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WHAT ARE THE ECONOMIC COSTS OF GENDER GAPS IN ETHIOPIA?

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Despite Ethiopia's remarkable economic progress over the past decade, gender gaps in key economic activities—agriculture, entrepreneurship, and wage employment—indicate that challenges remain to realizing the full potential of women's economic empowerment.

The World Bank Gender Innovation Policy Initiative for Ethiopia produced a report, *the Ethiopia Gender Diagnostic*, to measure and identify the drivers of the gaps in these priority areas. Differences in simple averages between men and women show that women lag men by 36 percent in agricultural productivity, by 79 percent in business sales, and by 44 percent in hourly wages.

This brief further examines the costs of these gender gaps and estimates the potential gains from closing them (Figure 1). To get a sense of the magnitude of these costs, a simple estimate suggests the annual costs of the gender gaps in agricultural productivity, business sales, and hourly wages amount to 1.1 billion USD (1.4 percent of total GDP), 1.1 billion USD (1.4 percent of total GDP), and 1.5 billion USD (1.9 percent of total GDP), respectively. (See Box 1 for more details on how these figures were obtained.) Yet, it is important to note that closing these gaps is not costless and would necessitate changes in policies and programming, which in turn, could require sizable investments or reallocation of resources.

BOX 1

ESTIMATING THE COSTS OF THE GENDER GAPS

The estimates of foregone total GDP from the gender gaps in agricultural productivity, business sales, and hourly wages are based on a series of assumptions, including the absence of general equilibrium effects¹, as described in the following summary of the approaches used in each calculation:

- First, we base our cost calculations on the estimates of the unconditional gender gaps in agricultural productivity, business sales, and hourly wages reported in the *Ethiopia Gender Diagnostic Report*.²
- For agricultural productivity, we compute the size of the gap relative to agricultural GDP by taking into account the number of female and male farmers, as well as the average size of cultivated land and the proportion of plots managed by female and male farmers. However, since growth in the agricultural sector has a multiplier effect on other sectors of the economy, we use an estimate of this multiplier effect from Block (1999) to calculate the total impact of closing the gender gap in terms of GDP.
- For business sales, we compute the total gain from equal monthly sales if women were earning as much as men and then convert the monthly increase in sales into an annual figure. We calculate the additional annual sales in closing the gender gap and use the average profit margin to obtain the increase in profits or earnings, which is more relevant for GDP. Finally, we use the proportion of entrepreneurs by sector together with sector specific multiplier estimates to obtain the impact of closing the gender gap on GDP.
- For wages, we compute the total gain from equal pay between men and women by calculating the gain in hourly wage if women were earning as much as men, taking into account the aggregate number of male and female employees. We then use the average number of working hours per week and the average number of working weeks per year to convert this figure into an annual estimate. Then, again, we use sector proportions and sector specific multipliers to obtain the total impact on GDP.

¹ Although general equilibrium effects likely do exist, for the purposes of this brief we assume they are absent. For example, in the agricultural productivity calculation, we assume that women farmers' productivity does not affect men farmers' productivity or agricultural prices.

² Please see the report for further details on how these gaps were calculated.



ANNUAL COST OF THE GENDER GAPS



Figure 1

WHAT CAUSES THE GAPS?

Analysis from the *Ethiopia Gender Diagnostic Report* suggests that gender gaps in agriculture, entrepreneurship, and wage employment stem from a wide array of factors. The gaps in agricultural productivity and business sales seem to be driven mostly by the lower levels of productive resources that women use, whereas gaps in wage employment are likely a result of characteristics that were not observed in the data.

- In agriculture, women farmers **use lower levels of extension services, credit, and agricultural inputs and cultivate less land and a narrower range of crops**, all of which seems to drive the gap in productivity relative to men.³
- In entrepreneurship, women tend to **work fewer hours than men, hire less labor, use less credit, and are less likely to have a business license**—all of which appears to contribute to the gender gap in business sales.
- In wage employment, **few specific factors aside from age, marital status, and having a university degree** appear to drive the gender gap in hourly wages. This suggests that characteristics that were not observed in the data—such as motivation and inter-personal communication skills—or gender-based discrimination may explain some portion of the gender gap.

POLICY PRIORITIES

To address the sizable gender gaps in economic outcomes and achieve Ethiopia's inclusive growth targets, priority areas for policy action include:

1. Improving women farmers' agricultural productivity by increasing their access to and use of extension services, credit, agricultural inputs and enabling women farmers to move into cultivation of more diverse, potentially higher-value cash crops.
2. Narrowing the gender gap in business sales by enabling women to work more and hire more labor, as well as access credit and business licenses.
3. Promote women's access to education to close the gender gap in hourly wages.

Moving forward, further evidence on the impacts, feasibility, and costs of promising interventions could help support policy makers who are aiming to design and scale up innovative, cost-effective interventions to achieve these priorities.

³ The data relating to farmers, entrepreneurs, and employees stem from the CSA and LSMS-ISA Ethiopia Socioeconomic Survey (ESS) third wave data (2015–2016), and the data relating to national statistics such as GDP are from the World Bank (2017).

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