

# Illicit Financial Flows

*Presentation to SCOF*  
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- Illicit trade is a major and growing problem worldwide. It involves money, goods or value gained from illegal and generally unethical activity.
- It encompasses a wide variety of illegal trading activities:
  - human trafficking,
  - environmental crime,
  - illegal trade in natural resources,
  - various types of intellectual property infringements,
  - and trade in certain substances that cause health or safety risks,
  - smuggling of excisable goods,
  - and trade in illegal drugs,
  - as well as a variety of illicit financial flows.
- These activities generate a wide range of economic, social, environmental or political harms.”

# IFFs refer to money that can be earned legally or illegally, transferred across borders illegally and used for legal or illegal purposes

| Actors                | Source of Legal Money  | Source of Illegal Money   | Means of transferring money cross-border   |
|-----------------------|--|---|--|
| Criminal Organisation | Tax Evasion  | Drug Trafficking<br>Human Smuggling<br>Money Laundering<br>Hiding the proceeds of syndicated crime<br>Financing of terrorism and conflict | Bank and Money transfers<br>Informal IOUs<br>Cash or gold smuggled across the border<br>Payments using crypto currencies |
| Individuals           | Profit Shifting<br>Exploiting exchange rate differentials<br>Tax Evasion | Tax Evasion<br>Corruption<br>Embezzlement<br>Evasion of currency controls<br>Financing of terrorism and conflict                          | Transfer of Ownership of stocks or shares  |
| Corporates            | Tax Evasion<br>Profit Shifting<br>Exploiting exchange rate differentials | Corruption<br>Violations of intellectual property rights<br>Evasion of Currency controls<br>Illegal exploitation of natural resources     | Transfer of property   |

# Why are Illicit Financial Flows Detrimental?

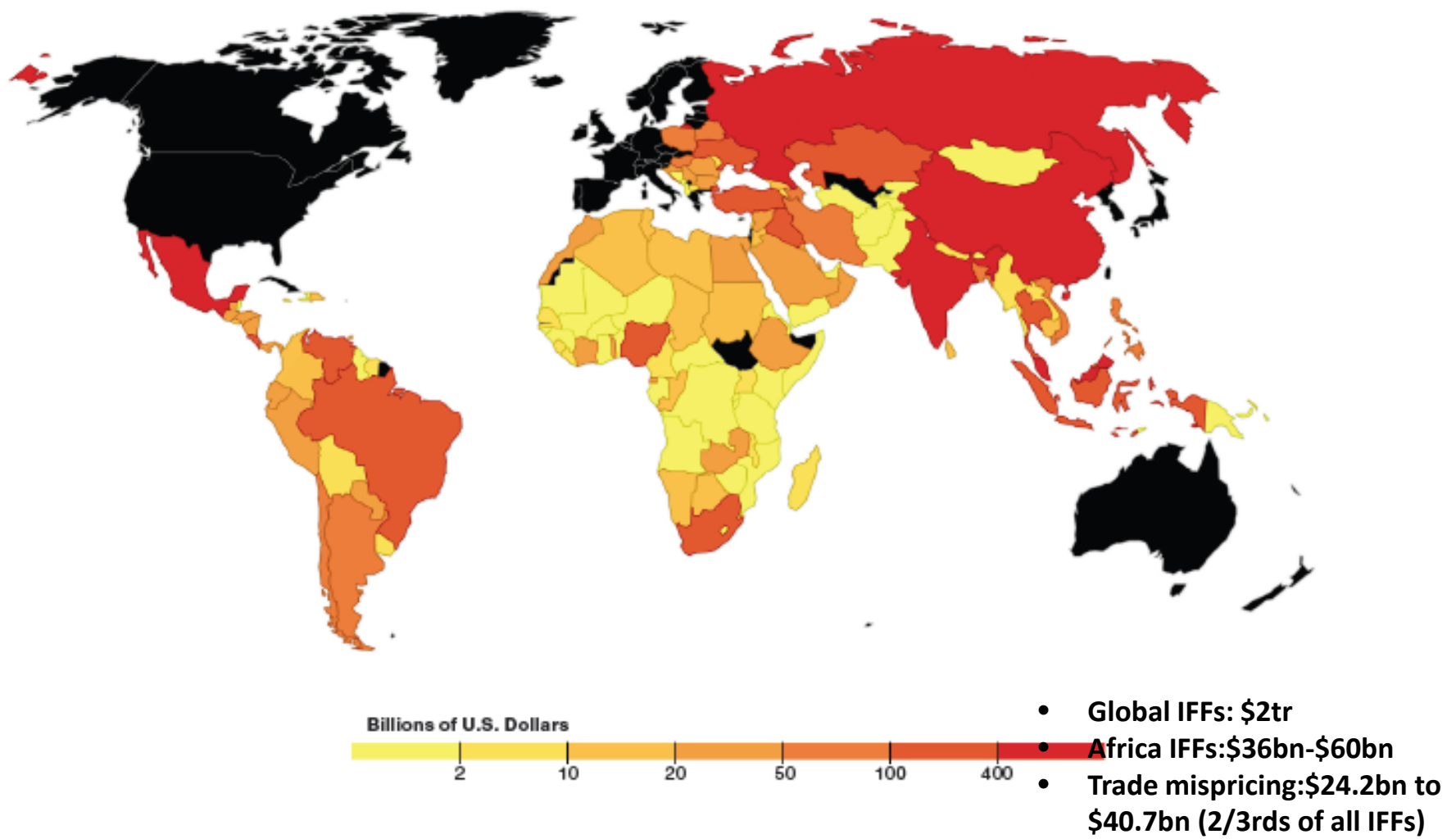
IFFs undermine the ability of governments to implement developmental and transformative policies through:

- Loss of consumption or investment
- Trust deficit between public sector, private sector and citizens
- Shifting resources from productive to less productive activities
- Drainage of public resources
- Worsening poverty and inequality levels
- Corporate influence on decision-making – loss of democracy
- Pushing economies into a vicious cycle of development, which is very difficult to jump off from
- Tainting South Africa's image

*Source: United Nations Economic Commission on Africa (UNECA)*

Developing countries are the most abused. South Africa is among the Top 10 globally. However developed countries derive the most benefit

Heat Map: Cumulative Illicit Financial Flows from Developing Countries: 2004-2013 (in billions of nominal U.S. dollars)



# IFF's from SA substantial but difficult to measure and widely divergent estimates



| South Africa                    | Global Financial Integrity (GFI) Trade Misinvoicing Outflows | Financial Intelligence Centre (FIC) Trade Misinvoicing Outflows | FIC GFI method Trade Misinvoicing Outflows | FIC Walker Trade Misinvoicing Outflows |
|---------------------------------|--|---|--|--|
| Billions                        | Dollars (US)   | Dollars (US)  | Dollars (US)                               | Dollars (US)                           |
| 2011                            | 23.0   | 63.5  | 41.0                                       | 59.9                                   |
| 2012                            | 25.0   | 70.7  | 42.6                                       | 67.3                                   |
| 2013                            | 17.4   | 65.2  | 24.1                                       | 62.4                                   |
| <b>Total (Cumulative)</b>       | 65.4   | 199.4   | 107.7                                      | 189.6                                  |
| <b>Annual Average</b>           | 21.8   | 66.5  | 35.9                                       | 63.2                                   |
| <b>Total Rands (Cumulative)</b> | 540.0  | 1670.2  | 880.4                                      | 1589.9                                 |
| <b>Annual Average</b>           | 180  | 556.7   | 293.5                                      | 530                                    |

# How is SARS responding at the Strategic level?



## At the strategic level:

- **Leadership & Strategy**

- Inter-governmental consensus including Trilateral agreement with Statistics SA and South African Reserve Bank
- SADC Commissioners' General Forum to address Multi National Corporations (MNC) below Organisation for Economic Corporation and Development (OECD) threshold
- Agreement reached between SARS, Internal Monetary Fund and US national treasury to assist regional capacity building in transfer pricing
- Founding member of International Working Group in the shadow-economy
- SARS chaired OECD International Exchange information sharing of Tax information and also one of the first signatories
- Participation in World Customs Organisation (WCO) such as Customs Enforcement Network, Regional Intelligence Liaison offices and The Financial Action Task Force
- Country by country reporting on MNC's legislated in SA and currently implemented by SARS
- Since inception, 10 707 Voluntary Disclosure Programme (VDP) applications received, with 10 133 applications finalised and 42% success rate. The total agreement value to date amounts to R9.4 billion. In 2016 SARS realised R3 billion in VDP from 200 tax payers
- SA amongst the first in the world to legislate registration for E-commerce.

- **Structure**

- Established structural focus to deal with IFF internally end-to-end through multi-functional teams.

- **Risk Management**
  - Improved coordination of tax and customs risk assessment
  - Comprehensive research completed in the Petro chemical industries elected as a pilot. Findings to be actioned
  - Implementation of Improved Customs controls, creation of specialised units (e.g. Dogs and Scanners)
  - Comprehensive review of the statutory and regulatory controls – specific attention to mineral products and precious metals
  - Initiated project to match financial flows from SARB to trade declarations
- **Capacity Planning**
  - Recruitment of 20 highly skilled individuals in transfer pricing
  - Workforce plan has been reviewed to create a focus for capacity building for high level auditors and experts in customs valuation, trade mispricing, transfer pricing, and taxation of High Net Worth Individuals (HNWI) and Prominent Business Individuals (PBIs)
- **Systems**
  - Improved leverage of operational data analytics such as triangulation of SARB's data and the data of financial institutions.
  - International Standardised Industry Classification (ISIC-4) to deal with sector dynamics and improved application of sector specific responses
  - To assist with unpacking different business under one corporate banner,
  - Introduction of Harmonisation of data, data analytics and Generalised System of reporting of trade stats



## Enforcement outcomes

### 2<sup>nd</sup> Hand Gold Investigations revealed

- Entities melt Kruger Rands, stolen gold from the mines, smuggled gold from neighbouring countries and illegally mined gold and it is sold to a refinery or exported onto the international market
- 78 cases of potential VAT fraud
- 5 crime syndicates and approximately 50 entities
- 8 arrests
- 15 convictions - Charges of fraud, tax evasion, racketeering and money laundering
- 5 cases currently in court
- R500 thousand collected
- R5million illegally left the country

## Customs outcomes

- Customs have seized \$11.3 million and R66 million undeclared cash at the borders
- Adjustments made from transfer pricing and customs value audits realized R745 million in collections in 2016/17, with 54 cases identified and 22 cases agreed on adjustments.
- Undeclared advanced import payment collected R217 million in the last financial year 2016/17 (In excess of R70 billion currently being validated against 3<sup>rd</sup> party data).
- +/-66K unclosed advanced import payments
- Approached 96 cases taxpayers=2k import payments.69 cases concluded.
- Currency export seizures for the 2016/17 Financial year amounted to R55 million
- 15 cases were detected

## Customs Outcomes (cont..)

### Project status since the establishment of pilots:

Since the implementation of Goods Control project in the in the two pilot sites (Durban sea port & O.R. Tambo International Airport), the following has been achieved:

- Durban:
  - Visibility of Goods and targeted inspections have increased to > 90%
  - Reduction of undeclared goods on arrival from >10 % to <4 %
  - Control has also increased over areas virtually not targeted in the past incl. bulk, export and transit goods
- ORTIA :
  - Passenger targeting, inspections and baggage scans have increased (from 50% to 80% over Dec-Jan)
- Improved Customs presence at ports resulting in end-to-end physical control of goods.
- Increased real-time data access that has enhanced ability to manage operations.