

## MEETING SUMMARY REPORT

### BUSINESS UNITY SOUTH AFRICA LAUNCH OF THE TRACIT ILLICIT ECONOMY REPORT ON SOUTH AFRICA, JOHANNESBURG, 30 MAY 2023

#### INTRODUCTION

Business Unity South Africa (BUSA) launched the [2023 Transnational Alliance to Combat Illicit Trade \(TRACIT\) report on South Africa](#) in Johannesburg on Tuesday 30 May 2023.

BUSA is the apex organised business entity representing South African business. BUSA is the formally recognised representative of business at the National Economic Development and Labour Council (NEDLAC). The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilising businesses across industry sectors most impacted by illicit trade.

#### SUMMARY

The TRACIT report shows that illicit trade is one of the biggest threats to stability and economic growth in South Africa. While the country has taken steps under President Ramaphosa to root out illegal trade and associated activities like corruption and money laundering, the scope and depth of the illicit economy poses a significant threat to the health and wellbeing of South African citizens and a persistent drain on the overall economy.

The meeting highlighted the need for, and committed to, strengthening cooperation between business and the South African law enforcement agencies, strengthening criminal penalties, ramping up implementation of enforcement measures, and increasing transparency and cooperation between the public and private sector to improve enforcement actions. The meeting recommended the establishment by legislation, of an Interagency Anti-Illicit Trade Coordinating body with a high-level coordinator to lead this body.

#### OUTCOMES

The meeting concluded that, for South Africa to achieve its critical developmental objectives, it must tackle effectively the corrosive illicit trade that undermines its entire national economy. This will require targeted and co-ordinated initiatives, interventions and programmes at the level of government, business, labour, communities and civil society more broadly.

BUSA and TRACIT committed to work collaboratively on specific workstreams to contribute to the achievement of these objectives and committed to use this launch as a catalyst to take things forward in a timely manner without reinventing the wheel. The next step will be for BUSA and TRACIT to formalise their partnership, establish an action plan to share key recommendations with the relevant high-level stakeholders to foster a public-private partnership with government. The action plan needs to be focused, with clear timeframes, accountabilities, and deliverables. The plan should include a joint communication strategy.

## **DELEGATES**

Conducted in a hybrid format, the launch panellists and participants included: BUSA, TRACIT, National Treasury, the South African Police Service, the Directorate for Priority Crime Investigation (the Hawks), the Institute for Security Studies, NEDLAC representative, the Consumer Goods Council, organised labour unions, community-based organisations, the mining sector, the alcohol sector, the tobacco sector, the pharmaceutical sector and media representatives.

A key objective of the launch was to establish closer co-operation between organised business, government and civil society to towards a 'whole of society' approach to tackling the illicit economy.

## **CONTEXT**

BUSA CEO, Cas Coovadia, noted that BUSA has been engaged in a high-level programme to strengthen efforts to assist tackling the illicit economy. The Joint Initiative to Fight Crime and Corruption is a key BUSA workstream with government. In this regard, the TRACIT report is a critical intervention with excellent data, so it is important to deliver a concrete and impactful programmatic outcome from the report and the meeting.

## **PRESENTATIONS AND DISCUSSION**

TRACIT Senior Policy Advisor, Dr Esteban Giudici, noted that the TRACIT study underscores how recent inflationary pressures, high levels of unemployment, widespread corruption, sophisticated organised crime networks and lingering effects from the COVID-19 pandemic have turbo-charged South Africa's illicit economy. The COVID-19 pandemic provided wide opportunities for illicit traders to adjust and expand their operations during a time when government-imposed lockdowns, bans and other restrictions disrupted legal markets and created shortages. The NEDLAC representative echoed this, by noting observable unintended consequences to government policies such as sales bans under the State of Disaster which, in effect, provided opportunities for illicit trade to flourish.

The SA report points out that illicit trade is more than just an economic issue, but involves state institutions (state capture). Illicit trade is about non-registered economies that run in parallel and don't pay tax. South Africa's grey listing by the FATF is problematic. Notably, the IMF states that FATF grey listing can reduce GDP by up to 7%. But it is not about the robustness of the system and the institutions, but rather about the implementation of the enforcement. It is also important to look at the risk assessment of specific sectors and companies. Inter-agency co-operation and mutual assistance is vitally important as for example, a clear relationship has been demonstrated between illicit financial flows and the funding of terrorism.

The HAWKS representative noted that the report re-enforces illicit trade falls under the basket of transnational organised crime and that illicit trade in South Africa has been booming. "We are dealing with illicit entrepreneurship at the premiership level. They are able to penetrate any sector they choose. There is important work being done, but like all other sectors, we need to up our game. The world's wealthiest economies are the biggest markets for illicit trade. We need policy shifts and a framework as a collectivist government to overcome these issues."

The TREASURY representative noted that, "We are acutely aware of the impact of illicit trade and illicit financial flows. They undermine developing economies and the investment base. We have an agreement signed with the OECD and we will be tackling the FATF grey listing to ensure its upliftment as soon as possible. Treasury is working with SARS, SAPS, Hawks and others."

The ISS representative noted that, “A whole of government and a whole of society approach is required. We need to utilise all of our capabilities, not just the state, but non-state capacity. We need to look at institution building. While murder and crime has risen, the capacity to prosecute criminality has declined by 50%.”

The representative of the mining sector noted that, the losses to the fiscus indicated in the report are probably 1/10<sup>th</sup> of the real figure. We need to harness this energy and drive to get us across the line in tackling the illicit economy. In this regard, the building of institutions is critically important, but we need to agree clearly on what needs to be done. We have a formal economy, an informal economy and an illicit economy. The latter is a monster, but we need to tackle this one step at a time.

“It’s difficult because the crime syndicates are well capacitated and technologically savvy. Government must come to the party and come on board. There needs to be political will to tackle these issues. We need to strengthen the criminal justice system, we need reform. The SA economic structure (poverty and inequality) propels organised crime. But we do not have a criminal justice system that is fit for purpose. In fact, people are graduating to higher levels of crime.”

The HAWKS representative noted, “Illegal enterprises have established themselves in a parasitic relationship with the legal/formal sector. Taking illicit tobacco, it is clear that the bulk of tobacco is being sold below the minimum tax levels. This is particularly prevalent in the informal sector where illicit tobacco has become the norm. There is a high level of commitment to respond to illicit trade, but like all institutions, we need to upgrade our capacity and approach. In this regard we would benefit from the private sector expertise and that of NGOs, this can be forensics and technology and communications. The TRACIT reports accurately on the growth of the illicit economy and trade in SA.”

TREASURY noted, “Illicit trade is secret, and it is vital that we ensure closer co-operation, but we need a structure that involves and embraces the private sector. We need to share information more closely.”

ISS noted, “There is tremendous capacity in the private sector. The NPA needs to be truly independent so that it can go after the big fish (cabinet ministers) without fear or favour. The SAPS needs to be significantly reformed. We do need a whole of society approach.”

The NEDLAC representative agreed that a sectoral approach is required, not just with law enforcement, but at the policy level. “Look at the unintended consequences of policy such as the Covid lockdown. But importantly, there is not enough money, funding and resources dedicated to public messaging and communications. We need campaigns of public messaging, but the development of programmes to get people out of criminal networks is important. Legislative reform is not enough. In the case of cable theft, the legislation was changed to 16 years sentence, but there’s not enough enforcement capacity in the SAPS. Legislation alone cannot necessarily improve the problem.

BUSA questioned, “It’s easy to throw a policy at a problem like illicit trade, but because this would be owned by national Treasury, could an interagency approach be adopted? How do we pass legislation that could give effect to this?”

ISS opined that, “It’s not a case of setting up new structures, but rather how we can capacitate them, particularly forging the gap between the public and private sector. Start a process and build the partnerships. It takes time, consistency, trust and time. Who is responsible for what? There’s no quick fix, but we need to start quickly.”

TREASURY noted, "We are already working with SARS, but we need to strengthen inter-agency cooperation with a broader range of relevant stakeholders. We need to improve and strengthen investigation and prosecution. Need to work with the HAWKS and NPA."

TRACIT suggested the signing of an MoU which would receive the support of TRACIT with the OECD and the FATF.

### **CONCLUDING REMARKS**

BUSA CEO Cas Coovadia concluded, "We will strengthen our relationship with TRACIT. BUSA will take the report and the outcome of this meeting to our members in the context of our current work. Particularly with respect to better structuring closer co-operation between organised business and government. There is a BUSA team working on Law and Order. But we must not create structures that want to do everything and achieve nothing.

We put this to the President, that we require clear focus and clear objective and clear structure, otherwise we won't achieve anything. We need to be able to tackle the question of lack of trust. Business is committed to the future of South Africa and needs to be trusted more by government rather than government designing and inviting business. We also need more joint communications and BUSA will consult on this.

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