Breaking the Bias

How gender equality will transform economies, finance and business
Executive Summary

**Economy**

Women bore the brunt of the COVID-19 pandemic as disruptions to schooling and childcare outside the home exacerbated the downturn in female-dominated industries.

» For example, the gap between male and female labor participation in the US is wider than in Canada, the UK, Germany, Sweden and Australia, according to Moody’s Analytics.

» Implementation of family-friendly policies that are available in other countries, such as guaranteed paid family leave and subsidized childcare, could boost US GDP growth by almost $1 trillion in the next 10 years, or 4% above our baseline forecast.

**Credit risk**

Board-level gender diversity is correlated with higher credit ratings, according to Moody’s Investors Service. The presence of women on boards – and the diversity of opinion they bring – supports good corporate governance, which is positive for credit quality.

» Board-level gender diversity gradually declines down the rating scale.

» Likewise, companies with positive governance characteristics have a higher proportion of women on boards. Women represent 35% of the boards of the companies with positive governance characteristics as reflected by their governance issuer profile scores, while companies with very highly negative exposure to governance considerations have only about 21% of the board seats composed by women.

**Corporate action**

No corporate sectors achieved management-level gender parity in 2020 and almost half of all sectors have management teams that are, on average, less than 25% female, according to data from Moody’s ESG Solutions.

» Information technology, industrials and energy rank particularly low in terms of the percentage of women in management positions and the proportion of companies that disclose measures to support equal labor force participation; the luxury goods and cosmetics sector is the strongest performer, followed by financial services.

» Measures that can improve equal participation include paid maternity leave, flexible work hours and childcare.

**Sustainable finance**

Debt instruments that finance projects to support gender equity – which encompasses issues of fairness, opportunity and access – will grow in number amid increasing investor demand and regulatory pressure to disclose information on gender pay gaps and board-level diversity, according to Moody’s ESG Solutions.

» Sustainability bonds that combine green and social projects are emerging as the instrument of choice for financing gender-related projects.

» Use-of-proceeds social bonds will remain a key instrument in funding gender equity-focused projects.

» Sustainability-linked bonds are emerging as an alternative debt structure as issuers embed gender equity in their organizations’ financing strategies.
What would higher female labor force participation mean for the US economy?
Higher rates of female labor force participation benefit economic growth

COVID-19 pandemic hurt women more
- Around the globe, women bore the brunt of the COVID-19 pandemic as disruptions to schooling and childcare outside the home exacerbated the downturn in female-dominated industries, like education, healthcare and food services, according to Moody’s Analytics.
- A higher proportion of women left the workforce in the US and Canada than in the UK, Germany, Sweden and Australia, partly because policies are less supportive than in those four countries.
- During the past year, the recovery in US female labor force participation has lagged, with participation remaining below pre-pandemic levels.

US women have fallen further behind their male counterparts
- While labor force participation rates of prime-age (25-54 years) women lag those of men around the world, the US has the widest gap in our sample group.
- While the participation gap has shrunk in several other nations since the pandemic began, it has widened in the US.
- The lack of family-friendly policies in the US keeps more prime-age women out of the labor force during their most productive years compared to other nations.

US women are further behind...
Participation rates, prime-age women, December 2019=100.

...and gap with men has only widened
Gap between prime-age men’s and women’s participation rates, in percentage points

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>9.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Canada</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Germany</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.6</td>
<td>7.9</td>
</tr>
<tr>
<td>UK</td>
<td>9.9</td>
<td>11.4</td>
</tr>
<tr>
<td>US</td>
<td>97.8</td>
<td>102.4</td>
</tr>
</tbody>
</table>

Top exhibit: COVID low denotes April 2020 for Canada and Sweden, May 2020 for Australia, December 2020 for the UK, January 2021 for Germany and March 2021 for the US.
Bottom exhibit: Year-end 2019 for all countries; 2021 is as of December (Sweden and US), November (Canada and Australia), October (UK) and July (Germany).
Sources: International Labour Organization, OECD, Moody’s Analytics.
A population cohort analysis shows the effect of US demographics on labor force participation

- Holding participation constant at 2019 rates for age and sex allows us to see how demographic shifts alone will impact the labor force over the next 30 years.
- The prime working age population will fall over the next three decades as Baby Boomers age into retirement and a much smaller working-age cohort replaces them. Lower levels of immigration will be unable to offset the decline.
- Findings from Moody’s Analytics show how narrowing the gender gap in labor force participation would boost economic growth.

Demographics overwhelm any scenario…

<table>
<thead>
<tr>
<th>US participation rate, %, under various assumptions.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Baseline</strong></td>
</tr>
<tr>
<td>2021</td>
</tr>
<tr>
<td>2025</td>
</tr>
<tr>
<td>2029</td>
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<tr>
<td>2033</td>
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<td>2037</td>
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<tr>
<td>2041</td>
</tr>
<tr>
<td>2045</td>
</tr>
<tr>
<td>2049</td>
</tr>
</tbody>
</table>


Family-friendly policies could boost output

- Family-friendly policies that exist in other developed nations such as guaranteed paid family leave, childcare subsidies or credits and universal pre-kindergarten would allow more prime-age women to work.
- If these policies went into effect immediately and prime-age women participated in the workforce at the same rate as in other developed nations, real US GDP would be almost $1 trillion higher in the next 10 years, or 4% above our baseline forecast.
- Even if women close only half of the 10-percentage-point gap with men’s participation, GDP would be 2% higher in the next 10 years than our baseline.

**...but output could be significantly higher**

<table>
<thead>
<tr>
<th>US GDP under various assumptions (in 2010 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YEARS</strong></td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td>2028</td>
</tr>
<tr>
<td>2040</td>
</tr>
<tr>
<td>2044</td>
</tr>
<tr>
<td>2052</td>
</tr>
</tbody>
</table>

Sources: US Bureau of Economic Analysis, Moody’s Analytics.

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Is there a link between boardroom gender diversity and credit ratings?
Board-level gender diversity among North American and European companies' rated by Moody's Investors Service tends to be higher for companies with higher credit ratings.

Although the positive correlation between boardroom gender diversity and credit ratings falls short of demonstrating direct causation, we consider the presence of women on boards – and the diversity of opinion they bring – as being supportive of good corporate governance, which is positive for credit quality.

Gender diversity increased across most of the rating categories during the past two years (see exhibit at right). This trend is likely to continue, driven by new diversity mandates and push from prominent stakeholders, such as proxy advisory firms and asset managers like BlackRock and State Street Global Advisors. In addition, stricter disclosure requirements, including the approval of Nasdaq Inc.’s proposal last year, will likely result in further gains.

Data as of 31 January 2022. Excludes rating categories with fewer than five rated issuers. Sources: Moody's Investors Service and Bloomberg.

1 Cohort of companies assessed in our March 2020 report about boardroom gender diversity in Europe and our September 2019 report about boardroom gender diversity in North America (US and Canada).
Government mandates and pressure from large institutional investors and asset managers have increased gender diversity on the boards of 1,301 rated North American and European companies. In the past two years, the aggregate share of corporate board seats held by women rose to 29% from 24%, according to Moody’s Investors Service.\(^1\)

In North American companies, board seats occupied by women rose to 27% from 22% in 2019. While in Europe, the gains were more modest, from 31% in 2020 to 35% in 2022, likely related to the fact that they came off a higher base. The UK and more than half of the member countries of the European Union have mandates or nonbinding targets for board-level gender diversity.

The data also suggests that higher credit ratings are not only correlated with a higher proportion of women on boards but also with a higher percentage of women in C-suite executive positions.

\(^1\) To ensure that our analysis is not skewed by shifts in cohort composition or small sample sizes, we focused on rated, publicly traded companies for which data is available and limited our analysis of rating categories to those with at least five rated issuers from our cohort. Companies that we no longer rate or are now privately held have been removed from the 2019-2020 cohort for the purposes of this analysis.

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**GOVERNANCE ISSUER PROFILE SCORES.**

<table>
<thead>
<tr>
<th>Score</th>
<th>Average % of Women on Boards by G-IPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>G-1 Positive</td>
<td>35.1%</td>
</tr>
<tr>
<td>G-2 Neutral-to-low</td>
<td>29.6%</td>
</tr>
<tr>
<td>G-3 Highly negative</td>
<td>21.4%</td>
</tr>
<tr>
<td>G-4 Moderately negative</td>
<td>25.0%</td>
</tr>
<tr>
<td>G-5 Very highly negative</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

**2019 / 2020**

- **Positive**: 24% (3,372 Positions)
- **Neutral-to-low**: 76% (10,424 Positions)

**2022**

- **Positive**: 29% (4,036 Positions)
- **Neutral-to-low**: 71% (9,902 Positions)

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Breaking the Bias  How gender equality will transform economies, finance and business
How are corporations integrating gender equality into their businesses?
Gender equality will be critical in achieving the UN Sustainable Development Goals (SDGs), the 17 interconnected, social, economic, environmental and institutional goals that all UN member states have agreed to achieve by 2030. The private sector is essential to delivering the SDGs, not least SDG 5, which seeks to achieve gender equality and empower all women and girls (see table below). Despite growing corporate recognition of the importance of gender equality, research from Moody’s ESG Solutions finds mixed outcomes across sectors in terms of the percentage of women in management positions and the supportive steps taken to achieve more equal labor force participation, such as providing paid maternity leave, flexible work hours and childcare. Moody’s ESG Solutions data also finds that cases of gender-related controversies nearly doubled during 2021. Improving gender-related business practices will not only mitigate harm associated with gender inequality, but also help advance equal participation of women in leadership and decision-making.

**SDG 5: Achieve gender equality and empower all women and girls, selected targets**

<table>
<thead>
<tr>
<th>Target</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2</td>
<td>Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation.</td>
</tr>
<tr>
<td>5.5</td>
<td>Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.</td>
</tr>
<tr>
<td>5.C</td>
<td>Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.</td>
</tr>
</tbody>
</table>

Source: United Nations
Despite growing corporate recognition of the importance of gender equality, outcomes are mixed across global sectors in terms of the percentage of women in management positions and supportive steps taken to achieve more equal labor force participation, such as providing paid maternity leave, flexible work hours and childcare.

When considering the percentage of women in management with our assessment of the measures that can improve equal participation, the information technology, industrials and energy sectors perform poorly, with management teams that are only 22% female and less than 20% of companies disclosing equal participation measures. The luxury goods and cosmetics sector is the strongest performer, combining the highest percentage of women in management positions (41%) with the highest proportion of companies disclosing equal participation measures (45%).

We also find that more than half of all global gender-related controversies occur in sectors with 20% or lower equal participation measures performance. Furthermore, our research finds that corporate gender-related controversies almost doubled to 117 in 2021 from 64 in 2020 (see exhibit below), with pay issues, gender discrimination and sexual assault making up the majority of cases. This sharp increase can be attributed in part to labor-related pandemic headwinds that disproportionately hurt women and to greater focus on gender discrimination and sexual harassment that is, in turn, improving the disclosure of such incidents.

Overall, the mixed picture of performance across sectors suggests a lack of systematic approaches to address gender equality challenges in the workplace. Companies in sectors that are able to offer stronger equal participation measures will improve their potential to increase the percentage of women in executive and senior management positions, enhancing their ability to attract and retain employees, build diverse organizations and leadership and contribute to SDG 5.

Source: Moody’s ESG Solutions

4 Moody’s ESG Solutions’ Controversy Risk Assessment Database captures over 20,000 cases logged and analyzed across a broad range of ESG issues.
How can the capital markets promote gender equity?
With sustainability becoming an increasingly important theme in global capital markets, Moody’s ESG Solutions expects issuance of green, social, sustainability and sustainability-linked (GSSS) bonds to hit a record $1.35 trillion globally in 2022.\(^{1}\) Debt instruments that finance projects to support gender equity will grow in number amid increasing investor demand and mounting regulatory pressure on investors and companies to disclose information on gender pay gaps and diversity on corporate boards.\(^{6}\)

Against this backdrop, there is a greater need for financing aimed at alleviating issues that stem from gender inequality. In 2021, proceeds from about $22 billion of GSSS bonds were earmarked – in whole or in part – for the financing of projects tied to SDG 5 for the achievement of gender equality and female empowerment. Such volumes have grown steadily since 2016, with a cumulative $70 billion issued since that year.

Primary labeled debt instruments of choice are sustainability bonds – where issuers can combine environmental objectives with social objectives such as gender equity – and social bonds where gender can be the sole or primary focus of the bond. There is also growing use of sustainability-linked bonds to address gender equity goals, which enable issuers to incorporate gender-related targets into their financing structures with the cost of capital directly tied to the achievement of such targets.

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\(^{1}\) See Sustainable bonds to hit record $1.35 trillion in 2022, Moody’s ESG Solutions, January 2022.

\(^{6}\) See, for example, Corporate sustainability reporting, European Commission.
Continued growth in such issuance is critical given that the socioeconomic impact of the COVID-19 pandemic has disproportionately hindered progress in closing the gap in gender equality.7

The promotion of gender equity is prevalent in a variety of sustainable debt instruments, with sustainability bonds that combine green and social projects emerging as the instrument of choice for financing gender-related projects.

For example, the Republic of Benin issued a €500 million ($591 million) SDG bond in July 2021 – the first of its kind in Africa – with proceeds from the issuance financing a wide array of environmental and social projects.8 Among the list of eligible social projects are gender equality initiatives focused on improving the health of young women and women with limited access to reproductive healthcare; expanding access to education for young girls; and supporting female entrepreneurs. Use-of-proceeds social bonds will remain a key instrument in funding gender equity focused projects.

In Colombia, for example, Banco Davivienda issued a gender-focused social bond in August 2020 for COP362.5 million (about $100 million).9 This bond was the first of its kind in South America, with clearly defined gender-equity objectives aligned with international standards. Proceeds from the bond are earmarked for loans to eligible women-led and owned small and medium enterprises in Colombia and social interest housing loans that seek to benefit first-time female home buyers with low incomes.

Sustainability-linked bonds are emerging as an alternative debt structure as issuers embed gender equity in their organizations' financing strategies.

Schneider Electric, a French global electrical systems company, issued a €650 million (about $769 million) convertible sustainability-linked bond (SLB) in November 2020.10 The SLB links environmental and social sustainability performance goals through three sustainability targets: deliver 800 million tons of saved and avoided of CO2 emissions to customers; meet gender diversity targets for the hiring of front-line managers and leadership teams; and train one million underprivileged people in energy management.

Despite the steady increase in issuance tied to SDG 5 in recent years, there is much work to be done and ample room for market growth. Of the sustainable debt issuances citing projects linked to SDGs since 2016, Moody’s ESG Solutions estimates that just over 1% of proceeds have been allocated to SDG 5, with a significantly higher share of issuance going to other projects such as for climate mitigation efforts. This aligns with the findings from a recent OECD paper which concludes that investments in gender equality and women’s empowerment are lagging behind investments for most other goals.11

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8 For more information, see Second Party Opinion from V.E, July 2021. V.E is now part of Moody’s ESG Solutions Group.
9 For more information, see Second Party Opinion from Vigeo Eiris, July 2020. Vigeo Eiris is now part of Moody’s ESG Solutions Group.
10 For more information, see Second Party Opinion from V.E, November 2020. V.E is now part of Moody’s ESG Solutions Group.
Nevertheless, there are initiatives underway globally to promote the continued advancement of gender equity in capital markets. In November 2021, the International Capital Market Association, the International Finance Corporation and UN Women published a guide to using sustainable debt for gender equality which highlights the types of gender projects that can be financed and provides examples of gender-based targets for issuers of sustainability-linked bonds.\(^\text{12}\) Such efforts will continue in light of the significant financing gap to meet gender equity goals.

\(^{12}\) See Bonds to bridge the gender gap: A practitioner's guide to using sustainable debt for gender equality, UN Women, November 2021.