African Institute for Economic Development and Planning
United Nations Development Programme

IDEP

UN
DP

GENDER AND ECONOMIC POLICY MANAGEMENT INITIATIVE–AFRICA

GENDER AND MACROECONOMIC STRATEGIES IN AFRICA PART II

b11549907

INTRODUCTION

This module reviews contemporary macroeconomic development strategies in the context of globalization and the economic realities in Africa by critically evaluating poverty reduction strategy papers (PRSPs) from the gender-aware macroeconomics perspective developed in Module 7 on gender and macroeconomics. It uses this same framework to survey some of the key macroeconomic policies that have been established under contemporary African policy regimes. The module does not assess specific sectoral and subsectoral policy areas in detail, but rather introduces a gender approach to contemporary macro-economic development policy in Africa more broadly.

9

LEARNING OBJECTIVES

At the conclusion of this module participants will be able to:

1. Understand contemporary macroeconomic development strategies in Africa.
2. Evaluate contemporary macroeconomic development strategies from a gender perspective.

OUTLINE

I. Globalization.

II. Poverty reduction strategy papers.

III. Gender and PRSPs.

IV. Fiscal policy.

   A. Gender relations and fiscal policy.

   B. General fiscal policy issues: government spending and crowding out.

   C. General fiscal policy issues: taxation.

   D. Debt sustainability: external and domestic.

V. Monetary policy in Africa: a gender equality approach.

   A. The conduct of monetary policy in African countries.

   B. What are the main tools of monetary policy in African countries?

C. Monetary policy in African countries.

D. Inflation dynamics and inflation targets: implications from a gender perspective.

VI. Exchange rate policies: a few issues.

A. Types of exchange rate regimes in Africa.

B. Exchange rate issues in Africa.

C. The effect of exchange rates from a gender perspective.

DURATION

One day.

FACILITATOR PREPARATION

Before the course, the facilitator should select chapters from one or more PRSPs for African countries from which participants originate, which will be used in Exercise 2. Copies of the chapters should be made to distribute to participants.

I. GLOBALIZATION

Objective: to facilitate a common understanding of the gender dimensions of globalization, and thus situate contemporary macroeconomic development strategies in Africa

a) The current period of intensified globalization can be identified as commencing in the mid-1990s. Globalization is the increasing economic integration of worldwide production, trade and finance as economies become increasingly interdependent and interconnected. Globalization was made possible by changes in transportation, information and communications technologies, which made flexible international sourcing based on comparative unit labour costs possible.

b) The key agent of the process of globalization was the transnational corporation: a company that uses intra-firm trade to organize flexible global production networks.

c) The World Trade Organization (WTO), established in 1995, was designed to regulate the global markets on which globalization depended.

d) Structural adjustment made countries ready for globalization by increasingly exposing them to international competition as a consequence of trade liberalization, market deregulation, privatization, financial deregulation and devaluation. In a sense, structural adjustment made countries increasingly market oriented, preparing them for the period of intensified globalization.

e) Globalization has affected gender relations:

   1. The numbers of women participating in the global labour force has increased, as has the share of women in many formal and informal jobs.

2. But this increase has been accompanied by a deterioration in the terms and conditions of paid employment as employment security diminishes, labour standards are relaxed and relative real wages decline.

3. Thus women have been disproportionately segregated into forms of low-paid and less-skilled employment that are temporary, part-time or home-based, but which significantly contribute to corporate flexibility.

4. Increased labour market participation has not been accompanied by any significant reduction in unpaid care work. Thus, for many women, workloads have intensified under globalization, both in the absolute numbers of hours of labour performed and the number of hours of labour performed relative to men.

f) The effects of globalization in Africa have been mixed. Increased demand for Africa's resources has fostered significant inflows of foreign direct investment by transnational private corporations from the global north and state-owned enterprises from China, but the employment available to Africans produced by such investment have been limited. The capital-intensive character of resource extraction industries produces relatively few jobs; employment has been generated in non-traditional agriculture exports, as large-scale African farms have been integrated into the global value chains of transnational agribusiness. Most of Africa has been bypassed as a site for global manufacturing and service industries. The result is that, apart from economic enclaves integrated into the global economy, there are vast hinterlands of subsistence agriculture, small-scale artisanal manufacturing and petty trading, even as an increasing share of the population resides in slums. Meanwhile, inflows of foreign direct investment have been associated with increased rent-seeking by political elites, along with increased resource-based conflicts. Poverty and food insecurity has, in absolute terms, increased in Africa during the period of globalization.

g) The result was that the structural adjustment paradigm examined in Module 8 on gender and macroeconomic development strategies failed to create sustainable economic growth, let alone poverty reduction, during the 1990s and early 2000s in Africa. Criticism of international financial institutions (IFIs), such as the International Monetary Fund (IMF) and World Bank, emerged from civil society and government in Africa, as well as among international institutions themselves; a landmark study by the United Nations Children's Fund (UNICEF), *Adjustment with a Human Face,* along with the World Bank, argued that the policy conditionalities of structural adjustment had failed because of a lack of national ownership of macroeconomic development strategy and an emphasis on short-term measures that sought to reconfigure the rate of domestic absorption discussed in Module 7 by expanding supply and managing demand. As calls for debt relief for the poorest countries in Africa became stronger, the Millennium Development Goals (MDGs), agreed upon in 2000, aimed to cut poverty rates in half by 2015. By the early 2000s macroeconomic policy objectives in Africa emphasized growth and poverty reduction.

II. POVERTY REDUCTION STRATEGY PAPERS

Objective: to enable participants to understand the content of PRSPs

a) PRSPs are wide-ranging, results-oriented poverty reduction plans that replaced structural adjustment programmes in 1999. Initially, countries had to develop a PRSP to qualify for debt relief under the Heavily Indebted Poor Countries initiative. Later, some African countries (e.g., Kenya) that did not qualify for debt relief also developed PRSPs to gain access to donor funds.

b) PRSPs are predicated on the proposition that countries, multilateral and bilateral donors, and government and civil society are development partners; the national ownership elements in the design of a PRSP are to overcome the ineffectiveness of structural adjustment. PRSPs also adopt a longer time horizon than structural adjustment.

c) The structure of a PRSP typically consists of a:

   1. Poverty diagnosis.
   2. Macroeconomic framework, which has implications for available resources.
   3. Strategic plan with prioritized actions.
   4. Set of responsibilities assigned to specific actors.
   5. Budget.
   6. Plan for monitoring and evaluation, including goals and indicators as well as participatory monitoring by civil society.

d) The content of a PRSP assumes that economic growth is a necessary but insufficient condition for development. This leads PRSPs to place a stronger emphasis on public investment, particularly in human capital formation and social protection, than was the case under structural adjustment: Public investment is essential to the development process. Growth must produce increases in employment, as the principal way in which poverty is reduced is through increased earnings from paid employment. PRSPs also stress the quality of governance: Good governance is a central condition of the promotion of growth.

e) The MDGs discussed in Module 4 on gender and data provide global targets for internationally agreed benchmarks to measure progress in promoting human development and poverty reduction. As PRSPs establish national development strategies, including numerical and time-bound targets for human development and poverty reduction, they have become the most important instruments for integrating the MDG targets fully within the priorities, policies and resource allocation decisions that African governments make. As a consequence, several African countries have made extensive attempts to develop second-generation MDG-based PRSPs to guide national development strategies.

f) However, the macroeconomic policies found in a PRSP are virtually identical to those found under structural adjustment: government fiscal discipline to minimize budgetary deficits, monetary policies to control inflation, freely floating exchange rates, further trade liberalization, deeper market deregulation, and ongoing privatization of both state-owned enterprises and some public services that are deemed to be non-essential. PRSPs thus seek to alter the rate of domestic absorption discussed in Module 7 by continuing to strictly manage domestic demand and expand domestic supply without facilitating the multiplier-accelerator effects of import-led investment. Increased public investment in human capital formation and social protection takes place in the context of fiscal consolidation designed to reallocate government budgetary resources in order to accrue efficiency gains and minimize budgetary deficits. So core macroeconomic issues are left out of the dialogue among partners because of a presumption that market-based resource allocation is always more efficient than government-led resource allocation. Many PRSPs also include sector- and subsector-specific policies to develop particular productive activities (e.g., non-traditional exports).

g) A substantial literature has emerged that is critical of PRSPs.

Criticism of the process:

1. The links between the description of poverty and the policy diagnosis are weak because the processes that distribute resources, income, human capital and power in societies are inadequately analyzed.
2. The links between agreed policy priorities and stipulated budgetary allocations are weak, in part because donor budget support directs where resources are allocated.
3. There is a lack of technical capacity to track government spending and to link spending to outcomes.
4. Monitoring and evaluation procedures are weak.

Criticism of the framework:

1. PRSPs do not incorporate the recommendations of civil society groups and organizations if they do not fit within the macro-economic parameters that frame the discussion of content; there is formal but not substantive participation.
2. The public revenues needed to realize the ambitious social provisioning plans in a PRSP are often inadequate, especially in the context of stringent government expenditure plans to stimulate efficiency gains. This results in increases in donor aid and thus a deeper dependence on donor funding even as domestic demand is compressed.
3. To secure donor funding, countries must obtain agreement from both the IMF and World Bank about the content of the PRSP;

such cross conditionality was not present in structural adjustment and tightens constraints on policies.

4. The above factors demonstrate that PRSPs remain an IFI-driven process. In this light, it is not surprising that PRSPs have come up with virtually identical prescriptions for very different countries: The macroeconomic development strategies found within PRSPs are fairly uniform across Africa.

III. GENDER AND PRSPS

Objective: to help participants to articulate a gender critique of the macroeconomics of PRSPs

EXERCISE 1

Objective: to enable participants to identify how gender analysis is missing from PRSPs and distinguish rhetoric about gender equality from practice in a policy context

The facilitator should select chapters from actual PRSPs for one or more African countries, including gender chapters, which the facilitators should compile before the course. Divide participants into groups of four, containing both economists and gender specialists. Assign groups a recent PRSP from their home country or another African country to discuss the gender content of the policy issues within one particular chapter of the PRSP. Groups should use the questions below, distributed to each group, as guidelines. Groups should be given ample time to thoroughly read and discuss the chapters and the facilitator should interact with all the groups in the course of the exercise.

The questions that each group should address are:

1. In what areas does the chapter of the PRSP incorporate gender issues? In each case, does the chapter of the PRSP include explicit policies to improve gender equality with a clear policy, strategy or action plan?
2. What areas are missing regarding gender issues in the chapter of the PRSP? Is unpaid care work included in the chapter? If so, in what ways?
3. Are sex disaggregated indicators included as part of the monitoring and evaluation process in the chapter? Which ones? As part of the main set of indicators or separately? Which indicators of gender relations within the country could be included that are currently not there?

In plenary, the facilitators should summarize the discussion, using the following points if necessary:

a) PRSPs contain far more mention of women and gender equality outcomes than was the case under structural adjustment. However, often the focus is only on outcomes, not on the gender stereotypes, structures and dynamics that underlie the inequalities between men and women.

b) In many PRSPs, gender is not mainstreamed throughout the document, but placed in a stand-alone woman and gender chapter. Even when gender issues are mainstreamed through the PRSP, the issues are usually not taken up in the final chapter, which outlines the PRSP's overall strategy and policy recommendations.

c) Second-generation MDG-based PRSPs do not adequately incorporate gender perspectives into MDG-based macroeconomic planning exercises, in part because of some of the weaknesses of the MDGs regarding gender, discussed in Module 4.

d) While PRSPs contain sex disaggregated data, often gender indicators are not mainstreamed into the tools of PRSP monitoring and evaluation. Few PRSPs contain data on the intrahousehold distribution of time, income and resources.

e) Developing gender-aware PRSPs has many benefits:

   - Poverty reduction: To reduce poverty, the gender dimensions of poverty must be identified and addressed.
   - Economic growth: Statistical evidence suggests that gender equality correlates with economic growth and poverty reduction.
   - Human rights fulfillment: Gender equality is the foundation of a full set of human rights.

f) Macroeconomic issues dominate the policy framework of PRSPs, but these are not approached through gender-aware macroeconomics. Thus, many of the gender critiques of the economics of structural adjustment—particularly its ignorance of the role of unpaid care work and its relation to rates of domestic absorption, made in

Module 8 on post-independence macroeconomic development strategies in Africa—are relevant to PRSPs, which fail to establish adequately the evident linkages between gender equality, growth and human development indicators.

g) The gender-specific implications of the policy analysis are not drawn out. There is almost no coverage of women's time allocation patterns and uneven coverage of women's gender-specific roles in agricultural and non-agricultural employment. All too often there is little—or no—analysis of women's gender-specific roles in the informal sector, and no coverage of gender-specific roles in illegal economic activities, such as trafficking.

h) The gender content of social provisioning mechanisms, such as health and education, are somewhat better, as health coverage often focuses on reproductive health. But it remains common in too many PRSPs for issues of HIV/AIDS and access to health services not to be addressed through a gender perspective.

i) Reducing male/female disparities in education is very popular in PRSPs, but strategies to reconfigure gender norms regarding teacher recruitment, school curricula and adult education remain very limited.

j) The gender aspects of social protection mechanisms are very weak in PRSPs: For example, the gender implications of pension systems are not considered very often.

k) PRSPs have a mixed gender and governance record: There are often commitments to rewriting laws and increasing participation, but funding is rarely simultaneously committed to improving the gender and governance record.

l) So PRSPs have an approach to gender issues that leans toward the women in development approach, examining only orthodox measures of gender inequality (e.g., labour force participation and educational attainment) and framing the issues narrowly, in terms of economic efficiency rather than the socially-constructed relationships between women and men that result in prevailing unequal gender norms.

IV. FISCAL POLICY

Objective: to enable participants to unpack the gender dimensions of fiscal policy

A. GENDER RELATIONS AND FISCAL POLICY

a) Under PRSPs, African governments have to bring their budgets into balance over time.

b) Fiscal policy refers to how government spending, taxation and debt—the government budget—influence the economy as a whole.

c) But it cannot be assumed that government spending patterns have the same effects on women and men. For example, cutbacks to public services may place pressure on unpaid care work. Public employment provides a source of formal employment for women. Finally, infrastructure spending can have both beneficial and differential effects on women and men, depending on the type of public investment (e.g., roads and water taps).

d) Similarly, it cannot be assumed that systems of taxation affect women and men in the same way.

e) So fiscal policy has distinct gender equality outcomes that need to be explored.

B. GENERAL FISCAL POLICY ISSUES: GOVERNMENT SPENDING AND CROWDING OUT

a) Fiscal austerity was one ingredient of many structural adjustment programmes and continues to be part of PRSPs: cuts to government spending to bring spending into line with tax revenues without having to fall back on raising taxes.

b) One argument for less government spending is called crowding out: Public spending is argued to discourage private investment, and in so doing, reduces the multiplier-accelerator effects discussed in Module 7, because government consumption spending tends to bid up interest rates in an effort to attract money, and higher interest rates discourage the private investment that fuels multiplier-accelerator effects.

c) Does crowding out make sense from a gender perspective? Typically public investment is interpreted to mean physical infrastructure. However, investment in human beings, human resources and human capital is critically important (even if it is counted as government consumption in the system of national accounts, or SNA). Education, health care and support for unpaid care work all represent, to some degree, a form of investment that generates multiplier-accelerator effects through improved private sector productivity. So the crowding out argument cannot be assumed to hold. Instead of substituting for private investment, public investment that supports private economic activity may crowd-in private investment, expand domestic demand and supply, and contribute to the multiplier-accelerator effects that foster economic growth.

d) This holds for foreign direct investment as well. Strong public investment helps attract productive foreign direct investment, and thus crowds in investment from transnational corporations, which also expands domestic demand and supply and contributes to the multiplier-accelerator effects that foster economic growth.

C. GENERAL FISCAL POLICY ISSUES: TAXATION

a) In developing countries, including African countries, indirect taxes account for the largest source of tax revenues:

- Trade taxes (i.e., tariffs).
- Value-added taxes (VATs).
- Sales taxes and excise taxes.

b) Trade liberalization has meant a decline in revenues from trade taxes. Other indirect taxes thus have been increased to make up at least part of the lost revenues. The overall drop in revenues often meant cuts in government spending and a reduced capacity to crowd in for the investment that expands domestic demand and supply and fosters the multiplier-accelerator effects that produce economic growth.

c) The other indirect taxes—VAT and sales taxes—tend to be regressive, in that the less that is earned, the higher the share of earnings that is taxed. Regressive indirect taxes cannot be assumed to be gender neutral in an African context, as women tend to bear a higher burden from such taxation. For example, when food is subject to VATs, because women are overrepresented among poorer households, they pay a higher share of their earnings as VAT. In such circumstances an expansion of these taxes will disproportionately and negatively affect women, with implications for gender equality.

d) On the other hand, policies that reduce the regressive nature of indirect taxes on certain goods have strong implications for gender equality. Placing no taxes on food, children's goods and household fuels improved retained earnings among women, with implications for gender equality.

e) In some countries personal income taxes, which are a form of direct tax, are also important. While women may not, on average, be as directly affected by personal income tax as are men, because of their employment as contributing family workers or employment in informal activities, such taxes affect the amount of resources available to a household, and hence the distribution of resources between women and men.

f) There are examples in which tax systems are explicitly biased against women. In apartheid South Africa, married women's incomes were taxed at a higher marginal rate in households with married couples.

However, in most cases, gender biases in tax policies tend to be more indirect, not being explicitly stated in the tax code.

D. DEBT SUSTAINABILITY: EXTERNAL AND DOMESTIC

a) In the absence of increased official development assistance, government spending can only increase faster than the growth rate of tax revenues if governments borrow to make up the difference. Sustained deficit financing of the government budget leads to higher debt burdens. Debt servicing repays debt burdens, usually with interest. Fiscal sustainability, in terms of deficit financing and debt servicing, is a real constraint for African governments.

- External debt is public spending financed through borrowing from abroad from private, public and international financial institutions (including through the IMF).
- Domestic debt is public spending financed through government issuance of bonds (e.g., treasury bills) to the general public.

b) Many African countries are highly indebted. This generally means that they have a high level of external debt. However, African countries often also have significant levels of domestic debt. How this debt is serviced and managed is a key fiscal policy issue.

c) Deficit financing can be made more sustainable by coordinating monetary and fiscal policies. For example, conducting monetary policy to prevent excessively high domestic interest rates, as discussed below, can make debt servicing more manageable.

d) As noted in Module 8, high debt burdens provided one of the major justifications for structural adjustment: External and domestic debt levels were perceived to be unsustainable. What contributes to an unsustainable fiscal stance?

External debt:

- The dramatic rise in global interest rates in the 1980s massively increased the cost of servicing debts.
- A rapid devaluation of the national currency can dramatically raise the costs of servicing debts because debt has to be repaid in a foreign currency and devaluation results in foreign currencies becoming more expensive to buy relative to the national currency.

Domestic debt

- High domestic interest rates make domestic borrowing more expensive and existing debt servicing more costly.
- Slower rates of growth mean that domestic tax receipts will also grow slowly, making it difficult to repay debts.

e) High levels of debt can crowd out developmental spending because an increasingly large share of the national budget will go toward debt servicing in the form of interest payments, crowding out other areas of government spending.

f) The principal gender equality implication is that cutbacks to government spending necessitated by high debt servicing costs can have a disproportionately negative effect on women, in that unpaid care work, informal paid employment, or both, may increase in an attempt to compensate for cuts in social provisioning. In this way, cuts in government spending can act as an intensifier of gender inequality.

g) Given the constraints on total public resources, the prioritization of spending within the budget becomes particularly important in ensuring more equitable outcomes, as discussed in Module 12 on public finance and gender-responsive budgeting.

V. MONETARY POLICY IN AFRICA: A GENDER EQUALITY APPROACH

Objective: to enable participants to unpack the gender implications of monetary policy

A. THE CONDUCT OF MONETARY POLICY IN AFRICAN COUNTRIES

a) Monetary policy influences the money supply, the supply of credit and interest rates through interventions into money and financial markets.

b) Monetary policy is conducted by central banks, which are often independent statutory bodies.

c) Central banks conduct monetary policy by targeting the growth rate of the money supply to try to reach an inflation target.

d) So monetary policy is a demand-management tool, influencing the rate of inflation. Tighter control over the money supply reduces the abilities of households and firms to express demand in the economy, leading to cuts in consumption and investment, and thus the rate of domestic absorption, which theoretically should help reduce inflation.

e) But as noted in Module 7, monetary policies affect the real economy by influencing interest rates and, through interest rates, the level of consumption and investment demand as well as economic growth and employment. Central banks place little substantive emphasis on the effects of monetary policy on the real economy.

f) Countries with a currency union have a unified monetary policy. This is important within the francophone West African

Communauté Financière Africaine—the African Financial Community, or CFA zone.

B. WHAT ARE THE MAIN TOOLS OF MONETARY POLICY IN AFRICAN COUNTRIES?

African countries have a number of monetary tools available to them.

a) The money supply and high-powered money:

- Money is anything that is widely accepted in exchange for goods or settling debts, not because of its intrinsic worth but because it can be passed on. In this sense, then, money is a means of payment that acts as a medium of exchange. Money also acts as a store of value if it is accepted as a means of payment.
- The money supply is the amount of money in an economy; but there are various definitions of what constitutes a means of payment that acts as a medium of exchange.
- Money is created by financial institutions in an economy. In most instances in Africa this is overseen by the central bank, which has the exclusive right to print notes and coins, but this is only one component of money.
- High-powered money, also called M1, is equal to currency in circulation plus reserves held in the banking system.
- Central banks can directly influence the growth of M1 through their policies. For example, the buying and selling of government bonds changes the level of reserves held in the banking system and thus alters the amount of high-powered money.
- Theoretically, the growth of high-powered money affects the overall money supply, including any financial assets held in financial institutions that can be used for exchange purposes. However, in reality, the relation between high-powered money and the broader money supply can be weaker.

b) Targeting interest rates:

- Some central banks do not target the money supply in their efforts to control monetary policy, but instead target short-term interest rates.
- Central banks can do this because they act as lenders of last resort for other institutions in the financial system that want to borrow money for short periods.
- So the interest rates charged by central banks shape interest rates throughout the financial system.
- For example, the South Africa Reserve Bank targets a short-term interest rate called the repo rate.

c) Other monetary tools:

- In the past, monetary policy was often conducted using direct controls. For example, through the central banks, governments instituted limits on the interest rates that could be charged or ceilings on the amount of credit that could be extended.
- Development financial institutions often channelled credit to certain activities (e.g., agriculture).
- In the past, central banks often directly funded government spending. This often introduced a risk of high rates of inflation and macroeconomic instability.

d) The CFA countries :

- These countries share a common currency—the CFA franc—and have a more or less unified approach to monetary policy.
- Two central banks manage monetary policy in the CFA franc zone: the Banque Centrale des Etats de L'Afrique de L'Ouest (BCEAO) and the Banque des Etats de l'Afrique Centrale (BEAC). The CFA franc stands for the franc de la Communauté Financière d'Afrique for BCEAO member states and franc de la Coopération Financière en Afrique Centrale for the BEAC area.

- The CFA franc is pegged to the euro, just as it was previously pegged to the euro's predecessor, the French franc. As the CFA countries thus have to maintain a fixed exchange rate to the euro, the monetary policy tools at their disposal are limited. For example, CFA countries have less discretion over interest rates, as the level of the interest rate, and thus the price of money, affects the value of the CFA franc relative to the euro.
- The central banks that manage monetary policy in the CFA zone have periodically adjusted the value of the CFA franc. For example, the CFA franc was devalued in 1994 to address economic imbalances in the region.

C. MONETARY POLICY IN AFRICAN COUNTRIES

- A large number of African countries target the growth rate of the money supply rather than interest rates, due to the stipulations of typical IMF conditions placed on African governments.
- Monetary policy in Africa can also target limits on the growth rate of domestic credit by the financial system, as well as inflation rates.
- The CFA countries must use monetary policy to stabilize the exchange rate of the CFA franc, which also helps to control inflation because the price of imported goods is less volatile. However, a fixed CFA franc exchange rate can lower the price of imports and harm domestic production and employment if the CFA franc exchange rate is significantly higher than what would be achieved in a free market, in which circumstances the currency is overvalued. An overvalued currency also makes the CFA countries less competitive in international trade because the prices of exports rise relative to the export prices of competitors with more favourable exchange rates.

D. INFLATION DYNAMICS AND INFLATION TARGETS: IMPLICATIONS FROM A GENDER PERSPECTIVE

EXERCISE 2

Objective: to understand inflation dynamics and inflation targets in Africa

Initiate a discussion on inflation targeting by asking the participants if their country has adopted an inflation target and, if so, what it is. List the range of inflation targets on a flipchart. Ask how many have been successful in meeting the inflation target. Ask why or why not.

For participants from CFA countries the discussion can be framed slightly differently. Ask these participants to list the factors influencing inflation in their countries (e.g., food and fuel prices). Has the central bank effectively controlled these pressures through the CFA monetary policy? Why or why not?

In plenary, facilitators should raise the following points:

a) A universal goal of monetary policy is to control inflation, and all PRSPs include a section on macroeconomic policies in which the objective of monetary policy is to control inflation.

b) What causes inflation in African countries?

   - A very common cause of inflation is price shocks, in which prices rapidly increase—particularly in terms of food and fuel. This is supply-side inflation, and it originates in the real economy.
   - However, not all inflation is due to supply-side shocks in the real economy. There are clear examples in which inflationary pressures are monetary in origin. The recent hyper-inflation in Zimbabwe is a clear example: Excessive growth of the money supply to finance government spending led to inflation.

c) To control inflation, PRSPs often propose a specific inflation target. In African countries, a target of 5 percent or lower inflation is common. A few countries, such as Ghana and South Africa, have adopted formal inflation targeting that operates outside the PRSP process.

d) Under inflation targeting, the central bank publicly announces a formal target, after which the government is supposed to hold central bankers to account in achieving that target. The argument for inflation targeting is that it provides greater policy transparency and so better informs the inflationary expectations of households and firms.

e) However, for CFA countries, an explicit inflation target may not be included in a national PRSP because regional central banks determine monetary policy.

f) There is evidence that very high rates of inflation create macro-economic instability and slow growth. However, there is no clear evidence that maintaining very low rates of inflation will help growth and employment. This is an area of ongoing debate, as the costs of keeping inflation very low may very well exceed the benefits. Recently, the IMF has accepted that its previous inflation targets may have been too stringent.

g) Moreover, using monetary policy tools, which are demand-side policies, to counter supply-side inflation caused by price shocks can worsen the situation. This is because while a supply-side shock negatively affects the real economy, restricting demand through monetary policy can reinforce or exacerbate the negative effect of the supply-side shock.

h) For these reasons, African countries may have a pro-cyclical bias to their monetary policy in the face of externally generated supply-side price shocks. This means that when a country under a PRSP policy regime that seeks to target inflation experiences an externally generated supply-side shock, monetary policy is tightened to cut demand, worsening the effect of the shock.

i) In the CFA countries, exchange rate policy is used to control inflation. However, this may have limited effect in containing external supply-side price shocks. When exchange rates cannot adjust (because they are fixed) to higher domestic prices, this can encourage more imports and fewer exports, slowing down growth. In this sense, monetary policy in CFA countries may also be pro-cyclical, with monetary policy not responding to counter negative supply-side shocks.

j) A gender analysis of monetary policy:

- As just noted, the effectiveness of monetary policy in controlling inflation at economically and socially acceptable levels depends on whether inflation is a consequence of supply-side shocks in the real economy or demand-side expansion.
- If monetary policy compresses domestic demand, a consequence will be a squeeze on household resources that is disproportionately borne by lower-income households. Monetary policy that results in high rates of inflation can have similar effects, as high rates of inflation reduce the real value of household incomes and thus compress demand. The result in either case may be:

  a) Increased reliance on women's unpaid care work to partially offset cuts in consumption.

  b) Increased reliance on women's participation in paid labour to partially offset cuts in incomes.

  c) Increased reliance on both women's unpaid care work and paid labour.

  Under these circumstances, policies that reduce inflation will be beneficial in reducing women's labour.
- Research has suggested that when restrictive monetary policy is used to lower inflation, it has negatively affected paid employment. Women's paid employment tends to fall faster than men's in these conditions because of gender biases in the segmented labour markets, which results in women being dismissed from paid employment before men.

- If monetary policy lowers the rate of growth of domestic demand, it can negatively affect earnings because of the contraction of paid employment. Women's earnings tend to fall faster than men's in these conditions because gender biases in the segmented labour markets discussed in Module 5 result in more rapid employment losses by women.
- Fewer paid employment opportunities and lower earnings for women reduce women's independence and economic choices. This may reinforce unequal gender dynamics in households and communities in Africa by sustaining the unequal distribution of resources within households between women and men, which can affect and be affected by the unequal distribution of unpaid care work.

VI. EXCHANGE RATE POLICIES: A FEW ISSUES

Objective: to facilitate the capacity of participants to unpack the gender dimensions of exchange rate policy

A. TYPES OF EXCHANGE RATE REGIMES IN AFRICA

In introducing the different approaches to monetary policy available to the CFA countries compared to other countries in Africa, it is necessary to discuss the implications of different exchange rate regimes. There are three generic exchange rate regimes available to countries:

a) *Floating exchange rates* are largely market determined because there is no intervention into foreign exchange markets on the part of the central bank. In theory, the exchange rate of a currency is determined through the interaction of supply and demand for that currency, as in any other market.

b) *Fixed exchange rates* see the nominal exchange rate fixed relative to a major international currency, which in turn requires central bank intervention to maintain the fixed rate. In Africa, the largest fixed exchange rate bloc is the CFA zone.

c) *Managed exchange rates* are a combination of market-determined exchange rates along with occasional intervention by the central bank. Managed exchange rates are often pegged to a major international currency, such as the euro or the dollar, which means that the central bank has a target exchange rate for the national currency in terms of a major international currency.

9

B. EXCHANGE RATE ISSUES IN AFRICA

a) In recent years in Africa, outside the CFA countries, there has been a strong tendency to move toward more freely floating exchange rate regimes as a consequence of the conditions imposed in structural adjustment.

b) Fixed exchange rates bring some stability to the macroeconomy by providing certainty regarding the value of the national currency. However, a fixed regime:

- Cannot adjust to global changes in supply and demand, which has implications for domestic production and international competitiveness.
- Can become fixed at the wrong value—that is, so far removed from a possible market rate and current market conditions as to adversely affect the economy. In particular, overvalued exchange rates encourage high levels of imports, harm exports, and can slow economic growth.

c) Floating exchange rates bring both flexibility and the possibility of volatility.

- In their flexibility, floating exchange rates confer greater scope for a country to adjust to changing global supply and demand conditions, though overly rapid exchange rate adjustments can be destabilizing.
- International financial flows of remittances, short-term capital inflows and outflows, and the unrecorded movement of finance across borders influence a floating exchange rate and can make it more volatile, suggesting that market-determined exchange rates may not tend toward an equilibrium value that reflects conditions in the real economy. Moreover, while a high level of inflows may lead to an overvaluation of the exchange rate, a rapid reversal can trigger an economic crisis.

d) Managed exchange rates retain some flexibility, but also leave room for policy interventions when needed. In practice, outside of the CFA countries, most countries in Africa practice a form of managed exchange rate because it increases the scope for macroeconomic management generally.

C. THE EFFECTS OF EXCHANGE RATES FROM A GENDER PERSPECTIVE

a) The effects of exchange rates on the economic positions of women and men depend on the structure of the economy and households.

- For example, in Mauritius and other countries, women have been employed in low-wage export-oriented manufacturing. An overvalued exchange rate hurts these employment opportunities, while a competitive exchange rate supports women's waged employment.
- Similar patterns may hold true for a number of African countries with labour-intensive export sectors dominated by women workers (e.g., horticultural exports in Kenya).
- However, in many countries, women's employment is concentrated in forms of self-employment in which they provide services to the domestic market (e.g., informal non-agricultural service employment, such as street trade). Many of these services can be considered to be non-tradable, in the sense that the services themselves are not traded on global markets. A stronger exchange rate favours non-tradable activities over tradable ones and may support these forms of employment. In addition, for street traders that sell imported goods, a stronger exchange rate lowers the domestic costs of the imported goods that they eventually resell on the local market. The effect of exchange rates on informal employment is an area for future research.
- Women employed in small-scale agricultural activities can see their livelihood undermined if an overvalued exchange rate results in the import of relatively inexpensive agricultural goods from other countries that competes with local agricultural production. For example, rice production in many West African countries must compete with inexpensive imports from Asia. In these cases a more competitive (i.e., devalued) exchange rate may be more desirable.

- For households, a strong exchange rate makes some imported goods cheaper and can help support living standards. However, if wealthier households consume imported goods disproportionately, these benefits will not be equally distributed.
- Moreover, the benefit to households of higher living standards arising from a strong exchange rate 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 has gender-differentiated effects. Nonetheless, the compression of domestic demand squeezes household resources, and households with lower incomes disproportionately so. As above, the result may be:

  a) Increased reliance on women's unpaid care work to partially offset cuts in consumption.

  b) Increased reliance on women's participation in low-paid labour to partially offset cuts in incomes.

  c) Increased reliance on both women's unpaid care work and low-paid labour.

  b) Clearly the effects of exchange rate policy will vary across countries, economic activities and different groups of working women and men within a particular country. Nevertheless, a gender analysis of the effects of exchange rate policies must inform policy formulation.

EXERCISE 3

Objective: to consider ways to render macroeconomic policies more gender equitable

Divide the participants into small groups (three to four people per group). It is acceptable for participants from the same country to be in the same group. The groups should be asked to use their existing knowledge of their own countries and the macroeconomic policies being pursued to evaluate the gender equality implications of current macroeconomic development policy. Groups can use the chapters from PRSPs used in Exercise 1 if they wish.

The groups should:

1. Discuss the different effects current macroeconomic policies have on women and men and identify potential sources of gender bias. To the greatest extent possible, frame the discussion within the context of existing PRSPs. Groups should pay particular attention to:

   - Fiscal policy.
   - Monetary policy.
   - Exchange rate policy.

and their effect on:

   - Unpaid care work.
   - Employment.

2. After discussing current policies, develop five recommendations for making macroeconomic policies more gender responsive.

3. Discuss what changes would be needed in the way in which macroeconomic policies are currently being conducted to introduce the five recommendations.

4. What indicators could be used to judge macroeconomic policies in terms of their effects on gender equality?

Allow the groups an hour to develop their recommendations in some detail. Have the groups report back in plenary.

The facilitator should list the recommendations on a flipchart. Once the full set of recommendations has been compiled, the participants should respond to the ideas generated. The facilitator should focus discussion on two areas:

1. Which ideas are most promising?

2. Which ideas would be most difficult to implement?

READINGS

Braunstein, E. and J. Heintz. 2008. 'Gender Bias and Central Bank Policy: Employment and Inflation Reduction.' *International Review of Applied Economics* 22, no. 2: 173–186.

Elson, D. 2002. 'International Financial Architecture: A View From the Kitchen.' *Femina Politica* 11, no. 1: 26-37.

Elson, D. and N. Cagatay. 2000. 'The Social Content of Macroeconomics.' *World Development* 28, no. 7: 1347–1364.

Epstein, G. and E. Yeldan. 2008. 'Inflation Targeting, Employment Creation and Economic Development: Assessing the Impacts and Policy Alternatives.' *International Review of Applied Economics* 22, no. 2: 131–144.

Fontana, M. and A. Wood. 2000. 'Modelling the Effects of Trade on Women, at Work and at Home.' *World Development* 28, no. 7: 1173–1190.

Giovanni, A.C., R. Jolly and F. Stewart, eds. 1987. *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth*. Oxford: Oxford University Press and United Nations Children's Fund.

Grown, C. and I. Valodia. 2009. *Taxation and Gender Equity*. London: Routledge.

Ndikumana, L. and J. Boyce. 2003. 'Public Debts and Private Assets: Explaining Capital Flight from Sub-Saharan African Countries.' World Development 31, no. 1: 107–130.