

DISCUSSION PAPER

# ENGENDERING THE INVESTMENT CLIMATE



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**WOMEN'S ECONOMIC EMPOWERMENT SECTION  
UN WOMEN**

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# INTRODUCTION

This paper provides a much needed analysis of the gender dimensions of the investment climate. Using capability theory to explore some of the economic and philosophical dimensions of unpaid care work, it argues that attempts to improve the quality of the investment climate will intersect with and be mediated by the structure of gender relations and the distribution of such work.

Failing to take account of these factors reduces the effectiveness of the investment climate and the policy levers available to improve investment and development outcomes. The paper explores the ways in which reducing gender-based violence, facilitating female human capital formation, investing in technological and physical infrastructure and improving women's financial inclusion can simultaneously enhance the investment climate and facilitate improvements in gender equality. It also outlines how strengthening the gender-responsiveness of formal institutions and governance structures and developing gender-sensitive microeconomic and macroeconomic policies can similarly improve the investment climate in ways that promote gender equality. Through this analysis, the paper demonstrates that the structure of gender relations and the resulting distribution of unpaid care

work should be central to public policy development, implementation and monitoring in establishing a gender-equitable investment climate.

The paper begins by defining in Section 2 what we mean by the investment climate. Section 3 provides an overview of how women's labour force participation in market-oriented activities fails to capture the totality of the time women spend working. In Section 4, the paper considers seven principal realms or characteristics of the investment climate from a gender perspective: security, formal institutions, human capital formation, physical and technological infrastructure, microeconomic policies, macroeconomic conditions and financial systems. Finally, Section 5 offers some conclusions and advances a number of recommendations for facilitating a gender-equitable investment climate.

2.

# DEFINING THE INVESTMENT CLIMATE

In order to achieve the targets that will be established under the Sustainable Development Goals (SDGs),<sup>1</sup> high levels of productive private and public sector investment will be required, as countries where growth is high typically have high rates of investment.<sup>2</sup> However, it is not only the quantity of investment that is important but also its effects in promoting increased productivity.<sup>3</sup>

Fostering high levels of productive investment requires a suitable 'investment climate': a set of requisite circumstances that encourage investment. However, there is no agreed precise definition of what these circumstances might be. Dollar, Hallward-Driemeier and Mengistae (2004) define the investment climate as "the institutional, policy and regulatory environment in which firms operate".<sup>4</sup> This is otherwise known as 'social infrastructure',<sup>5</sup> which creates "the opportunities and incentives for firms to invest productively, create jobs, and expand".<sup>6</sup> In other words, with the 'right' set of circumstances, the rewards of producing a favourable investment climate will outweigh the risks of investing.

Nonetheless, this remains a very broad idea. Attempts at clarifying the concept have produced the following seven areas<sup>7</sup> that together could be said to constitute the investment climate:

- i. Security, including external and internal political stability along with acceptable levels of physical safety;
- ii. Formal institutions that are effective, transparent and accountable, including the rule of law, the protection of individual and collective human rights, the protection of individual and collective property rights, equal access to the justice system and a commercial legal system that sustains high standards of corporate governance;
- iii. Human capital, including general education and specific skills that can facilitate investment-induced spillover effects beyond

individual companies and industries into the wider economy;

- iv. Physical and technological infrastructure that enhances market participation by easing market access and improves transaction costs for firms already engaged in markets;
- v. Microeconomic policies, including competition and sectoral policies that restrict anti-competitive practices, effectively regulate markets and increase corporate social efficiency, all of which maximize incentives to invest;
- vi. Macroeconomic conditions, including the quality, predictability and consistency of fiscal, monetary and trade policies in order to sustainably stabilize budgets, inflation, exchange rates and domestic debt and, in so doing, reduce corporate risk;
- vii. Financial systems, including the efficiency with which resources are channelled into investment as well as the effectiveness of the system for storing wealth and retaining earnings.

Productivity and income grow when investment-enabling environments are set in place. Such enabling environments typically require governments that are able to coordinate and fit these areas together 'soundly'. When these areas are combined, growth and productivity increase due to the lower cost and risk of investment, improved competitiveness and greater ease of developing new productive capacities and markets.

3.

## THE ECONOMICS OF GENDER, WORK AND UNPAID CARE WORK

Globally, the rate of female labour force participation has increased over the last 30 years, including in the period between the 2008 financial crisis and the end of 2009. Women remain disproportionately represented in vulnerable employment, which involves work that is far less likely to have decent working conditions, adequate social security and voice through effective representation. Nevertheless, the share of women in vulnerable employment – which is defined as the proportion of own-account workers and contributing family workers in total employment – has declined over the last 15 years and at a faster rate than the share of men in vulnerable employment.<sup>8</sup>

In other words, women are increasingly working in market-based economic activities, whether as employees, own-account workers or contributing family workers. This progress is not consistent across countries, however, and progress also can be irregular within countries. As a result, there are still systematic gender disparities in employment opportunities and the quality of available employment, while wages and other forms of payment women receive continue to be lower than those received by men doing similar work.

In many countries, both women and men hold the view that when there are shortages of paying jobs, a man should have a greater right to a job than a woman.<sup>9</sup> The practical implication of this enduring and surprisingly resilient support for a ‘male breadwinner’ model of the household<sup>10</sup> is that men are given effective control of access to resources, including both incomes and assets, and hence the decision of how to use the resources is not equally shared. Unequal decision-making perpetuates deep-seated inequalities in power relations within households between women and men, with men in many societies able to exercise effective, if at times implicit, control over women. As

a result, pervasive gender inequalities continue to be found around the world.<sup>11</sup> These inequalities, which reflect structural imbalances of power and agency between women and men, have negative social, political and economic consequences for women and men and girls and boys and preclude women and girls from realizing their fundamental human rights.

In this light, it is important to understand that women’s labour force participation in market-oriented activities fails to capture the totality of the time they spend working. Estimates of time use, pulled from surveys published in 2011 of 26 Organisation for Economic Co-operation and Development (OECD) member countries and three developing countries, suggest that between one third and one half of all work undertaken by individuals in the countries under consideration was not as an employee or an own-account or contributing family worker.<sup>12</sup> It is probable that in many developing countries this fraction is even lower than that found in the OECD estimates.<sup>13</sup> For example, a 2008 study for the United Nations Research Institute for Social Development (UNRISD) found across six countries that men performed between

74 and 94 per cent of the volume of work performed by women.<sup>14</sup> Thus, women's labour force participation in market-oriented economic activities constitutes only a fraction of the total work they perform.

The time that is spent in work that is not as an employee or own-account or contributing family worker includes 'unpaid care work': the production of goods and services by household members that is not captured in Systems of National Accounts estimates of production or in International Labour Organization (ILO) estimates of employment.<sup>15</sup> 'Unpaid' means that the person doing the activity does not receive a wage or other form of remuneration and that the work is not counted in gross domestic product (GDP). 'Care' means that the activities involved cater to both the material needs and general well-being of the one in receipt of the non-pecuniary good or service that results from the work. 'Work' means that the activity entails expenditures of time and energy. Unpaid care work typically involves household maintenance activities such as food preparation, cleaning and the provision of sanitation, washing clothing, taking care of children, the ill, the elderly and persons with disabilities, as well as educational support. These activities take place both in the home and in the community.

Unpaid care work is a critical – if largely unseen – dimension of human well-being that provides essential domestic services within households, for other households and for the community; if unpaid care work is not performed, people are less able to go out to work, less able to go to school and less likely to be healthy. It also has an intrinsic value in fostering the trust and integrity that is necessary for societies to operate. In all countries for which there is evidence, women do far more unpaid care work than men. The previously mentioned UNRISD study found that across six countries, the mean time spent on unpaid care work by women was more than twice that of men, while men spent more time on paid work.<sup>16</sup>

Capability theory can be used to understand some of the economic and philosophical dimensions of unpaid care work. In this theory, "capability is ... a set of vectors of functionings, reflecting the person's freedom to

lead one type of life or another".<sup>17</sup> The idea of freedom is the reason why capability theory has risen to such prominence in the last 20 years: it suggests that "social arrangements should aim to expand people's ... freedom to promote or achieve what they value doing and being" by facilitating individual and collective agency.<sup>18</sup> In the theory, then, the foundation of a person's agency, freedom and capabilities are their 'functionings': "the various things a person may value doing or being"<sup>19</sup> and thus the basis of well-being. Therefore, for example, valuing learning, a functioning, is a precondition of choosing to learn, a capability. Similarly, valuing the denial of food is a precondition of choosing to fast. What capability theory does not appear to discuss, however, is from where functionings emerge. It is in this regard that unpaid care work can be seen to perform a critical role in the reproduction of communities and societies. It involves non-pecuniary investments in producing an individual's functionings because the nurturing involved with individual and collective care produces the things that people value doing or being.

This would mean, in turn, that unpaid care work has significant economic implications, because among the broad range of desirable and valuable functionings that result are those needed for human economic capabilities, including entrepreneurship and innovation, as well as valuing and realizing the ability to work to perform labour services for economically important activities that may be paid or unpaid. The economic implications of this stem from the concept of a 'positive externality'. In economic theory, a positive externality is usually defined as a circumstance in which an individual (or firm) making a decision does not receive the full benefit of the decision and thus the benefit to the individual (or firm) is less than the benefit to society. Third parties who are not involved in the transaction are therefore beneficiaries. In this light, it can be suggested that because of its role in producing the functionings needed for economic capabilities, the marginal benefit that results from producing the functionings of individuals in the household is less than the marginal benefit that accrues to society from having individual functionings produced.<sup>20</sup> In other words, society benefits from the provision of unpaid care work without having to pay

the full cost of providing care. This would mean that unpaid care work generates a key positive externality for society and the economy, if not necessarily for the individual.

Once the functionings necessary for economic capabilities have been produced by unpaid care work investments, the capacity to work as an employee, own-account or contributing family worker can be used by enterprises because it is a 'non-excludable' service. Economic theory suggests that the non-excludability associated with the production of the functionings necessary for economic capabilities will mean that a lesser range of human capabilities will be available to society than would be socially optimal — in part because the social need to provide unpaid care work restricts the capabilities of unpaid care work providers, who are principally female.

In addition, when a person is working, it is quite rare for them to be working for two employers at precisely the same time. Thus, the employment of labour services reduces the amount of labour that can be employed by another: private labour services are rivalrous. Economic theory defines products and services that are both rivalrous and non-excludable as 'common goods',<sup>21</sup> and suggests that these may be overexploited unless institutional arrangements emerge to regulate access to the resource.

Finally, because the provision of unpaid care work is a necessary investment in the production of economic and non-economic functionings, and hence capabilities, the supply of unpaid care work is generally inelastic with respect to paid work. In other words, changes in unpaid care work are proportionally smaller than changes in paid work. As a consequence, female labour supply decisions are constrained by the

performance of unpaid care work, and labour markets are segmented on the basis of gender so as to accommodate the need to carry out unpaid care work and comply with other gender norms. With segmented labour markets, the distribution of time between women and men affects the distribution of incomes, which is then reinforced by inheritance norms, asset control and ownership, rights to income streams from assets and investments, and gendered patterns of social reciprocity within and between households and communities.<sup>22</sup> As a consequence, consumption and investment choices, the distribution of aggregate output, and macroeconomic growth processes are refracted through gender relations. Gender inequalities thus have structural consequences for the economy that are not apparent at first sight but affect economic performance.<sup>23</sup>

This has three implications. First, since they contribute larger shares of time to market-oriented work, men earn more and receive more recognition for their economic contribution to society. Second, women's contribution to the work that is done in a household remains less recognized and significantly undervalued even though it is essential for nutrition, health, education and the overall capabilities of a household, its members and the community. Third, the fact that women disproportionately perform unpaid care work limits their mobility and, in so doing, restricts not only their opportunities for employment but also other economic and political opportunities, effectively reducing "the substantive freedoms [a person] enjoys ... to lead the kind of life ... he or she has reason to value".<sup>24</sup> As a result of these three implications, the unequal sharing of life and work responsibilities may reinforce gender stereotypes and contribute to the perpetuation of unequal power relations between women and men.

4.

# GENDER AND THE INVESTMENT CLIMATE

The role of unpaid care work in producing the functionings necessary for economic capabilities, the positive externalities arising from such production and the importance of labour services as a common good for the economy strongly suggest that gender inequalities will have a significant impact on the investment climate. Simply put, attempts to improve the quality of the investment climate will intersect with and be mediated by the structure of gender relations and the distribution of unpaid care work,<sup>25</sup> which reduce the availability of unpaid care work providers to participate in labour markets and entrepreneurship. Because the range of skills necessary to generate positive returns from investment may be limited due to the impact of gender norms on who can and cannot enter the labour market or be an entrepreneur, this may make investment less productive. However, this perspective is absent from most analysis of the seven areas noted in Section 1 that define the investment climate.<sup>26</sup> These are discussed below.

## i. Security

External and internal insecurity considerably increase the risk associated with an investment. However, in considering the investment climate, one dimension of internal risk is never considered: gender-based violence, which continues to be pervasive around the world. Although hard figures are difficult to obtain, it is estimated that one in every three women globally have been beaten, coerced into sex or abused in some other way at some time in their life, most often by someone they know. Indeed, in some countries, 70 per cent of women are subjected to gender-based violence.<sup>27</sup>

The pervasive physical insecurity associated with gender-based violence has multiple implications for the investment climate. First, within the household violence may be used to enforce male dominance in intra-household relations and decisions, including the provision and distribution of unpaid care work

by women and gender biases in access to education and health. This not only impacts the production of functionings for all family members but also reduces the ability of women to go out to work, with its attendant impact on the size and quality of the labour force available for paid employment that may be created by increased investment. The work and school performance of women and child victims of physical, psychological and sexual violence in the home may also suffer, further limiting their abilities to fully contribute to the economy and society. Second, gender-based violence within schools and colleges can prevent women and girls from acquiring knowledge, training and skills, which reduces their capabilities and the supply of skilled workers. Third, physical insecurity outside the household may make women less willing to go out to work, which again affects the size of the labour force available to meet the increased needs that may accompany increased investment.

Fourth, physical insecurity both within and outside the household may make women less likely to start a microbusiness, which will result in the amount of private sector investment being less than would be the case in a more secure environment. In all instances, then, gender-based violence has an effect on possible risks associated with the investment climate.

In such instances, measures to combat gender-based violence would improve the investment climate by increasing the pool and quality of available labour as well as the propensity of women to invest in their own businesses. Some measures that are required by governments involve legal and judicial reform: for example, greater equality of legal rights in property, inheritance and family law is correlated with lower levels of gender-based violence.<sup>28</sup> With legal and judicial reform, of course, comes the need to enforce reform, which in turn requires the training of civil servants,

the police and the judiciary as well as the sustained monitoring of the effectiveness of implementation, all of which require political will, itself a function of the capacity of women to express agency.<sup>29</sup> In addition, there is a need for physical infrastructure to be provided by the public sector: secure places where women who are subjected to gender-based violence can find sanctuary. More fundamentally, addressing gender-based violence requires confronting gender stereotypes in functionings that can perpetuate the social norms and informal institutions and arrangements that lead to such violence. At the same time, evidence also indicates that access to markets that work, increasing incomes and gender-responsive formal institutions can bring about rapid improvements in the social and economic circumstances of women, including the extent of gender-based violence, even when social norms and informal institutions are slow to change.<sup>30</sup>

## ii.

### Formal Institutions

Formal institutions, which reflect and affect the way the state operates, are pervasively gendered across much of the world. As just noted, legal systems and structures – including property rights, inheritance rights and family law – can be gender-biased and human rights legislation can be lacking or not enforced, all of which serve to reduce human capabilities by sustaining the unequal intra-household distribution of unpaid care work.

Within the formal institutions of government, although women may constitute a higher share of the workforce than in the private sector, they still tend to be under-represented relative to men in many countries and are less frequently found in senior management positions.<sup>31</sup> Within the formal institutions of the private sector, the share of employment is more likely to be biased in favour of men, who are also far more likely to occupy senior management positions.<sup>32</sup> Women are also under-represented around the world in representative and legislative bodies, which are part of a society's formal institutions.<sup>33</sup> One important re-

sult of this general under-representation of women is that both the production of functionings and unpaid care work are unrecognized and undervalued in economic policy frameworks and arrangements.

At all levels of society, whether it be civil society, private sector businesses or government, many women continue to lack the effective agency necessary to articulate the gender biases that they may face in the legal, regulatory and service delivery frameworks of formal institutions and governance structures. Moreover, not all female representatives in government, the private sector or civil society are prepared to confront the gender norms that restrict women's capabilities; for example, it cannot be assumed that they will promote the recognition and value of the contributions of unpaid care work to the economy and community well-being. Therefore, there is a strong need to listen to the voices of diverse and heterogeneous sets of women and to enhance their agency in order to transform these institutions and structures.

This has a series of implications for the investment climate. As noted above, the investment climate requires that formal institutions be effective, transparent and accountable. However, this is not possible in the face of pervasive gender inequality. Moreover, if formal institutions are inadequate because they are permeated by gender inequality, public and private sector governance will not be optimal. As a consequence, the investment climate will be weakened because of the lack of impartiality that is so starkly illustrated by gendered formal institutions and governance structures.

Strengthening the investment climate therefore requires strengthening the gender-responsiveness of formal institutions and governance structures in both

the private and public sectors. Over the past few years a number of countries have either introduced or formalized quotas for women in senior decision-making positions in private sector companies, with Norway the first country to introduce board gender quotas in 2005.<sup>34</sup> There is some evidence that increasing female presence on the boards of private sector companies has improved financial performance.<sup>35</sup> Since 2009 a number of countries have also introduced legislative measures designed to increase the representation of women in government.<sup>36</sup> These sorts of measures can promote the expression of female agency in the institutional environment, fostering greater impartiality in formal institutions and governance structures and thus making them more gender-responsive.

### iii.

#### Human Capital

One of the key mechanisms through which people come to value doing or being is formal and informal education, otherwise known as human capital formation. Although female educational attainment is improving globally, in many places it still remains significantly behind that of males, restricting female capabilities by reducing both the stock of human capital available in an economy and the specific skills that can produce spillover effects.<sup>37</sup> Female educational attainment is correlated with female employment,<sup>38</sup> but both education and employment are nonetheless significantly constrained by the fact that women are expected to contribute a disproportionate share of the unpaid care work required within the household. This has a contradictory effect: on the one hand, gender bias in the distribution of unpaid care work reduces the amount of time that women have available to undertake education, reducing the stock of human capital; on the other hand, the performance of unpaid care work, through the effect that it has on the formation of functionings (especially of children), increases the stock of human capital. There are therefore two channels through which to consider the gender dimensions of human capital and its impact on the investment

climate: first, and indirectly, through the effects of lower human capital formation among females on the production of the functionings that result from the performance of unpaid care work; and second, the more direct impact of female human capital formation on the labour force.

In terms of the first channel, inadequate human capital investments, particularly in women who are principally responsible for unpaid care work, can reduce children's immunization rates and nutrition and increasing child mortality, all of which constrain the investment climate by restricting both the growth and the capabilities of the future labour force.<sup>39</sup> In contrast, increasing a female caregiver's stock of human capital by providing informal and formal education means that they can transfer knowledge on to their children and are able to make better decisions regarding their children's health and nutrition, improving not only their children's functionings and capabilities but also the overall stock of human capital available for the labour force. For example, in Pakistan, even a year of education of mothers resulted in an extra hour per day of home-based study by children and higher aggregate test scores.<sup>40</sup>

In terms of the second channel, the relationship between adequate and appropriate stocks of human capital and the economic growth generated by an investor-friendly investment climate is central to endogenous growth theory.<sup>41</sup> Thus, higher stocks of human capital improve the investment climate by increasing the pool of appropriately skilled labour needed by private and public enterprises, but lower stocks of human capital reduce this pool and in so doing constrain the investment climate. In terms of the gender dimensions of stocks of human capital, the investment climate and economic growth, it was first proposed that female education positively contributed to economic growth in 1995.<sup>42</sup> This has generated a large though inconclusive literature on the relationship between gender equality and economic growth: it would appear that gender equality both influences and is influenced by economic growth, in that greater gender equality is correlated with higher per capita GDP.<sup>43</sup> However, what is less contentious and complex is the strong relationship between female education

and economic growth under circumstances of late industrialization: higher levels of female human capital formation positively contribute to increasing the pool of appropriately skilled labour needed by the private and public sectors to realize long term and inclusive economic growth.<sup>44</sup>

The cumulative effect of both channels is that gender biases in human capital investments inhibit the investment climate by reducing both contemporary and inter-temporal stocks of human capital. This can result in the underutilization or misallocation of the human capital that is available and, in so doing, weaken the effectiveness of investment. In this light, the policy solution is clear, and so uncontroversial as to be a 'stylized fact' of the development process: increased public sector investment in female education both expands functionings and increases capabilities and thus reduces constraints on economic growth and contributes to an improved investment climate.

#### iv.

### Physical and Technological Infrastructure

A lack of physical and technological infrastructure constrains the investment climate. Inadequate roads, ports and airports, inadequate or irregular water and sanitation facilities, poor warehousing and storage facilities and inadequate or irregular energy access reduce incentives to invest by increasing the logistical transaction costs of undertaking investments and realizing the resultant earnings. Infrastructure-constrained access to diverse forms of information technology has similar effects. Indeed, one of the most accepted truisms of development interventions is that improvements in physical and technological infrastructure enhance the investment climate for the private sector.

Three aspects of the gender dimensions of the relationship between physical and technological infrastructure and the investment climate need to be recognized. First, it is very important to unpack the gender dimensions of technology and evaluate the extent to which it eases or enforces gender norms.

Second, at the same time, inadequate technological infrastructure may be correlated with inadequate stocks of human capital, the gender dimensions of which, as suggested above, can constrain the investment climate. Indeed, technological infrastructure, human capital and gender may constrain the investment climate in mutually self-reinforcing ways.

Third, unpaid care work is often used to compensate for a lack of physical infrastructure. Collecting water and firewood, for example, are time-consuming tasks for many women that are predicated on inadequate access to clean water and sources of energy such as electricity. Home-based health care may be required because of a lack of formal medical facilities, resulting in increases in unpaid care work. A lack of adequate roads may prevent female entrepreneurs from accessing markets for their products or female workers from travelling to work, resulting in an increased recourse among women to unpaid work. Thus, weak physical infrastructure can, for a variety of reasons, impede

market participation by women, resulting in a misallocation or underutilization of available resources, an increase in corporate transaction costs and a weakening of the investment climate.

In terms of enhancing the investment climate from a gender perspective, then, some of the answers related to infrastructure are very clear indeed. Data from 36 countries show that greater stocks of wealth are correlated with better infrastructure provision, particularly when this reduces constraints on labour mobility.<sup>45</sup> In this light, investments in female

education, maternal health providers, clean water and sanitation, electricity and rural roads all serve to reduce excess deaths, including maternal mortality, and release women from some of the more onerous tasks involved in unpaid care work. Improving the efficiency of unpaid care work provisions frees up time for other activities and eases labour supply and market access issues, which in turn improves the investment climate.<sup>46</sup> Government has a key role to play in terms of both its public sector interventions and its provision of an enabling environment for the private sector to contribute to infrastructure provision.

## **v.** **Microeconomic Policies**

Governments develop, introduce and implement legislation that determines the terms and conditions by which input, output and financial markets operate. By affecting the relative ease with which business is done, this affects the investment climate, particularly with regard to enabling private sector activity. Factors with significant implications for the investment climate include business registration procedures, licensing and permit requirements and insolvency procedures, which not only have an opportunity cost in terms of time and money but also a direct impact on market access, formalization and exit provisions; contract enforcement and investor protection – particularly business-sensitive information, intellectual property rights and legal liability, as well as competition and anti-trust policy more generally; the legal terms and conditions governing trade and financial flows across borders, which affect private sector entry and exit into markets and thus investment decisions; and the terms and conditions governing the operation of labour markets, including the right to collective organization.

Most microeconomic policy analysis assumes that regulatory regimes are gender-neutral. However, markets, as social institutions, reflect dominant social norms and values, and therefore it should not be assumed that markets and regulatory regimes are by definition gender-neutral in terms of either labour and product markets or the distribution of value-added along the

commodity chain. In terms of product market prices, it is well established in economic theory that prices may not give the same information to the buyer and the seller in ‘everyday’ market transactions.<sup>47</sup> Such asymmetrical information may be an outcome of prevailing structures of gender relations. Asymmetrical information, therefore, creates bounded rationality – that is, rational choices that are limited by the information available.<sup>48</sup> Bounded rationality may be shaped by prevailing gender norms. Empirically, it is well established that female expenditure and consumption patterns systematically differ from those of males, strongly demonstrating that preferences in markets are gendered.<sup>49</sup> Cumulatively, in the everyday markets in which women and men engage, the identities of the buyer and the seller may shape the information and choices that they have available to them and, in so doing, affect the terms and conditions of buying and selling. As a consequence, gender relations shape markets and hence the investment climate.

In terms of entrepreneurship, much of the business knowledge required to supply markets will be asymmetrically distributed between females and males. This is because of asymmetrical differences in investments in the human capital necessary to navigate the formal and informal rules and norms on which production is predicated. In other words, gendered bounded rationality structures entrepreneurship, which has strong implications for the investment climate.

In terms of labour markets, it is well established that markets may be gender-segmented, with women and men segregated into different types of occupations and economic activities. It is also well established that there is a gender pay gap in labour markets, with males earning more than females when performing the same type of work.<sup>50</sup> In regard to the investment climate, gender pay gaps may offer enterprises competitive advantages in particular settings, resulting in higher levels of investment designed to take advantage of these gaps.<sup>51</sup>

A critical gendered dimension of the microeconomic policy environment regulating production and consumption is the systemic failure to account for the unequal distribution of unpaid care work and the impact that such work has on labour and product markets. The legal and regulatory framework in most countries governing the terms and conditions of market operations are predicated on unrecognized – and hence unvalued – unpaid care work. By producing the functionalities necessary for the production of economic capabilities, unpaid care work creates a very significant positive externality that, as suggested in Section 2, effectively subsidizes private and public sector activities. By facilitating economic activity, it ‘crowds in’ markets – which is, of course, good for the investment

climate. For example, government regulations that affect international trade flows or inflows of foreign direct investment cannot be assumed to be gender-neutral. They require the provision of unpaid care work to ensure that labour is willing and able to work, will affect and be affected by gender dynamics in product markets, and will affect and be affected by the terms and conditions by which gendered labour markets operate, all of which have implications for the investment climate.

It is thus clear that unpaid care work is a critical missing variable in understanding the microeconomics of the investment climate. The terms and conditions by which gender relations permeate labour and product markets and affect the distribution of assets may restrict competition and thus generate sub-optimal outcomes that reduce the degree of social efficiency of markets, which may then hinder the investment climate by reducing incentives to invest. Moreover, anti-competitive practices that are a result of gendered norms and values may not be addressed in microeconomic policies because regulators are gender-blind. This would reinforce reductions in the social efficiency of markets, hindering incentives to invest and thus constraining the investment climate.

## vi.

### Macroeconomic Conditions

A principle objective of economic policy is achieving macroeconomic stability, because it produces the higher levels of investment and price competitiveness that are encouraged by appropriate rates of interest and inflation. Macroeconomic stability is conventionally defined as circumstances in which there is positive growth in real GDP, low and stable rates of consumer price inflation, stable and real interest rates, balanced government budgets, a sustainable balance of payments position and a stable real exchange rate. From this perspective, it is argued that the balance of payments and the exchange rate facilitate an expansion of exports that cumulatively produce economic growth. The result is higher levels of consumer and business confidence, which are necessary to anchor

the expectations that optimize the investment climate. Macroeconomic instability, on the other hand, is conventionally argued to be principally a consequence of either supply-side shocks in the production of goods and services in the real economy or excessive fluctuations on the demand side.

In conventional macroeconomics, nothing is said about the impact of gender relations; there is an assumption that macroeconomics is gender-neutral. However, the impact of government spending and tax policies, interest rate and other monetary policies, and trade policies are mediated by the allocation and distribution of unpaid care work within the household, suggesting that macroeconomic conditions are

gendered, which has implications for the investment climate.<sup>52</sup> Moreover, there are significant gender-based distributional inequalities. There is now a large and well-established literature on explicit and implicit gender biases in macroeconomic fiscal, monetary and trade policies<sup>53</sup> that suggests at the very least the necessity of evaluating public spending, revenue collection, monetary and exchange rate policy as well as trade policy from a gender perspective.

Developing insights in poverty incidence analysis<sup>54</sup> have shown that government spending and tax collection can have a gender-differentiated pattern of incidence.<sup>55</sup> The channels of impact are threefold, all of which relate to the investment climate. First, government spending and taxation may have an effect on the distribution and amount of unpaid care work that is performed, which has the effects on the investment climate noted in Sections 3 and 4. Second, government spending and taxation may have an effect on the operation of labour markets, which, as noted in Section 4, are gender-differentiated and as a consequence may have an effect on the investment climate. Third, government spending and taxation may have an effect on entrepreneurship, which, because of the distribution of unpaid care work and the allocation of investments in human capital noted above, may be gender-differentiated. It is important to stress here that it is not being said that men benefit and women do not; rather, the benefit incidence of government spending and the cost incidence of government taxation are not always equal for women and men and, as a result, efforts to enhance the investment climate need to be evaluated from a gender perspective. Budgetary surpluses and deficits may have gender-differentiated impacts that have complex interactions with the investment climate, just as fiscal incentives to invest or austerity measures may affect women and men differently.

Four important dimensions of government spending and tax policy that have implications for the investment climate need to be recognized. The first is that unpaid care work, because it produces the functionalities necessary for sets of capabilities, ‘crowds in’ private sector activity and, in so doing, generates positive externalities above and beyond the production

of labour services as a common good. This suggests that government spending and tax policies should be evaluated for their impact on such work.

The second important dimension is the need to recognize that much of government current spending is in fact investments in improving the efficiency of unpaid care work, whether it be through education, health or childcare spending. There is ample evidence that investments in child health, nutrition and education are good for growth, and that female control of resources increases these investments.<sup>56</sup> This has implications for the efficiency with which positive externalities are generated, labour force participation is encouraged and entrepreneurship is facilitated.

The third important dimension is based on the evidence that there are gender-differentiated patterns of expenditure and consumption. This suggests that, in aggregate, the multiplier effects of government spending and tax policy are gender-differentiated and that multiplier-accelerator interactions are gendered.

The fourth important dimension is the need to recognize that there may be explicit or implicit gender distortions in the tax system; that direct and indirect taxes – particularly consumption taxes, income taxes, property taxes and business taxes – can have gender-differentiated effects. These differentials may be extremely difficult to unravel but need to be examined because they work through a variety of channels, the principal impacts being on unpaid care work, labour market participation and entrepreneurship.<sup>57</sup>

While the gender dimensions of interest rates for savers, borrowers and lenders have been examined,<sup>58</sup> those related to monetary policy still need further analysis. At the most general level, the way in which monetary policy is used to control inflation depends on whether inflation is a consequence of supply-side shocks in the real economy or demand-side expansion. If it is in response to the former, theory and evidence suggest that restrictive monetary policy will negatively affect paid employment. Women’s paid employment tends to fall faster than men’s in these conditions because of gender biases in segmented labour markets, which result in women being dismissed

from paid employment before men.<sup>59</sup> Alternatively, if monetary policy compresses domestic demand, there will be a squeeze on household resources that is disproportionately borne by indebted households. This will result in an increased reliance on women's and men's unpaid work to partially offset cuts in consumption as well as an increased reliance on women's participation in paid labour to partially offset cuts in income (even as labour markets tighten and real wages fall, which detrimentally affects women). If, despite need, compressed domestic demand results in fewer paid employment opportunities and lower earnings for women, women's agency and economic choices may be restricted. This can then serve to reinforce unequal gender dynamics in households and communities by sustaining the unequal distribution of resources and capabilities between women and men, which can affect and be affected by the unequal distribution of unpaid care work. This has implications for the investment climate because of its relationship with unpaid care work that was previously discussed.

In terms of productive investment, the effect of the exchange rate on the investment climate is complex. An undervalued exchange rate is a competitive advantage if the investment is oriented toward producing exports. Conversely, an overvalued exchange rate is a competitive advantage if the investment is oriented toward the domestic market. In terms of financial investment, however, the relative importance of undervaluation and overvaluation depends to a large degree on the arbitrage opportunities afforded by the degree of volatility in the exchange rate: the more volatile, the greater the opportunities. Financial investment is also affected by government policies that regulate the terms and conditions for financial capital to enter and leave the country, which in turn has implications for current and capital accounts.

The gendered effects of exchange rates on the investment climate depend on the structure of the economy and the structure of households. In terms of the former, countries with labour-intensive export-oriented sectors benefit from a competitive exchange rate and are penalized by an overvalued one. If such sectors are where women are predominantly employed, then the exchange rate has gender-differentiated

effects because trade policies may be predicated on gender inequality; they thus reinforce existing gender inequalities despite the correlation between job opportunities for females and investment in them. In countries where female employment is concentrated in informal self-employed services for the domestic market, such non-tradable activities are supported by stronger exchange rates. In countries where women are employed in small-scale agricultural activities, livelihoods can be undermined if an overvalued exchange rate results in the import of relatively inexpensive agricultural goods from other countries that compete with local production.

In terms of the structure of the household, a strong exchange rate makes some imported goods cheaper and can help support living standards if imported goods are consumed by the broad spectrum of households and if access to these goods is equitably pooled within households. However, if wealthier households consume imported goods disproportionately, or if access to these goods is not equitably pooled, these benefits will not be equally distributed. In addition, the benefit to households of these higher living standards may be more than offset if a strong exchange rate undermines the domestic production of import-competing goods and services, because a lack of price competitiveness in local production results in an erosion of employment opportunities and earnings. This may have gender-differentiated effects. Finally, the relative merits of strong versus weak exchange rates on the distribution and performance of unpaid care work will depend on a complex set of trade-offs between employment, household maintenance activities and the intra-household distribution of consumption. What this makes clear is that the effects of exchange rate policy will vary across countries, economic activities and different groups of working women and men within a particular country, and that a gender analysis of these effects must inform policy formulation.

The gendered impact of macroeconomic conditions on the investment climate clearly requires careful empirical analysis that is free from unsubstantiated assumptions. Starting from the positive externalities produced by unpaid care work, which improve the investment climate even if they are unrecognized, it

is important to unpack government spending and tax policies, monetary policies and exchange rate policies from a gender perspective in order to evaluate whether policies 'free ride' on these positive externalities in a way that is conducive to the investment climate or whether the terms and conditions by which unpaid care work is

provided in fact impinge on the investment climate in unforeseen ways. What is clear is that general effects cannot be simply assumed to operate; they must be evaluated through a thorough analysis of the gender dimensions of the impact of macroeconomic conditions on the investment climate.

## vii. Financial Systems

The globalization of finance has fundamentally reconfigured the character of financial systems around the world. However, in terms of the investment climate, it is the historic role of the financial system that is of paramount importance in that it acts as an intermediary between savers and borrowers, with investors playing both roles at different stages of the economic cycle. The pivotal role of the operation of financial systems to the investment climate is demonstrated by the widespread efforts around the world to improve their effectiveness and efficiency. However, it is well established that financial systems are gendered. Women have less access, have a harder time establishing their creditworthiness and have more restricted access to insurance and financial products designed to collateralize risk.<sup>60</sup> Microfinance has been widely introduced around the world to try and offset gender bias in financial systems, but the evidence is that this can also be gendered even when operations are directed at women as intended beneficiaries.<sup>61</sup>

The systematic gender bias demonstrated by financial systems affects the investment climate through three channels. First, women's reduced access to the financial system, and particularly consumption credit, may reduce the effectiveness and efficiency of the unpaid care work that they perform, meaning a lower level of positive externalities generated by the production of a narrower range of capability sets. Second, women may be restricted to segmented sectors of the labour market because the financial system precludes the human capital diversification, work diversification or enterprise investment that would allow them to play a larger role in the economy. Third, women entrepreneurs may not be able to access finance in the quantity that they require, at a price that they can afford and when it is needed, restricting the growth of entrepreneurship. Overall, then, lack of female financial inclusion is a glaring constraint on the investment climate.

# CONCLUSIONS AND RECOMMENDATIONS

Performing unpaid care work is a principal economic activity of women around the world. This work restricts the terms and conditions by which women enter the labour force or undertake entrepreneurial activity, both of which affect the investment climate. Thus, the positive externality generated by unpaid care work – functionings – comes with an attendant cost of lower levels of potential output arising from gender inequality. It is clear that there is a connection between the performance of unpaid care work and the investment climate.

There are dimensions of the investment climate that are gendered, and an inability or unwillingness to recognize this can reduce its quality. Based on the above analysis, it can clearly be argued that reducing gender-based violence, facilitating female human capital formation, investing in technological and physical infrastructure and improving female financial inclusion can improve the investment climate in ways that concurrently facilitate improvements in gender equality. At the same time, strong arguments can be made that the public sector has an important role to play in coordinating and directing these changes.

A somewhat more complex but equally important argument can be made that strengthening the gender-responsiveness of formal institutions and governance structures, microeconomic policies and macroeconomic conditions can also improve the investment climate in ways that promote gender equality. Economic policies that reduce the unpaid care work performed by women, while at the same time increasing the efficiency by which that unpaid care work is carried out, along with policies that redress labour market segregation based on gender pay gaps and enhance female entrepreneurship, can have the cumulative effect of improving the investment climate. These are most likely to be a result of private and public investment that seeks to address gender imbalances across all domains of the economy; again, it can be strongly argued that the public sector has an

important role to play. Such ‘gender-equitable investment’ must, however, be predicated on recognizing the role of unpaid care work in economic dynamics so that this work can be reduced, redistributed and performed with greater social efficiency.

A key element in broadening access to labour markets for those women who wish to work will be the public provision of services that substitute for and improve the efficiency of unpaid care work. As already noted, improved access to water, energy and transport has the effect of both reducing the volume of unpaid care work that needs to be undertaken and improving the efficiency of the unpaid care work that is provided. Childcare facilities for children prior to their entry into primary school can serve to not only increase the impact of education and improve nutrition and health status, which cumulatively enhance the functionings of young children, but also reduce the volume of unpaid care work that must be performed. Social protection measures – most notably the current trend toward unconditional cash grants aimed at populations that are particularly dependent on unpaid care work such as the elderly, persons with disabilities and children – can be designed in ways that recognize the role of unpaid care work in supporting the needs of those in receipt of social protection.

Finally, labour market interventions that provide work in infrastructure development that directly

contributes to reductions in unpaid care work can act as a form of social protection as long as they also improve access to and equity in gender-segregated labour markets. In short, public policy that seeks to improve the quality of the investment climate intersects

with and is mediated by the structure of gender relations and the resulting distribution of unpaid care work<sup>62</sup>, and this should be central to public policy development, implementation and monitoring in establishing a gender-equitable investment climate.

# ENDNOTES

- 1 See United Nations Sustainable Development Knowledge Platform, <http://sustainabledevelopment.un.org/index.php?menu=1300>.
- 2 Soubotina and Sheram, 2000.
- 3 As a result of investment-induced product and process innovation, along with the sectoral reallocation of employment and capital into higher-productivity high-growth innovative activities that have been spurred on by the investment.
- 4 Dollar, Hallward-Driemeier and Mengistae, 2004, p. 1.
- 5 Hall and Jones, 2009.
- 6 Organization for Security and Co-operation in Europe, 2006.
- 7 The seven variables are drawn principally from Organization for Security and Co-operation in Europe, 2006 and Sinha and Fiestas, 2011.
- 8 International Labour Office, 2010.
- 9 Pew Research Center, 2010.
- 10 Pascall, 2006.
- 11 UN Women, 2011; Hausmann, Tyson and Zahidi, 2012; United Nations Development Programme, undated.
- 12 Organisation for Economic Co-operation and Development, 2011.
- 13 Budlender, 2008.
- 14 Ibid.
- 15 Falth and Blackden, 2009.
- 16 Budlender, 2008.
- 17 Sen, 1992, p. 40; Nussbaum, 2003.
- 18 Alkire and Deneulin, 2009, p. 31.
- 19 Sen, 1999, p. 75.
- 20 For the marginal benefit that results from producing the labour force for the household to equal the marginal benefit that accrues to society from having a labour force produced, the household would have to receive all of the value-added produced by labour engaged in paid work.
- 21 Public goods, by way of contrast, are both non-excludable and non-rivalrous.
- 22 Seiz, 1991.
- 23 Hanmer, Pyatt and White, 1999.
- 24 Sen, 1992, p. 87.
- 25 Hedditch and Manuel, 2010.
- 26 For example, it is absent from the World Bank's Doing Business website, [www.doingbusiness.org](http://www.doingbusiness.org). The World Bank's Women, Business and the Law website – <http://wbl.worldbank.org> – has very useful information on some of the gender dimensions of doing business, but nothing on the direct impact of unpaid care work provision per se. Even the International Finance Corporation's *Gender Dimensions of Investment Climate Reform* (Simavi, Manuel and Blackden, 2010) fails to mainstream unpaid care work across its very useful analysis.
- 27 Oxfam Canada, undated.
- 28 Action Aid, 2008. See also: World Bank, 2011.
- 29 Horváth and others, 2007.
- 30 World Bank, 2011.
- 31 Organisation for Economic Co-operation and Development, 1999.
- 32 Deloitte, 2011.
- 33 Inter-Parliamentary Union, 2014.
- 34 Deloitte, 2011.
- 35 Twaronite, 2013.
- 36 Catalyst, 2012.
- 37 World Bank, 2011.
- 38 Ibid., p. 12.
- 39 Ibid., p. 5.
- 40 Ibid., p. 48; and Andrabi, Das and Khwaja, 2008.
- 41 Romer, 1994.
- 42 Hill and King, 1995.
- 43 World Bank, 2011, p. 49.
- 44 Kabeer and Natali, 2013. See also: Fondazione Giacomo Brodolini, 2011.
- 45 World Bank, 2011, p. 153.
- 46 Ibid, p. 27.
- 47 Akerlof, 1970.
- 48 Kahneman, 2003.
- 49 World Bank, 2011, p. 151.
- 50 Cohen, 2004.
- 51 Seguino, 2000.
- 52 Bakker, 1998.
- 53 See especially two themed issues of *World Development*: Cagatay, Elson and Grown, 1995; and Grown, Elson and Cagatay, 2000.
- 54 See, for example, the list of resources provided by the World Bank (undated) on "Benefit Incidence Analysis".
- 55 On government spending, see, for example: Budlender, Elson, Hewitt and Mukhopadhyay, 2002; on taxation, see: Grown and Valodia, 2010.
- 56 Alderman, Behrman and Hoddinott, 2004.
- 57 For an example, see Akram-Lodhi and van Staveren, 2003.
- 58 Baden, 1996.
- 59 Braunstein and Heintz, 2008.
- 60 Klapper, 2012.
- 61 Kabeer, 2005.
- 62 Hedditch and Manuel, 2010.

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