

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: PQ 250 [NW272E]
DATE OF PUBLICATION: 24 February 2015

Mr. N F Shivambu (EFF) asked the Minister of Finance:

(1) Whether, in view of the finding of the Global Financial Integrity report of December 2014, in respect of illegal outflows of money from the country from 2003 to 2012, which culminated in the loss of an estimated R147 billion a year, he can provide a relevant and detailed account of how the money was lost; (2) What steps has he (the Minister of Finance) taken to ensure that these funds are channelled towards better causes in order to improve the lives of our people?

[NW272E]

REPLY:

(1) No, it is not possible to provide a detailed and accurate account on the actual money lost through illegal outflows of money from South Africa or any other country. . This is because persons committing illegal actions do not voluntarily report on their activities, and any state has to use various mechanisms to identify and act against such illegal actions. That is why estimates of different reports differ, as they use various methodologies to arrive at their estimates, as can be seen from the different estimates of the following reports:

- a. The 2015 Global Financial Integrity Report;
- b. Illicit Financial Flows Report submitted by the High Level Panel chaired by former President Mbeki to African heads of state in January 2015; and
- c. the report of the United Nations Economic Commission of Africa's (UNECA) report *The State of Governance in Africa: The Dimension of Illicit Financial Flows as a Governance Challenge* of February 2013 .

South Africa has long recognized this problem of illicit financial flows, and taken strong steps to try and deal with it, long before all these reports were first published. This can be seen from the routine work of the South African Revenue Service (SARS), the South African Reserve Bank (SARB), Finance Intelligence Center (FIC) and the prosecuting authorities. Whilst there are various mechanisms that are used to facilitate such illegal capital flows, such as trade mispricing, money laundering, drug trafficking, corruption, we believe that aggressive tax avoidance and evasion probably form the most significant part of such illicit flows. This was one of the reasons why the former Minister of Finance appointed a Tax Review Committee chaired by Judge Dennis Davis, to improve the tax system and reduce the scope of tax avoidance and evasion, and the committee has already produced a report to deal with problems of base erosion and profit shifting (BEPS).

The SARS and the SARB continually assess taxpayers and any significant financial transactions undertaken by them. The Financial Intelligence Centre also monitors for money laundering and financing of terrorist-related activities. Where they believe that such activities are not declared or are not legitimate, they follow up appropriately within their respective mandates.

The problem of illicit flows from Africa also requires Africa-wide co-ordination and co-operation, but more than an African problem, this is a global problem, and requires globally-coordinated action. South Africa strongly supports and is therefore part of the actions by the African Tax Administration Forum, OECD/G20 BEPS project, the Global Forum on Transparency and Exchange of Information for Tax Purposes and others in this regard. These actions include sharpening the mechanisms to deal with BEPS, including transfer mispricing, the recent move to automatic exchange of information as the new global standard by the Global Forum and the agreement that has been reached on the implementation of country by country reporting. South Africa is an Early Adopter with over 50 other jurisdictions to automatically exchange financial information of account-holders with financial institutions, which will commence from 2017 onwards. Such exchange will be even sooner with the USA, which commences in September this year in terms of the intergovernmental agreement with the USA.

As can be seen, South Africa has long-taken many of the steps proposed by the GFI Report, and continues to strengthen current mechanisms as we identify gaps and ensure that we also fully implement anti-money laundering recommendations of the Financial Action Task Force (FATF), including those on beneficial ownership.

- (2) It is not clear what the Honourable Member means by this question, as funds that have left the country illicitly (unless they have been returned) are no longer available to the country, so cannot be deployed for any cause. Furthermore, such funds belong to companies or private individuals before they leave the country illicitly, so they are generally not available to the public sector for its use, before they are taxed. To the extent that any illegal funds are recovered and accrue to the state, they are generally deposited into the National Revenue Fund, to be allocated through an appropriation act through the normal budgetary processes.

The South African authorities do follow up on individual cases as and when they are reported or appear in the media. For example, the recent tax scandal involving a prominent bank, together with tax information sharing initiatives provide powerful reasons that those indulging in illicit capital transfers will eventually be caught. The time has come for those who did not declare such funds in the previous exchange control amnesty or under SARS's ongoing voluntary disclosure programme to come forward and do so. No financial institution can hide behind bank secrecy provisions, as they are increasingly obliged by law to disclose information for anti-money laundering and tax purposes. For those who do not, they should be aware that the consequences will be far greater than coming forward now and putting their tax affairs right before SARS pursues.