality need to be promoted as the standard for monitoring and evaluation frameworks that promote economic and gender equality for all. If economic development is promoted at the local level, then monitoring is the mandate of local actors, to foster frequent, real-time engagement with on-the-ground stakeholders.

Case Study – The Caribbean

The Caribbean is home to more than 41 million persons spread out over 700 islands, cays, and land masses set along the Caribbean and Atlantic seas, and on the borders of Central and South America. The region is made up of independent countries and overseas territories, with historical political ties to the United Kingdom, France, the Netherlands, and Spain, as well as ethnic ties to Asia, Africa, and the Middle East. There are six official languages – English, Dutch, French, Haitian Kreyol (Haiti), Papiamentu (Curaçao) and Spanish, as well as numerous Creole, pidgin, and indigenous languages.

Dominated by Commonwealth countries, the region has traditional trade relationships with Asia, Africa, Europe, and the United Kingdom, but have established strong ties to the Americas due to its close proximity. The GDP performance in the Caribbean region ranges from 470 million to 11.3 billion USD[xii], and Gross National Income (GNI) ranges from $1,709 to $33,747[xiii]. Some Caribbean countries have joined sub-regional trading blocs, such as the Organization for Eastern Caribbean States (OECS), Caribbean Community (CARICOM) and the Dominican Republic-Central America FTA (CAFTA-DR) to encourage trade and economic growth.

Priority attention should be given to small island developing states. In the 2020 United Nations Climate Change Report, there was only one mention of SIDS, a reference to a Pacific workshop held for 14 SIDS under the United Nations Environment Programme Regional Office for Asia. In the Americas, there are sixteen independent Caribbean countries listed as SIDS, while thirteen Caribbean overseas countries and territories are listed as Non-UN Members or Associate members of Regional Commissions. Caribbean countries make up more than 40% of SIDS, and Caribbean countries make up 50% of SIDS and Associate member states. The Caribbean can then be categorized as a highly vulnerable region that could be more significantly affected than Central or South America to the effects of climate change. The loss of these mostly island-nations would lead to not only the displacement of residents, but loss of biodiversity, distinct cultures, and entire economies.

Small Island Developing States	Associate Members
Antigua and Barbuda	Anguilla
Bahamas	Aruba
Barbados	Bermuda
Belize	British Virgin Islands
Cuba	Cayman Islands
Dominica	Curacao
Dominican Republic	Guadeloupe
Grenada	Martinique
Guyana	Montserrat
Haiti	Puerto Rico
Jamaica	Sint Maarten
Saint Kitts and Nevis	Turks and Caicos Islands
Saint Lucia	U.S. Virgin Islands
Saint Vincent and the Grenadines	
Suriname	
Trinidad and Tobago	

Table 1 – Small Island Developing States[xiv]

Small island developing states should prioritize a national analysis of connections between physical and economic environments. This should be their first priority to adapt to the effects of climate change and secure the lives and livelihoods of its residents. Caribbean SIDS operate under the United Nations Framework Convention on Climate Change, but to date only four Caribbean SIDS have finalized and enacted National Adaptation Plans (NAPs): Grenada, Saint Lucia, St. Vincent and the Grenadines, and Suriname. With the expiration of the Grenada NAP in 2021, the region needs more support in becoming climate aware and cohesive in its mitigation approach. National policies that seek to reduce the impacts and address the adverse effects of climate change will align with the Paris Agreement goals. National policies will also 'set the tone' on climate priorities for public and private enterprises and frame the parameters for becoming a low emission economy. However, inadequate resources (financial and capacity building) will stimy SIDS seeing to create and launch a NAP.

A National Adaptation Plan will create a national framework that identifies the most vulnerable livelihoods and businesses. The creation of the national policy should be driven by local leaders. By guiding dialogue, local leaders can:

i) incorporate the inputs of a larger cross-section of the population into the national plan
ii) create avenues for entry to facilitate inputs from women operating in the care and/or informal economy
iii) document identified priorities, risks, and challenges for existing women-owned SMEs
iv) ensure the national approach represents rural and urban communities

The engagement of women-owned SMEs can guide financial lenders on the supply chain, to develop products and services that fit their needs. The missing voice of Caribbean SMEs in most large-scale reports indicates a need for this gender-lens approach to be explored, adapted, and put in place to support the vulnerable communities in the Caribbean.

"...dire impacts of climate disruption on the lives and livelihoods of people all over the world, we need a breakthrough on adaptation and resilience. It is essential that at least fifty per cent of climate finance globally is committed to building resilience and supporting adaptation. Annual adaptation costs in developing countries are estimated at $70 billion dollars, and they are expected to reach up to $300 billion dollars a year by 2030."

Statement by António Guterres, United Nations Secretary-General at the Security Council Debate on Climate and Security

Conclusion

There is a global recognition that environmental devastation has implications for diminished biodiversity, loss of lives and disruption of livelihoods. The nexus between economic, environmental, and human development is clearer in 2021 than ever seen before. As COVID-19 continues to ravage communities, SIDS governments are turning outwards for recovery support. Countries are being encouraged to increase their financing of annual adaptation costs, through the Adaptation Fund, Climate Investment Funds (CIF), Green Climate Fund (GCF) and Global Environment Facility, among others. In this dialogue, the message of inclusivity should run parallel.

Women-owned SMEs contribute to the 60% employment figures of SMEs worldwide, and their importance in job creation and income generation for smaller communities cannot be diminished. Consideration should be given to:

a. Connect country-specific SME policies to mid-term National Adaptation Plans and long-term Sustainable Development Goals, particularly within SIDS
b. Prioritize investment in women-owned or women-led SMEs, particularly in sectors that promote agro-ecology, decentralized green energy, or exportable skills that can be performed in-person or virtually
c. Encourage the full participation of women-owned SMEs in the formal economy by reviewing and adapting banking, taxation, and regulatory frameworks
d. Promote locally led planning, monitoring and evaluation to ensure feminist approaches for inclusivity and intersectionality are adopted at all levels of the economy
e. Adopt standardized data and metrics models that strengthen weak and insufficient systems for monitoring and evaluation. There are several bodies that are leading the creation and application of gender lens investing (GLI) metrics, like IRIS+, PRI, HIPSO. Capacity building of local leaders (local government or similar), to use understand and use these metrics can assist in creating avenues for investments by external bodies.
f. Foster collaboration among women-owned SMEs and promote functional communities of practice

There is no separation of issues for small island developing states, so gender-lens investing needs to consider gender and the environment as equally important to the survival of communities and countries. Collaboration at any level of governance, means moving away from discussing gender in one room, investing in one room, and climate change in another. Green financing needs a gender-lens and small island developing states can be pioneers for new innovative approaches.

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[i] 2020. World Bank Group
[ii] 2021. World Bank Group
[iii] 2021. World Bank Group
[iv] The informal economy, wherein SMEs are unregistered and act outside of regulatory and legal structures or are registered but are partially compliant, e.g., does not file taxes. Informal economy can also refer to unpaid work (care industry) and illicit organized or random criminal activity.
[v] Referenced in 2019. OECD/CAF, *p. 33*
[vi] 2019. OECD/CAF
[vii] 2021 Bosma, Neil et al.
[viii] 2019. OECD/CAF
[ix] ibid
[x] https://www.2xchallenge.org/
[xi] 2019. IDB Invest
[xii] 2021. World Bank Group
[xiii] 2020. UNDP
[xiv] https://sustainabledevelopment.un.org/topics/sids/list