The Gendered Impacts of Illicit Financial Flows in Developing Countries

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Abstract

Illicit financial flows (IFFs) are widely seen to be a major impediment to development in developing countries. IFFs have long been investigated but have only recently become a leading subject of debate, advocacy and concern for development institutions and practitioners. The Washington-based think tank Global Financial Integrity (GFI), which focuses on IFFs, estimates that between 2006 and 2015 developing countries lost 20% of the value of their trade with developed countries through IFFs.

However, an aspect of IFFs which has been hardly investigated is their impact on gender equity. IFFs result in a lack of resources for projects which can help attain gender equity. IFFs affect women through lack of funding for public goods and services such as education and sexual and reproductive health services, which are mostly utilized by women. This has perpetuated and exacerbated the cycle of poverty among women, resulting in the feminization of poverty. IFFs have resulted in high unemployment and poor working conditions for women. In developing countries IFFs, and the decline in government revenues that they cause, have led to increases in consumption taxes on goods and services that women are especially reliant on; these taxes are thereby detrimental to gender justice. Not much work has been done on how IFFs affect gender equality and there is a need for more investigation and advocacy on this matter.

Key words: Illicit Financial Flows (IFFs), Gendered impacts of IFFs, Feminization of poverty, IFFs and women’s unemployment, IFFs and women’s poverty.

Background an Introduction

This paper will analyze the impact of IFFs in developing countries through the lens of gender. This comprehensive approach will look at the link between IFFs and gender justice, and ask the question: what are the impacts of IFFs on gender equality?

GFI defines the flow of illicit funds as the ‘’the illegal movements of money or capital from one country to another’’. The capital is considered illicit when the ‘’funds are illegally earned, transferred and/or utilized’’ (quoted in AMwA, 2020, p.2). IFFs consist of activities such as criminal acts, corruption, tax avoidance and tax evasion (Collin, 2020).[2]

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[2] A much broader definition defines ”illicit” as including not only what is illegal but also the ”socially unpalatable such as multinational corporation tax avoidance” (Waris, 2019). For the purpose of this paper we will focus on the illegal part of illicit financial flows of multinational corporations.

This paper concentrates on the link between gender equity and IFFs.

It is recognized by different development stakeholders that over the last decade IFFs have been one of the leading challenges to global development, although it is only recently that IFFs have become a leading subject of debate, advocacy and concern for development institutions and practitioners (FEMNET, 2017).

According to Merkle (2019), IFFs have become one of the biggest and greatest challenges to global development. GFI estimates that between 2006 and 2015 roughly 20 percent of developing country trade with advanced economies was misinvoiced, resulting in massive IFFs (GFI, 2019).[3] The High-Level Panel on Illicit Financial Flows from Africa has estimated that Africa is losing more than US$50 billion a year to IFFs (Merkle, 2019, p.2). GFI argues that Sub-Saharan African countries in 2015 lost $84 billion in illicit flows due to trade misinvoicing (GFI, 2019, p.1). The significant difference between these estimates may be due to the use of different methodologies.

How do IFFs affect developing countries?

IFFs weaken the financial system and economic potential of the economies from which they are derived, reducing the resources needed to fund public services such as health, education, justice and security (OECD, 2014). Developing countries are the most susceptible to IFFs, given that their fragile institutions are unable to combat these flows and that the resultant lack of funds perpetuates the weaknesses in the country's institutions (OECD, 2018, p. 18). This makes curbing IFFs a major global concern, as reflected in the 2030 Agenda for Sustainable Development Goals (Goal 16, Target 16.4) (Merkle, 2019, p.2).

IFFs and Gender equality

Government-funded programs are key tools in addressing economic and gender inequality. However, Transparency International notes that the loss of much-needed government resources through IFFs, particularly tax evasion, undermines the ability of governments to provide high quality public services which perpetuates and exacerbates gender inequalities (Merkle, 2019, p.5). There are two areas in which IFFs affect women and gender equality. Firstly, the capability to close the financing gap for gender equity and women's rights is compromised. Secondly, IFFs have negative effects on the vertical equity (whereby those who have the ability to pay more taxes do in fact pay more) and the progressiveness of tax systems (whereby the tax rate increases as income increases) and these negative effects disproportionately affect women (Grondona et al., 2016).

Justification of the Link between IFFs and gender equality

The three links between IFFs and gender inequality as shown below;

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[3] Trade misinvoicing is accomplished by misstating the value or volume of an export or import on a customs invoice. Trade misinvoicing is a form of trade-based money laundering made possible by the fact that trading partners write their own trade documents, or arrange to have the documents prepared in a third country (typically a tax haven) – a method known as re-invoicing.

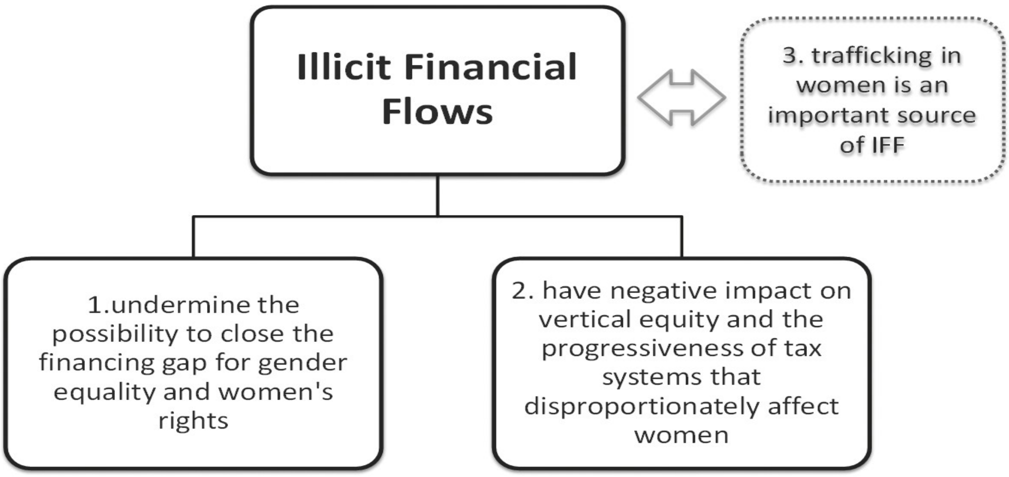

Figure I. (Grondona et al. 2016, p.3)

Merkle (2019) observes that attention in international political economy analysis is focused on gendered aspects of development, but that the literature lacks focus and does not explore the extent to which women are affected by and participate in IFFs. She further notes that the links between gender and IFFs can be investigated from three comprehensive perspectives: (i) how IFFs specifically affect women; (ii) the roles women play in the generation of IFFs; and (iii) how women can help curb IFFs (Merkle, 2019). Therefore, our objectives in this paper are:

General objective

- To investigate the relationship between IFFs and gender inequality in developing countries.

Specific objectives

- To identify the link between IFFs and the feminization of poverty in developing countries.
- To identify the link between IFFs and the provision of public goods to women in developing countries.
- To identify the link between IFFs and women‘s equality in developing countries.

Theoretical perspectives on IFFs

<u>The World-System Approach</u>

According to Cocks (1980), the World Systems Approach scrutinizes the totality of the capitalist system in contrast to earlier methods of analysis of large empires, which were dominated by examinations of a single political structure composed of nation-states having no control over the global market. The World System categorizes nations into three categories: (i) the Core which is comprised of the world‘s great economic powers, especially the globe’s hegemonic countries; (ii) the Periphery, which consists of weak and poor countries; and (iii) the Semi-Periphery, which consists of wealthier nations of the developing world. Unlike Dependency Theory whose unit of analysis is the nation state, the World Systems Approach views the entire world as an indivisible reality (ibid).

According to Martinez-Vela (2001), the world economy is integrated through markets rather than through a political center. This has resulted in the interdependence of two or more regions in terms of necessities such as food, fuel and protection. In the Worlds System there is a power hierarchy with powerful and wealthy ''core'' societies exploiting and dominating weak and poor ''peripheral" economies (ibid).

Martinez- Vela (2001) argues that developed countries are the core and developing countries are the periphery. There is an unequal exchange with a systematic transfer of surpluses from the semi-proletarian sectors in the developing/periphery economies to the high-technology, industrialized developed/core economies. The result is a process of capital accumulation which involves the appropriation and transformation of peripheral surpluses at a global scale.

One of the mechanisms used to transfer resources from periphery to core countries is through offshore tax havens. Beginning in the 1930s and exploding across the world since, offshore tax havens undermine the capitalist system (GFI, 2019). Illicit flows, financial secrecy, and tax evasion have forestalled equitable economic participation by all. At the center of this most unfortunate development sit the offshore centers facilitating criminal, corrupt, tax evading financial flows, having their most damaging impact on the poor of the world. While tax havens may play some role in legitimate dealings, this does not justify their far more damaging role in intermediating IFFs, which are the main drivers of Net Resource Transfers from developing countries (ibid).

How IFFs affect women in developing countries

The several ways that IFFs affect women can be categorized into two groups: (i) short- to medium-term effects of IFFs; and (ii) long-term effects.

<u>Short- to Medium-Term Effects of IFFs on women</u>

Lack of funding for public goods and services

According to a research paper by the African Women's Development and Communication Network (FEMNET), IFFs result in governments having insufficient funds to support key public services such as education, sexual and reproductive health, maternal care and social protection (FEMNET, 2017). According to Waris (2017), insufficient funds leads developing country governments to prioritize certain sectors of the economy when allocating and distributing resources, such as security, over the provision of social services, and this creates a further gap in services offered. Literature has shown that failure by governments to fund public services results in highly-gendered effects (Merkle, 2019; Warris, 2017; FEMNET, 2017).

Merkle (2019) argues that women's dependence on public services for their survival is high, as shown by the fact that the majority of the 1.5 billion people living on US$1 or less a day are women. The gendered effects of IFFs on the provision of key public services such as health and education are highlighted below.

Health

Ortega et al. (2020) find that there is a relationship between IFFs and a lack of health care, especially for women and children. Out of a sample of 72 countries considered in their study, the authors found that at least 3.9 million women and 190,000 children may not receive basic health care interventions as a consequence of a 1 percentage point increase in the ratio of IFFs to total trade. A 1 percentage point increase in the ratio of IFFs would be associated with an average 0.46 percentage point decrease in the level of family planning coverage rates and an average 0.312 percentage point decrease in antenatal care coverage rates. It was also found that IFFs are an obstacle to attaining the 2030 SDGs in the sampled countries. For instance, family planning, reproductive health and child immunization are important components of health and long-term development in poor countries. A set of health coverage indicators was selected to represent the overall coverage of essential health services at the country level.

In the same study it was also found that an increase in IFFs results in a decrease in average infant vaccination rates. Results showed that in the case of an increase in the magnitude of IFFs, an increase in cases of diseases such as measles and polio due to lack of vaccinations will result (Ortega, 2020, p.13). The decrease in vaccination for infants and children due to IFFs results into diseases for children directly affects stressing mothers (Ortega, 2020, p.13). ‘;;;

Another study by the same authors which investigated the social costs of IFFs in low and middle income economies also found that an increase in IFFs will negatively affect the delivery of health services, particularly for women and children. This was also a cross-country study which used a sample from 72 low and middle-income countries during the period 2008-2013 using a panel regression which involves observation of multi-dimensional data that are measured repeatedly over time. Ortega (2020) argues that, ‘’given that there was an estimated annual average of 65 million infants in countries in the sample, this suggests that around 190,000 children may not receive these basic healthcare interventions as long-run effects of this increase in IFFT” (Ortega et al., 2020, p. 13). Provision of basic health care to infants and children will directly benefit mothers, who are the primary care givers for their children. Therefore, an increase in IFFs will negatively affect the provision of basic health care eventually affecting children and mothers directly.

IFFs and women‘s education

Research on the gendered dimensions of IFFs has shown that an increase in IFFs makes it nearly impossible to provide quality public education, especially gender-equitable education (FEMNET, 2017, p.31). In the same study it was found that official development assistance supplemented education funding in Africa. The data showed that even through there was a 47 percent increase in aid to Sub-Saharan Africa during the period 2002-2004, aid had fallen by 31 percent by 2012. It was found that the percentage ratio of IFFs to public spending on education is staggering. In Liberia, for example, it is 1,649 percent, while it is 1,314 percent in Zambia and 147 percent in Rwanda. It was found that IFFs impede education, especially gender–equitable education (ibid, 2017, p.31).

In the same study it is noted that the Executive Director of UN Women observed that two-thirds of African women are classified as functionally illiterate (FEMNET, 2017, p.32). It was also found that according to 2012 data, 36 percent of adolescent girls and 31 percent of adolescent boys in Sub-Saharan Africa were out of school. But in some African countries, e.g. Angola, Ethiopia, Guinea and Mali, the difference between the out-of-school rate for girls and boys was larger than 15 percent. Often this implies that girls face the challenge of early marriage and early pregnancy (ibid).

Mabugu and Rakabe (2019, p.27) shows that an increase in expenditure on education in Zambia from 2 percent of GDP in the period 2005-2007 to 6 percent in the period 2015-2017. One of the reasons for this is that might be because revenue collection had increased. In Zambia the mining sector has the largest presence in the economy; its contribution to revenue improved over the period 2010-2015. The World Bank in 2018 argued that this increase in spending in the education sector in Zambia has resulted in the attainment of the Millennium Development Goals (MDGS) on education, which include universal primary education and elimination of gender disparity in primary education. This means provision of more equitable education. However, concerns remain about illicit transfers in the mining sector in Zambia (Mabugu & Rakabe, 2019, p.8).

Feminization of Poverty

Developing countries are faced with insufficient revenue to fund key public services. The failure to provide quality public services has increased poverty especially among women, resulting in the feminization of poverty. The revenue lost through IFFs could have been used to fund basic public services. According to Waris (2017), the feminization of poverty refers to a persistent phenomenon in which women are the majority among the poor, being characterized by low-paid and poor-quality jobs. She argues that women do unpaid care work due to unequal gendered power relations and the cultural stereotypes which define women‘s duties. This perpetuates their impoverishment and makes them more dependent on government provision of social services (ibid, p.17).

A complimentary perspective argues that this feminization of poverty in some cases results in the violation of women‘s rights through human trafficking (Grondona et al., 2016).. The argument is that women’s limited accessibility to key resources (economic opportunities, social networks, information and knowledge) and the high demand for cheap labor in “feminized” economic sectors, such as health care services and small-scale enterprises, are a major cause of women´s vulnerability to trafficking. The combination of women being primary income providers, being seen as a source of cheap labor and having job opportunities often limited to domestic work, in many cases completes a vicious circle of precarious livelihoods and economic profits for those who exploit them (ibid, p.8).

According to Waris (2017), an ineffective tax system also has a direct impact on a country’s budget deficit, which subsequently impacts the delivery of social services. She finds that IFFs starve the budget, resulting in a reduction in funding of key areas (e.g. education and health care) that has a direct impact on women and female-headed households, making them more vulnerable to national budget constraints. In the same study Waris finds that the feminization of poverty is a persistent phenomenon in which women are over-represented amongst the poorest, with low-paid and poor-quality jobs.

According to a desk study submitted to the Committee on the Elimination of Discrimination against Women regarding the Ebola crisis in West Africa 2014-2015, women are severely affected by budget shortfalls exacerbated by tax abuse (Alliance Sud et al., 2016, p. 5). In the same paper the authors found that up to 75 percent of the 11,000 Ebola victims in West Africa were women. They found that, in Liberia, this was due to the traditional caregiving roles women are assigned and the serious financial constraint on public services during the outbreak. It is reasonable to conclude that a reduction in IFFs would have increased the funds potentially available to fight ebola, which if well used would have seen a reduction in the number of female victims.

Additionally, before the beginning of the Ebola crisis, research presented to CEDAW showed that the lack of adequately-funded health systems in Sierra Leone and Guinea resulted in a reduction in the number of healthcare providers (Alliance Sud et al., 2016). The research reveals that the combined health sector spending in these countries amounted to US$140 million annually before the Ebola outbreak, while during the same period IFFs amounted to US$1.37 billion annually. Reducing IFFs in these countries would have put them in a much better position to meet the needs of their health sectors (Alliance Sud et al., 2016).

Lack of funding for promoting gender equality

A study by the United Nations Conference on Trade and Development (UNCTAD, 2020) found that IFFs have resulted in reductions in government budgets, which cause a lack of funding to specific institutions and programs that promote gender equality and women‘s empowerment. However, the study also found that an increase in budget funding does not necessarily result in greater support for gendered-related programs. This simply means that, while reductions in government budgets usually mean disproportionate cuts to programs that promote gender equity, increases in government budgets do not necessarily mean more funding for gender equity. Usually, the study showed, funding is cut to such programs in times of economic downturn and decreasing budgets. In the same study it was found that reductions in government funding of public services result in women filling the gaps in caregiving, education and family support with unpaid labor.

Female unemployment and underinvestment in the economy

Research has also shown that there is a strong correlation between an increase in IFFs and an increase in female unemployment (Merkle, 2019, Waris, 2017). IFFs lead to high levels of unemployment as resources are lost which affects the economic development of a country and job creation. Since women’s participation in the labor force is already limited they are the most vulnerable and at risk of unemployment; they have to accept poor working conditions and poor quality jobs (Merkle, 2019).

Regressive fiscal policies

Domestic resource mobilization is a key strategy to raise funds to reach the 2030 SDGs, especially those addressing inequality. Taxation is important in addressing gender and economic inequality (Merkel, 2019). The key question is: how have IFFs affected gender equality? An important component of IFFs is tax evasion, which means that an investigation of the relationship between the latter and gender equity is required (FEMNET, 2017). Several studies have shown the economic, social and political consequences of IFFs ranging from loss of revenue, entrenching inequalities and weakening governance. All these severely constrain progress towards gender equality (ibid).

An analysis of IFFs with a gender dimension requires giving attention to gender biases in tax policies (FEMNET, 2017).The gendered analysis of taxation has shown that tax structures are not neutral and are biased against the interests of women (Joshi, 2017). Studies on IFFs have provided important insights into the governance and developmental impact of IFFs, but with little focus on the gender-specific impact of these constraints (FEMNET, 2017).

In developing countries with high levels of IFFs, taxation becomes a disproportionate burden on women (Waris, 2017). To make up for the revenues lost through IFFs, developing countries tend to have regressive tax policies. This means that the budget deficit which developing countries are facing tends to be covered by an increase in consumption taxes rather than increasing taxes on wealthy individuals. The neoliberal assumption that high taxation of wealthy individuals would result in these individuals pulling out their private investment and further damaging the economy holds sway, so many developing countries refrain from increasing taxes on the wealthy . This neoliberal reasoning makes governments which do increase taxes on the wealthy more susceptible to IFFs (FEMNET, 2017, p.18). However, the question remains: where can governments find revenue if not from increasing taxes on the wealthy?

According to Ritter (2015), if a government does not raise enough revenue and cannot curtail IFFs, its only option is to burden compliant taxpayers with higher taxes. Grondona, et al. (2016) argue that, due to a government's failure to handle tax evasion, tax systems in such countries will benefit wealthy individuals at the expense of the poor. Picciotto (2012) notes that the whole system facilitating IFFs includes international tax evasion, tax havens and the offshore secrecy system, giving corporations that make use of these avoidance opportunities a competitive advantage over national firms.

According to Grondona et al. (2016), the gender dimension of IFFs in part relates to the fact that women are more involved in small to medium-sized enterprises, where opportunities to reduce taxes are fewer than elsewhere in the economy. The fact that women are also at the bottom of the income ladder makes them more vulnerable to government cost-cutting or revenue-increasing activities. An increase in IFFs results in an increase in taxation which negatively affects small and medium enterprises which are mostly run by women. Further, a report of the UN Special Rapporteur on Extreme Poverty and Human Rights acknowledges that women tend to use larger portions of their income on basic goods because of gender norms that assign the responsibility for the care of dependents to them. As a result they are especially vulnerable to any rises in consumption taxes that governments might introduce to mitigate the impact on revenue of IFFs (FEMNET, 2017).

Transparency International argues that consumption taxes negatively affect women in several ways. Firstly, they sustain poverty in poor households which have to spend a higher percentage of their earnings on consumption taxes. Secondly, women tend to spend a large portion of their incomes on goods that are highly taxed (Merkle, 2019).

Taking a comprehensive perspective, after more than three decades of economic globalization and increasing corporate power, there is little taxation of capital assets and tax incentives schemes are unbalanced (Golder and Gutpa, 2017). These authors also note that international trade and investment agreements have limited the capacity of governments to consider tax breaks for the poor and implement progressive tax reforms. The argument is that by trying to win investors, developing country governments give added advantages and favorable tax treatment to multinational companies. In trying to gain a competitive advantage over other developing countries, these governments forgo considerable revenue in the hope of attracting more foreign investment. The result is that the equity principle, by which persons with equal capacity to pay should pay the same amount in taxes (horizontal equity) and that those with greater capacity should pay a proportionally larger amount (vertical equity) is violated. By some estimates, the tax burden for national businesses is twice the burden borne by multinational companies (ibid, p.5).

Waris notes that ''an example of how tax abuse in developing countries negatively affects gender justice is given is the SAB Miller Case in Ghana where Martha, a woman who sells beer at a small stall outside the SAB Miller factory in Accra, was paying more tax than the factory right next to her informal stand'' (Waris, 2017, p.19). This kind of tax injustice could be either because SAB was evading taxes or because the tax system is unfair by not taxing wealthier individual or businesses, in this case SAB Miller, more heavily. This type of situation discourages informal workers from registering as formal workers, since this would further increase their tax burden. As a result, they choose not to be compliant in paying their taxes. This creates a chain reaction, in which informal workers do not qualify to receive social services like health and pension benefits. Yet corporations and large businesses with huge profits are not required to contribute to building and sustaining the infrastructure for these same basic services (ibid, p.19). According to Capraro, (2014), a study of Vietnam found that sectors in which women were business owners had consumption taxes higher than sectors where the majority of businesses were run by men.

Another example of how IFFs and tax havens negatively affect women's rights and gender equality is seen in Switzerland's opaque financial legislation, which was highlighted in a 2016 report (Alliance Sud et al., 2016, p.15) to the UN's Committee on the Elimination of Discrimination against Women (CEDAW). An example of this was the case of India, which ranked 16th out of 200 countries in terms of the amount of offshore wealth held by residents, including both past and present politicians, in HSBC's branch in Geneva. Bearing in mind the opaque nature of IFFs, which makes it difficult to have precision in ascertaining and quantifying the exact magnitude of IFFs in India, estimations show that between 2016-2017 the Indian government lost between US$492 million and US$1.2 billion in direct tax revenue that could have been collected on the funds held in just this one branch of this one bank in Switzerland. This sum was equivalent to 44 percent of the expenditure allocated to women's rights and 6 percent of the total national social sector budget for 2016-2017 (ibid, p.15).

At a global level, it can be argued that the present international tax system provides the necessary conditions to allow multinational corporations (MNCs) to move their capital around the globe in order to pay the lowest possible tax (Merkle, 2019). Piccioto (2012) argues that MNCs are treated as if they were loose collections of separate entities operating in different countries rather than a single integrated entity. According to Merkle (2019, p. 16), Piccioto argues that there is currently only weak coordination between tax authorities, and this "separate entity" approach gives MNCs tremendous scope to shift profits around the globe to suit their tax affairs. This is characteristic of a globalized capitalist system, but what is important to know is how this problem can be solved. Piccioto proposes a unitary taxation system where MNCs would be taxed not according to the legal forms that their tax advisers create for them, but according to the genuine economic substance of what they do and where they do it (Piccioto, 2012).

<u>Long term effects on women</u>

Gendered Impacts of IFFs in developing countries

Resources lost through IFFs result in development losses, especially for provision of key public services for women. Some of these gendered impacts are as follows;

<u>Gendered impacts of IFFs on women's development</u>

One of the gendered impacts of IFFs is underdevelopment in developing countries. AMwA (2020) argues that it is undeniable that IFFs play a huge role in obstructing development. Simply put, funds are needed by developing countries to facilitate development, but a large portion of these funds are lost through IFFs. Tax revenue is lost because IFFs are not taxed, and as a result a high tax burden is placed on legitimate economic activities to fill this financing gap. It is not always correct to assume that these lost funds would have been used to fund development programs. There are two key assumptions for the argument: first, that the government would have used those untaxed funds for development purpose, and second, that the untaxed funds do not or cannot benefit the economy. Ideally, curbing IFFs will increase revenue to be used to fund public services, but in some cases due to corruption this money would not be used to fund public services.

According to AMwA (2020, p.5), IFFs result in revenue losses needed to fund key public services. It maintains that it is reasonable to assume that the revenue which is lost through IFFs results in development losses which spill over to welfare losses for women, because there are fewer resources to commit to gender equity initiatives. AMwA acknowledges that this assumes that if the revenue lost through IFFs had stayed in the economy, it would have been spent on such initiatives.

It is widely argued that the lost tax revenue makes it impossible for developing country governments to provide essential public services like healthcare, education, justice, and environmental protection (Merkle 2019; OECD 2014; Waris 2017).

Capraro (2014) describes access to public services as "virtual income" and claims that this makes up a larger proportion of income for the poor than the non-poor.

Revenue lost through IFFs could be invested in the provision of free education which would enhance gender equity. For instance, the introduction of free primary education across Sub-Saharan Africa (SSA) countries was followed by higher enrolment numbers, especially for girls. It has been observed that in most countries, education funding has not been at par with enrolment and population growth. Therefore, the provision of free primary education is one of the leading actions to promote gender-equitable education and address gender inequality (AMwA, 2020, p. 5).

In trying to make explicit the link between IFFs, gender equality and development, Waris (2012) notes that women are the most vulnerable to national budget constraints. This results in women feeling the effects of poorly funded services more acutely, which widens existing gender inequality gaps. This is due to the following: (i) women are more dependent than men on major public services like healthcare, both as users and providers: lower investments in health care have resulted in less job creation in a sector which primarily employs women, thereby increasing their risk of unemployment, while poorer quality health services decrease women's access to maternity and reproductive services (UNECA, 2015; DAWN, 2018); (ii) reduced government investment in public services results in gaps in care-giving that are filled for the most part by women (Merkle 2019; Waris 2017; FEMNET 2017); and (iii) in a bid to make up for the public funding gap governments often levy higher consumption taxes that hit poorer households, which are disproportionately led by women, particularly hard (FEMNET, 2017; Merkle, 2019). Efforts to improve domestic revenue mobilization have also more recently targeted sectors dominated by women like micro, small and medium businesses and the informal economy. Women are thus affected both as consumers and producers (AMwA, 2020).

The gendered impact of IFFs on peace and security

According to Cobham (2016), IFFs flourish in situations of conflict and insecurity and exacerbate both. Cobham argues that the link between IFFs and insecurity is a vicious cycle. In countries which have low levels of institutional authority large amounts of money are allocated to win the patronage of those in power. In such contexts, governments and their opponents are likely to resort to violence to maintain and challenge current power structures. Conflict and insecurity facilitate the flow of IFFs, and IFFs undermine institutional authority, facilitating conflict and insecurity.

If public goods and services are not provided due to missing revenue the relationship between the citizen and the state will be damaged, which undermines state legitimacy and public trust in institutions and can lead to social unrest and increased violence (Cobham 2016). But we are interested in knowing whether IFFs have the same effect on men and women. Those worst affected by insecurity are women who comprise a majority of refugees and displaced persons although men are at higher risk of death during conflict. Strachan and Haider (2015) argue that during times of conflict, women also face changes in their economic roles and are more likely to face gender-based and sexual violence. Across the African continent, IFFs have been linked to resource conflicts and terrorist groups (OECD, 2018).The profits of illicit trade often benefit groups that are involved in conflict and act as a driver for conflict (ibid).

In terms of causes and effects, IFFs negatively impact gender equity. An increase in IFFs has leads to reduction in Government revenue. This has resulted in: (i) a reduction in quality public services provision, which tends to affect women more than men; (ii) an increase in charges such as consumption taxes, which also negatively affect women more than men (FEMNET, 2017); or (iii) a combination of both. Reduction in public services can also result in an increase in social conflicts, which often impact women more than men (Cobham, 2016).

Remedial measures

What has been done to curb IFFs?

To promote gender equality, it is important to curb IFFs. But this requires cooperation at the global level (Signé et al., 2020). The recent past has seen increased efforts from the global community to reduce IFFs. These global efforts range from creating initiatives to curb money laundering to improving the sharing of tax information across countries. One of the first legal instruments created to combat illicit outflows of capital was the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, also known as the Vienna Convention. This instrument includes rules against money laundering and urges parties to work together to allow for the identification, tracing, and seizure of illicitly acquired financial proceeds. Other notable initiatives that aim to combat illicit outflows are (AMwA, 2020, p.11):

- **Extractive Industry Transparency Initiative (EITI):**
  This looks to promote open and accountable management of natural resources (founded in 2003).
- **Financial Action Task Force (FATF):**
  This is responsible for setting the standards for international action against money laundering and terrorist financing (created in 1998).
- **Global Forum on Transparency and Exchange of Information for Tax Purposes:**
  This sets the standards for the automatic exchange of information with the aim of revealing the real owners of anonymous legal structures (created in 2009).
- **Platform for Collaboration on Tax:**
  Aims to provide developing countries with the tools and guidance to address various tax issues including toolkits on BEPS (see next point) and related international tax matters (created in 2016).
- **The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS):**
  This brings together over 135 countries and jurisdictions to collaborate on the implementation of the BEPS Package, which looks to equip governments with the domestic and international instruments needed to tackle IFFs (created in 2016).

Miller (2014) argues that BEPS is one of the leading global policy initiatives to combat tax avoidance. It aims at having an international tax framework in which profits are taxed in the jurisdiction/ state where economic activity and value creation occur. Over 135 countries agreed to the implementation of this initiative in October 2021. Although BEPS is inclusive of developing countries, the key drive for its development came as a result of outrage in OECD countries over how little corporation tax some companies were paying compared to their sales and profits. This means that BEPS was brought in purely to curb the use of aggressive tax avoidance strategies by multinationals. Together with other initiatives, BEPS sole purpose is to form an international tax system that is more responsive to a trade environment in which up to 60 per cent of world trade occurs within companies. While the focus of BEPS is tax avoidance, it covers aggressive tax avoidance activities that are legal but inconsistent with the spirit of the law. For this reason it is relevant to the fight against IFFs (ibid.).

More Research needed on the gender dimension of IFFs

According to Eriksson (2017) political economy analysis, which focuses on the interrelationship between politics and the economy, becomes important when trying to view IFFs through the gender lens. He stresses that usually the gendered dimension of IFFs is rarely analyzed.

The persistence of secret jurisdictions makes it difficult to create better accountability and transparency in international taxation (Valadão, 2019). The challenge of international taxation and how to regulate it is bound only to grow with the increased digitization and mobility of services and assets (Damgaard et al., 2018). Since the 1990s the question of how best to regulate the digital economy has been left unanswered as most of the OECD countries, from which many high-tech companies originate, have been reluctant to address the issue, even within the framework of BEPS (Valadão, 2019). In that time the digital economy has evolved to create virtually stored and concealed wealth with cryptocurrencies. The agenda for addressing IFFs is primarily set by OECD countries, which also want to preserve their tax bases in accordance with their interests (ibid).

Valadao (2019) proposes that we look at the structure of the contemporary world economy from the perspective of developing countries, through what he calls a critical approach. This will enhance our understanding of how the national and regional tax systems interact with the international tax system and the types of trade practices it encourages.

Eriksson (2017) notes that there are a lot of policy gaps in both the coverage and enforcement of anti-IFF laws and regulations, with one of the most important gaps being the absence of women- and gender-sensitive policies. He further notes that the resolution of systemic or complex problems requires a variety of agents and actors from different sectors. The gender dimension is fundamental if we are to solve the problem urgently and efficiently (AMwA, 2020). Recent literature and research on IFFs include:

- What IFFs are;
- How they occur;
- Why they occur;
- How they can be addressed;
- What is their estimated economic impact (ibid).

However, what is missing in this analysis is who is impacted, and the extent to which they are impacted. Some literature and research has tried to identify who is impacted, with more recent consideration given to the groups that are disproportionately impacted (AMwA, 2020). According to Merkle (2019), despite the noted capacity of IFFs to engender inequality and perpetuate conditions that increase inequality, corruption and conflict, there are very few studies exploring the extent to which women are affected by and involved in IFFs. This means that more research is needed on the gender dimension of IFFs, especially in developing countries.

A further justification of the need to analyze IFFs from the gender perspective is that we cannot deny the fact that less developed economies in particular are structured by gender, with women doing most of the low paid and poor quality jobs. To the extent that taxation is a core component of fiscal policy it plays a huge role in the redistribution of resources, either to the advantage or disadvantages of women (AMwA, 2017, p.12). It can also be argued that economies continue to be heavily subsidized by the ''care economy'' which is work usually undertaken by women, making it important to have more gender disaggregated data and analysis to show the extent of the gender bias in tax systems (AMwA, 2017, p.12). Capraro (2014) argues that, in terms of advocacy and awareness, gender consciousness is needed in the formulation of fiscal policy. DAWN (2018, p. 159) also calls for the "enlargement of the political space to implement progressive taxation on income and wealth, while avoiding explicit and implicit gender bias in taxation...". IFFs mean reduced funding for key public services resulting in provision of low quality public services, thereby disadvantaging women.

<u>How can women be involved in curbing IFFs?</u>

Little research has so far been done on the role women can potentially play in curbing IFFs (Merkle, 2019). However, an analogy may be seen in the role women play in curbing corruption. It has been shown that higher levels of female participation in politics in some countries have resulted in lower levels of corruption. It is interesting to note that there is no clarity on the linkage between women's participation in politics and corruption as causality cannot be assumed. Regardless, given that women are the most adversely affected by the corrosive impact of IFFs, their participation is critical to finding a solution (ibid, 2019).

Conclusion

A strong link exists between IFFs and gender inequity. An increase in IFFs results in: (i) insufficient revenue for gender equity programs; (ii) higher than necessary taxation burdens on small and medium enterprises, which are owned in large numbers by women; and (iii) the poor provision of public services, which in areas such as education and health has a particularly deleterious impact on women.

For these reasons there is a need for advocacy and research to be focused on the gendered aspects of IFFs, especially in developing countries. If the sustainable development goals (SDGs) are to be achieved through domestic resource mobilization the feminization of poverty must be addressed.

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