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Briefing

Growth Team Briefing note 5

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GENDER EQUALITY at the heart of development

Gender and growth

Introduction

This briefing note sets out recent evidence linking gender equality and growth and looks at emerging issues for development agencies, including DFID, policies and programmes.

Summary

Gender inequality hurts economic development and growth in the developing world. Evidence is that reducing gender inequality can for example:

- increase growth overall;
- improve investments in health and education for long term development;
- raise productivity and household saving and investment. Reduce the burden of high fertility and promote growth;
- promote women's business and entrepreneurship; and
- increases rural productivity and growth.

Policies to promote growth and gender equality depend on both formal and informal institutional factors. Policies need to look at for example:

- promoting equality in education and not just at primary level;
- supporting women being able to take-up opportunities for wage labour by looking at incentives, the time burden of domestic work;
- making sure labour legislation and regulation doesn't create barriers or disincentives for women's paid labour; and
- look at the barriers, formal and informal, to women's asset ownership and business.

Economic development and growth are the single most important means by which poverty is reduced worldwide. The most impressive examples of poverty reduction worldwide have been driven by economic development in countries such as Vietnam and China. While performance is less strong in Africa it is still economic growth that is driving poverty reduction in many countries such as Tanzania and Rwanda among others.

We know that gender equality rises with economic development. As economies develop, women's economic conditions improve and gender gaps reduce accordingly. Growth entails economic transformation, one important aspect of which

is **the shift from subsistence to production for the market**. This economic transition is particularly important in creating new employment opportunities for women. At higher levels of overall income, higher percentages of manufacturing and services support gender equity, as do higher rates of urbanisation and education. Similarly, more open and competitive economies are less tolerant of certain sorts of discrimination practices, which in economic terms represent an inefficient use of human resources.

DFID's policies, as set out in DFID's recent **Gender Action Plan**, now recognize achieving gender equality as a key step to meeting all our development goals and the MDGs. Evidence now points us to the fact that gender equality is key to improving, governance, environmental sustainability and our education and health objectives.

Gender equality is therefore both a cause and a consequence of economic growth. Yet many of our developing country partners often prioritize growth and economic development seeing these goals in opposition or as alternatives to investments in issues such as gender equity. This briefing note sets out how pursuing gender equality is linked to accelerating growth

Key linkages

The evidence is clear that gender equality affects growth.[1] The key links between gender and growth are:

Gender equality improves overall growth:

It has been estimated that between 0.9 and 1.7 percent of the regional growth difference between East Asia/Pacific region and the Middle East/North Africa region can be accounted for by gender gaps in education and employment.[2] Is this sufficient to worry about? Put into dollars lost it would seem so. If the Middle East and North Africa had the same level of gender equality in education as East Asia their GDP would be between $5.8 – 7.4 billion (1996 prices) higher or in other words around 16 to 20 dollars of per capita GDP which for many poorer African countries is considerable.

Investment in human capital and future generations increases:

Improved gender equality significantly changes the welfare of all of society. There is good evidence that greater gender equality improves children's lives which in turn improves economic prospects. Higher female earnings and bargaining power translate into greater investment in children's education, heath and nutrition which leads to economic growth in the long term.[3] Investment in children's health, nutrition and education affects their future income-earning capacity. An increase in women's bargaining power in their households, their economic and social status, and the proportion of household assets and income that are under their control are all

[1] Vershoor et al. 2006. This section of the paper draws heavily on this review, commissioned by the Growth Team in DFID as part of its gender and growth work programme.
[2] Klasen and Francesca 2003
[3] Thomas 2002; Schultz 2002

positive determinants of the human capital outcomes of their children[4], and thus of future economic growth.

Education of women and girls reduces fertility rates:

Less education of women and girls results in lower growth and is associated with low income status. A number of factors are at work in this effect which are difficult to separate out as the conditions which limit equality in education are often the same ones that affect labour markets and women's economic participation.

One explanation for the effect of improved education on growth is education's effect on fertility. In 1994, Shultz estimated that in low-income countries when the average number of years of schooling received by women increased by one year, total fertility dropped by 12 percent.[5] This is a significant drop and may point to female education being *the* link between economic growth and the demographic transition, itself an important feedback loop into growth.

The well established link between education and fertility is confirmed in Uganda. The total fertility rate is 7.8 among women with no education and 7.3 among women with some primary education. Among women with more than primary education, the rate dropped from about 5.0 in 1988 to 3.9 in 2000. This means that on average, women with no education have about four children more than women with some secondary education.

Source: Ellis et al. 2006

Labour market participation increases growth:

In many countries there are significant barriers to women's access to paid work. Labour market institutions – both formal, such as employment protection regulation and informal, such as job information networks - often operate to limit and reduce female labour market participation. This has significant costs to economic development.

Firstly, unequal participation has a *direct* labour market effect on overall growth. Research found that, in 2003, between 0.9 and 1.7 percent of the regional growth difference between East Asia/Pacific region and the Middle East/North Africa region could be accounted for by gender gaps in employment in addition to education. The effects on growth were considerably larger when employment was taken into account. [6]

[4] See Thomas and Chen (1994) for evidence for Taiwan; Quisumbing and de la Brière (2000) for Bangladesh; Quisumbing and Maluccio (2000) for Ethiopia, Indonesia, Bangladesh and South Africa; and Smith et al. (2003) for a comparative study of the regions South Asia, Sub-Saharan Africa and Latin America and the Caribbean.
[5] Shultz 1994
[6] Klasen and Francesca 2003

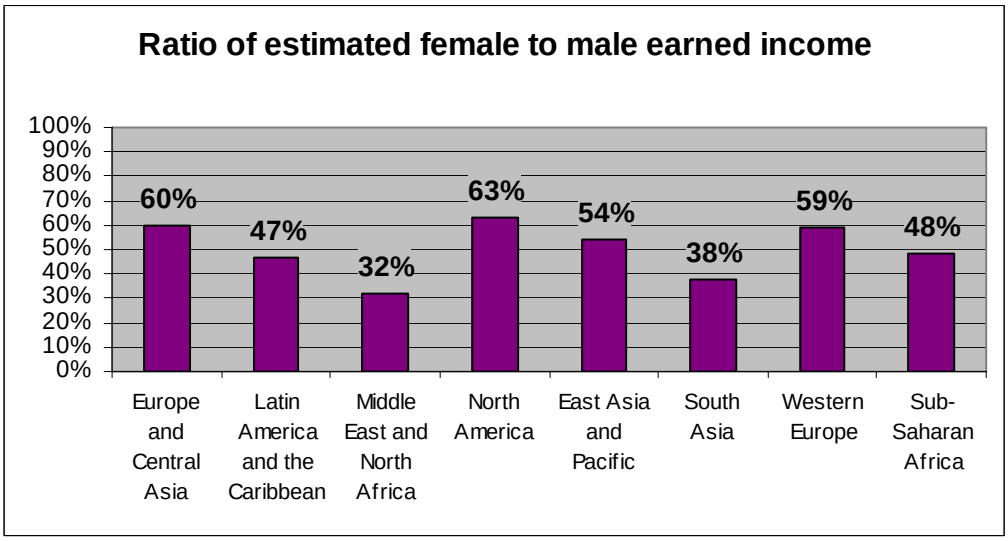
Secondly, limited labour market participation of women seems to have an *indirect* effect through reduced productivity of firms and businesses.

More women in the work force also increases the productivity of firms. Models undertaken in India show that an increase in the ratio of women to male employees in favour of women have big impacts on output, in some cases as much as 50 percent. This study also suggests that increase women's engagement in management also improves firm performance and productivity. More research has to be done to understand how women's employment affects productivity at a macro-economic level. *From Esteve-Volart 2004.*

In some countries - such as many of those in sub-Saharan Africa - the difficulty of women responding to labour market demands is a result of women being 'time poor'. Here, policies designed to promote growth may therefore fail to elicit the expected response from women and need to be supplemented by public investment in technology, transport and infrastructure development to reduce the household time overhead.[7]

Wage equality is good for savings, efficiency and productivity:

Micro evidence shows that more equal wages are associated with higher levels of household savings. In developed countries there is evidence of how higher women's incomes translates into high growth from domestic investment but there are few studies on this in developing countries. [8]



From OECD/GDI database

In some cases, firms can take advantage of women's lower wages. One piece of research found that in Asia low female wages, even when adjusted for educational levels, were correlated with higher growth. One explanation for this is that in periods of rapid export growth, in new sectors not yet covered by labour protections, the

[7] Blackden and Woden 2006
[8] Seguino and Sagrario Floro 2003

pressure of international competition on wages is most intense and groups that have the weakest bargaining power (including, but not restricted to, women) suffer lower wages as a result. However, most commentators think this a transitional phase as over time most export-oriented economies experience higher gender equality than less open economies.

> "The relationship between low wages and higher shares of women's employment is ..starkly self evident… The lowest overall wage rates occur in those states where the female share of employment is the highest and conversely in the higher wage regions the share tends to be much lower." *Mazumdar 2006, pp 120*

Business and enterprise need women's involvement:

Barriers to women's role in business are costly to overall economic performance and are considerable in many countries. Often women-run businesses are unable to respond to emerging economic opportunities as regulations, around the right of women to own assets and operate businesses in their own name prevent them from doing so. Informal barriers and costs, such as much greater exposure than men to official harassment and enforcement of "nuisance taxes", are also important.

> The recent IFC led Gender and Growth assessment of Kenya found that even though women entrepreneurs make up nearly half of micro, small and medium business owners (MSMEs), they hold less than 10 percent of the available credit. Kenya does not have a credit bureau that could capture women's excellent repayment histories and products like leasing and factoring are not widely available. Women who own MSMEs are less likely to register their businesses, and perceive tax rates, tax administration, and customs as greater constraints to business growth than men. - *From World Bank 2006a*

Rural productivity improves:

Greater gender equality is associated with higher agricultural productivity. Two mechanisms seem to be at work. First, unequal access to the basic resources for production limits the productivity of farm units. Second, greater bargaining power of women within rural households improves productivity and decision-making on the farm.

> For Kenya, the World Bank has estimated that eliminating gender-based inequalities in education and access to agricultural inputs could result in a one-off increase in as much as 4.3 percentage points of GDP growth, followed by a sustained year-on-year increase of 2.0 to 3.5 percentage points of GDP growth. *From World Bank 2006a*

For example, providing land titles to women improves farm productivity by way of increased use of technology, investment in inputs and access to other productive resources. [9]

[9] Agarwal 1996; Dolan 2004

As rural women's bargaining power over investments and assets increases, productivity also increases. In Burkina Faso evidence has shown that plots controlled by women achieved a 30 percent lower yield than men – even though plot characteristics were in every other way identical.[10] The difference in productivity was simply explained by women having less access to fertiliser and labour and that gender equality in access to farm inputs would have raised farm productivity by 6 percent.

Moving on - programmes, policies and interventions

The evidence above points us in a number of policy and programme directions. These areas are briefly outlined below. A key element to effectively tackling gender and growth issues is to understand the complex interactions between formal and informal institutions, market processes, social norms and culture. In general, successful interventions have approached combinations of issues and barriers to increased women economic empowerment as opposed to single sector interventions. However, much of the evidence on policy effectiveness is at present impressionistic or based on small scale programmes and limited data.

Closing the gender gap in human capital, providing incentives and opportunities for paid female work outside the household, and reducing the time burden of female domestic activities should be pursued simultaneously. Knowing which incentives to provide and which public investments to promote, requires an understanding of which *domestic* activities are responsible for women's time constraint as well as both the informal and formal barriers to women's employment, and entrepreneurship in the wider economy.

If development policy and practice are to respond to linking gender inequality and growth, an obvious first step is **gendered growth analysis**. But such analysis is dependent on **appropriate information being available** and**,** data availability and analytic coverage remain problematic in country level policy analysis and engagement.

[10] Udry 1996

> "Arguably the most promising direction for improving macro-economic policy is through gender-responsive budgeting. There is an advocacy need for championing not only gender-responsive budgeting but also the full arsenal of tools that it could make use of: gender-disaggregated public expenditure and tax incidence analysis, gender-aware policy appraisals, gender-disaggregated beneficiary statements, gender-disaggregated analysis of the impact of the budget on time use, gender-aware medium term economic policy frameworks, and gender-aware budget statements. Furthermore, the arsenal could be usefully extended through the development of a new tool: gender-aware growth incidence analysis."
>
> A large number of datasets relevant for a gender and growth analysis are in the public domain, the most comprehensive one being the newly developed Gender, Institutions and Development (GID) Database of the OECD Development Centre.
>
> From Arjan Verschoor, Arlette Covarrubias and Catherine Locke 2006

Getting the best information and analysis possible considerably increases the chance for effective interventions – and this does not just imply quantitative data analysis. Linked to appropriate data is the need to **combine statistics to the views of men and women as well as their interpretation of causal relations and solutions.**

A key part of the story as we have seen from the evidence **is women's and girls' education.** Progress has been impressive in this area and DFID is heavily engaged in girls' education around the world. Emerging lessons are that success in girls' education is linked to approaching enrolment and quality from a number of perspectives including access, incentives, family politics and culture among others. While progress has been impressive, we have signs that higher enrolment is not translating into marketable human capital and labour market participation to as high a degree as expected. The success in expanding universal primary education is putting pressure on secondary education where educational attainment is actually falling. Drop out rates in secondary education are rising, especially amongst girls.

Reducing **the time burden of non-paid or domestic labour** is key for economic empowerment in a number of settings. Reducing the time burden frees up women's time to engage in paid employment, improve the productivity of farm labour or increase entrepreneurial activity. Key interventions in these areas are likely to be:

- targeted infrastructure such as wells, energy (stoves, lighting etc) that improve access, reduce time burdens and or increase ease of use of domestic services;
- reducing the cost of existing infrastructure and domestic services to increase usage; and
- childcare schemes, which are often essential for labour market participation by reducing time burdens.

A number of countries have taken advantage of the link between **greater gender equality and its impact on fertility and growth.** Counties usually achieve this by:

- raising educational attainment for women;
- free and easy access to reproductive health services;
- removing incentives for large families by way of credits or social schemes; and
- reducing cultural barriers to family planning.

Iran reduced population growth from 3.9% in 1986 to around 2% in 1996 and 1.2% in 2002. The fall in fertility was about equal in urban and rural areas. This was achieved by a mixture of:

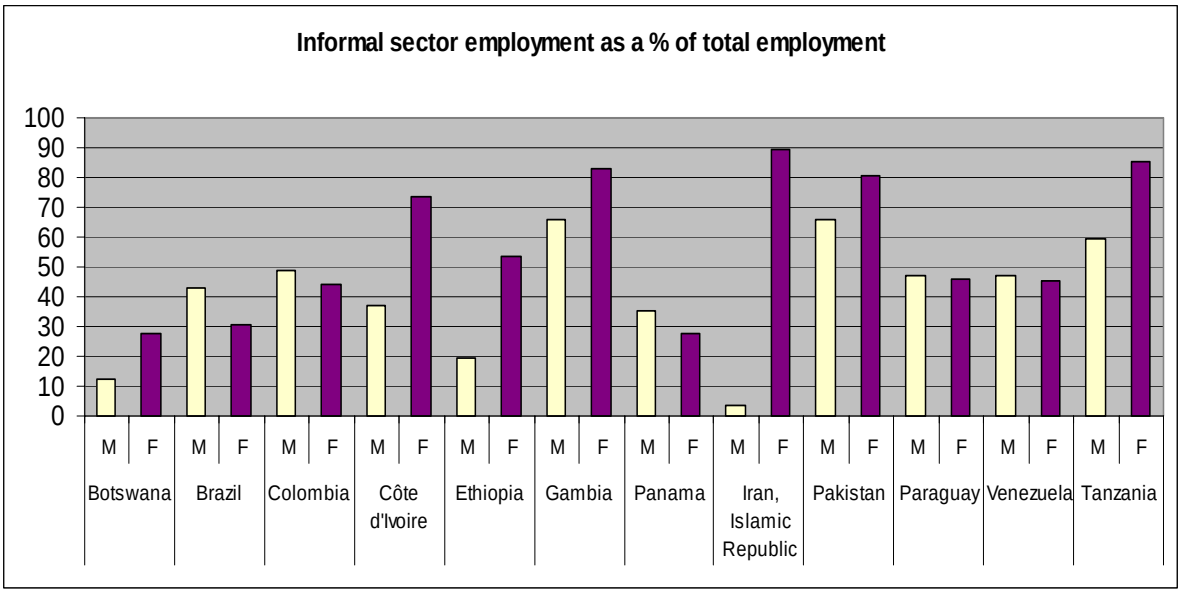
A. Almost universal access to reproductive health care including contraceptives and family planning services.

B. Reducing religious objection to family planning by working with Islamic courts and other bodies

C. Reducing economic incentives for larger families through grants for education only for first born and other mechanisms. From Grown, 2006

Establishing **balanced labour market regulation and incentives to support growth, higher productivity, labour market expansion and increasing gender equality** is difficult particularly as many women work in the informal sector which is hard to reach with labour regulation.

Figure 2: Informal sector employment as percentage of total employment, latest available year (1993-1999)



(ILO KILM 4th edition)

Experience seems to suggest that combinations of measures are needed to improve prospects for women's employment and greater equality in the labour market. Successful interventions aimed at reducing gender inequality in the labour market have been focused on:

- promoting women's education;
- promoting export growth and foreign direct investment;
- recognition of new, informal sector, workers' movements; and
- minimum pay legislation.

Changes in the welfare regime focused on directly encouraging women to engage in wage labour and market economies can be important. If social protection and other schemes become more common in developing countries this area will be increasingly important. The connection between welfare regimes and employment has been studied extensively for Europe. For developing countries, this is less well-developed as yet.

A case study from Taiwan examines whether labour law reform in Taiwan depressed female earnings and employment during the 1980s. The new provisions regulating working hours and providing maternity benefits raised the relative cost of employing women. While working-hours restrictions have a negative impact on women's actual hours worked and employment, maternity benefits increase these labour inputs, implying that women value the opportunity to return to jobs they might otherwise have to leave suggesting that the key to setting maternity benefits and policy is sound research and monitoring of impact. .

From - ConZveglich, J. E., and Y. Rodgers. 2003.

On maternity benefits and women's employment the evidence is mixed. A number of developing countries have working-hour restrictions specific to female workers. Such restrictions are usually culturally determined and motivated by assumptions that women's health and safety require special protection. Maternity pay is an issue primarily for middle income countries. Its impact often depends on who pays (state or employer) and how.

In the Middle East and North Africa, private employers' concern about maternity protection costs is deemed to account for the low share of female labour in the private sector (ILO, 2003). Cost sharing of maternity pay with government is likely to reduce discrimination and dampen negative wage effects by redistributing some of the costs of maternity leave from women and employers to families and society as a whole. Financing maternity from general revenues, rather than through the employer, can also reach workers in the informal sector and the population at large (Tzannatos, 1999).

Very restrictive maternity legislation may negatively affect female labour market outcomes because it constrains women's working options. Anecdotal evidence suggests that often maternity benefits are unpopular with employers, largely due to the extra cost associated with maternity benefits.

In terms of **reducing pay disparities** there is also limited evidence. Legislation has had some effect in developed countries but the pay gap still ranges from 15-20% in Europe.

> In the UK from October 2006 the National Minimum Wage was increased to £5.35 per hour for adults, and to £3.30 for 16 and 17 year olds (this rate was introduced for the first time in October 2004). Two thirds of the beneficiaries continue to be women and this has contributed to a reduction in the pay gap by 4.8% since 1997 – *From Cabinet Office 2007*

For low paid workers, minimum wage legislation can support equalling wages for manual and low paid workers although evidence suggest that this does not impact on the highest paid workers. Also care must be taken to not set it too high as to discourage employment and or drive firms into informality.

> For South Africa studies find the consequences of minimum wages legislation would result in significant job losses in vulnerable occupation categories, such as low-paid domestic workers, who are mainly females, and farm workers. After minimum wages and working hours regulations were introduced in South Africa, anecdotal evidence suggests that domestic workers have suffered redundancies or cutbacks (e.g. from working fewer days per week). (Borat 2000)

To support women's business and entrepreneurship both formal rules and informal governance must be conducive. Getting the legal and regulatory structure right is critical, but enforcement by the state is often undermined by long standing social norms and behaviours. Actions taken to address land-titling biases in some countries have been the removal of regulatory impediments to women's land ownership, awareness raising and education of both men and women, of women's right to own and register land and removal of administrative obstacles to women's land ownership.

Another key barrier identified for expansion of women owned business has been finance. **Access to financial services and credit** is still very unequal and is a major issue for women's economic empowerment and development. It is estimated that 8 out of every 10 microfinance clients are women. It is widely argued that microfinance schemes, frequently targeted at groups of poor women, can bring them out of poverty and enable women, who wouldn't otherwise be able to do so, to start up their own small enterprises. However, more recent analysis and evaluation has indicated that micro-finance has limited long-term impact on many of the barriers to women's empowerment; deeper financial sector reform to extend the reach of banking to women and poor clients may be a more appropriate and sustainable intervention.

Moving forward

DFID's agenda for the next year consists of a mixture of gathering more evidence on the key linkages, testing core methodologies and approaches and providing support

to developing country governments and international partners to work on gender and growth. Specifically we will be:

Taking forward our programme of **Gender and Growth Assessments** with the IFC, the World Bank and others; We are currently undertaking work in India, Nigeria and will be expanding into new regions this year.

Supporting the development and refinement of **new tools and methods for gender and growth analysis**. This will include work with the IPC (International Poverty Center), the World Bank and IFC and others looking at more **effective and appropriate methodology to analyse gender and growth linkages**.

Taking forward work looking at further evidence **of how social policy, including gender issues, affect growth prospects** and specifically how appropriate social policy can help remove the binding constraints to growth and economic development.

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