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The Role of Policy and Governance



South Africa's domestic resource mobilization position: is it good or bad and why

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South Africa's domestic resource mobilization position: is it good or bad and why¹

By

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Abstract

This paper presents a case study on South Africa's resource mobilisation. Domestic resource mobilisation is defined as the generation of savings from domestic resources and encouragement of investments from foreign investors to create a big domestic resource pull and the allocation of resources to economically and socially productive sectors. In South Africa, government fiscal policy and the monetary policy as well as the expenditure systems are well developed. The government lead institutions in the domestic resource mobilisation include, and not limited to, National Treasury, South African Receiver of Revenue (SARS), South African Reserve Bank (SARB), Fiscal and Financial Commission (FFS), and Statistics South Africa. The market oriented financial system of South Africa implies minimum state interventions as market mechanism is assumed to achieve the highest efficiency in terms of resource allocation. However, government acknowledge that market imperfections do occasionally arise and that intervention by way of regulation is sometimes justified. The government therefore promulgates legislation and creates regulatory authorities and authorise them to influence the economy according to government policy. South Africa has put in place strong administrative measures to ensure efficient tax collection process, however, the country still experiences large loses in the form of illicit financial flows. It is estimated that the country lost over US\$ 24 billion in the last decade. South Africa's domestic resource mobilisation status has been very good, however, recently a number of variables that are used to measure the healthy nature of this are going the opposite direction.

Introduction

A growing and prosperous agricultural sector capable of creating jobs and contributing towards poverty alleviation depends on strong macro-economic fundamentals. This paper tackles the issue of domestic resource mobilisation as a macroeconomic fundamental required to build a strong and developmental economy. Domestic Resource Mobilisation is one of the most important aspects in any economy's prosperity. Economic development (GDP per capita as proxy for development), the structure of an economy (in terms of the sector's contribution to the GDP), the macroeconomic stability (such as the economic policy and political stability) and governance are very crucial for domestic resource mobilisation (Drummond & Daa, 2012). Domestic resource mobilisation is defined as: the financial as well as fiscal accrual within an economy (Bhushan R. C., 2008) an amendment from the definition quoted by Bhushan (2008) that, it is anything ranging from human capital to financial and social as well

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as natural capital; the mobilisation of public resources in countries, primarily through taxation, and allocating them into economic and social productive investments (Ifan, 2014). Culperper and Bhushan (2008) define DRM as savings and investments generated by households, domestic firms and governments. On the other hand, the African Development Bank's definition of DRM includes the domestic allocation of the generated resources to support development (AFDB, 2010)

The biggest challenge regarding domestic resource mobilisation is always around the types of programmes to be financed by the state (hence political parties always disagree), who pays and who is exempted (taxation regime and tax thresholds). The evolution of government policy in South Africa after the landmark elections of 1994 can be outlined in few policies: the Reconstruction and Development Programme (RDP) followed by the Growth, Employment and Redistribution (GEAR), AsgiSA the New Growth Path (NGP) and lately the National Development Plan 2030 (NDP). There are important institutions mandated to collect revenue and those empowered to deal with tax evasion as well as those that are spending in delivering on government prioritise. There seem to be preconditions to the country's success in collecting revenue such as keep corruption under control, secure the rule of law (R Bird, 2004).

The objective of this study was to use available information to gauge the country's standing on domestic resource mobilisation. Hence, using available literature information (aligning to theoretical arguments) the state of South Africa's domestic resource mobilisation was looked at with the view to pick up short term trends (from 1994 or so). The conclusions of this study are that South Africa has a sound domestic resource mobilisation framework – the country continues to have budget surplus, a government spending monitoring that is very strong. It is important to note that from the time of the (around 2007/08) a number of macroeconomic variables took a rather concerning trajectory such as the country's debt as a GDP ratio, the current account deficit as a percentage of the GDP.

Government policy and strategy: 1994 - 2015

Reconstruction and Development Programme (RDP) is the socio-economic policy framework that was put together by the African National Congress (ANC), and used as the election manifesto during the first democratic elections, in 1994. After a landslide victory, the RDP became the basic guiding document in the process of formulation of the new democratic government's socio-economic development programmes. It was formulated against the backdrop of a historical context characterised by racially distorted distribution of wealth and resources, and skewed access to education, health and basic services. RDP was therefore set out to create an enabling environment for the improvement in the quality of life of the victims of the segregationist apartheid policy. It was set up to have five key programmes namely: Meeting basic needs, including jobs, land, housing, water, electricity, telecommunications, transport, health care and social welfare; Developing human resources through ensuring education for young children, students and adults; Building the economy that is inclusive and free from racial and gender inequalities in employment, ownership and skills; Democratising the state and society through the Constitution and Bill of Rights, and clarifying the roles of national, provincial and local government, the administration of justice, the public sector, parastatals, the police and security forces, social movements and NGOs, and a democratic information system in facilitating socio-economic development; and Implementing the RDP, which deals with establishment of proper programme implementation structures at national,

provincial and local government levels (ANC, 1994). Regarding building of the economy, the RDP's stance is that the state should play a leading and enabling role, with the private sector being given space to thrive, and with all sectors of civil society being actively involved.

Growth, Employment and Redistribution (GEAR) is a macro-economic policy on which post-apartheid South Africa's fiscal, monetary; exchange rate, trade, industrial and small enterprise, and other related economic policy subsets would be based. It acknowledges the goals set in the RDP and is articulated partly as a mechanism for "implementing the RDP in all its facets. By the time GEAR was presented certain achievements had been seen in the country including: Average economic growth of 3 % per annum, a far cry from stagnation that characterised the pre-transition 1980's; Reduced budget deficit, reformed tax system and reprioritised public expenditure; A more open economy; A more integrated civil service and transformed public institutions; and Lower inflation and progress towards easing of balance of payment constraints. Despite all the above-mentioned achievements, job creation remained inadequate, thereby putting pressure on the economy's ability to deal with income inequalities and the backlog in social service delivery. The following are the specific core elements of the GEAR policy: A renewed focus on budget reform to strengthen the redistributive thrust of expenditure; A faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment; An exchange rate policy to keep the real effective rate stable at a competitive level; Consistent monetary policy to prevent a resurgence of inflation; A further step in the gradual relaxation of exchange controls; A reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation; Tax incentives to stimulate new investment in competitive and labour absorbing projects; Speeding up the restructuring of state assets to optimise investment resources; An expansionary infrastructure programme to address service deficiencies and backlogs; An appropriately structured flexibility within the collective bargaining system; A strengthened levy system to fund training on a scale commensurate with needs; An expansion of trade and investment flows in Southern Africa; and A commitment to the implementation of stable and coordinated policies.

Accelerated and Shared Growth Initiative of South Africa (ASGISA) - ASGISA came with a target of halving poverty and unemployment by 2014 (more aligned with the MDGs). ASGISA acknowledges the "relatively slow progress made in the implementation of some aspects of the Growth and Development Summit", but lauds improvements in the form of a turn-around in the growth rate (which climbed to 5% in 2005), accompanied by buoyant business confidence and dropping unemployment. It identified two challenges that merit a focus towards a more balanced growth namely, first, the fact that economic growth seemed to have been spurred mainly by strong commodity prices, and second, and the fact that a large sector of the population remained outside the mainstream economy and is therefore not able to benefit from economic advances. Given these constraints, ASGISA unveiled the following six areas of intervention designed to achieve national objectives more effectively: Infrastructure programmes; Sector investment (or industrial) strategies; Skills and education initiatives; Second Economy interventions; Macroeconomic issues; and Public administration issues.

Developments on Industrial Policy - It builds on the tradition of the post-apartheid industrialisation approach, which focuses on supply-side constraints to restructure the production of the economy in order to deal with increased global competition in the wake of

trade liberalisation. One of the key programmes under this approach has been the National Industrial Participation Programme (NIPP), which was designed to ensure that large foreign purchases by state entities secure offsetting investment and technology transfer obligations in the domestic economy. The NIPP also, among others, draws its lessons and best practices from the experiences of the newly-industrialised countries (NICs). It advocates for three “strategic domains” in which South African industrial policy must operate (Department of Trade and Industry, 2007). The implementation of the NIPP is set out in Industrial Policy Action Plans (IPAPs). The first three IPAPs were approved by Cabinet and has largely been implemented. The highlights include: the strengthening of the Competition Act to introduce stronger investigative powers for the Competition Commission and personal liability for transgressors; the lowering of input costs through removal or lowering of a range of import tariffs; and strengthening of building energy efficiency standards in response to national electricity shortages (Economic Sectors and Employment Cluster, 2010). Key successes have also been seen under the NIPP. Among other things, each year, R8.6 billion additional GDP is generated due to NIPP projects, and a total of 50 308 job opportunities are sustained by the NIPP on an annual basis.

A scaled-up and more longer-term IPAP, covering the period 2010/11 to 2012/13, was introduced in February 2010, and will be reviewed and updated annually. Its point of departure is that there needs to be a shift in industrial policy towards strengthening the productive side of the economy (the so-called “real economy”) in order to ensure a more sustainable growth path. It advocates for a move away from reliance on debt-driven, consumption-driven growth, which characterised the South African economy over the past few years. The productive sectors targeted by the current IPAP include: green and energy-saving industries; agro-processing; biofuels; forestry, paper, pulp and furniture; and tourism.

New Growth Path (NGP) is a strategy by the government which aims at achieving more developed, democratic, cohesive and equitable economy and society over the medium term in the context of sustainable development. NGP has been created for both public and private sector in the country to create jobs for the unemployed youth and rural poor women. The government aim to create higher improved economic growth rate and new employment opportunities. NGP sets to create five million new jobs in 2020. NGP will identifies economic strategies to enhance creation of new millions jobs in the following sectors manufacturing, mining and beneficiation, agriculture, rural development and agro-processing, infrastructure development and tourism, the creative industries and certain high level business services. The selected sectors should create jobs through a comprehensive drive to enhance both social equity and competitiveness, through systematic changes to mobilise domestic investment around activities that can create sustainable employment and lastly through strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities. The NGP policy has been formulated as a response to late 2008 economic downturn and as well as accelerating technological change. The policy is as a result of insufficient job growth of the 2000s and needs to accelerate employment creation income growth and decline in poverty. The policy aim to correct the economic consequences since the dawn of democracy where the country spends more than it earned, increase nominal value of a rand. These consequences resulted in consumption led growth that was not underpinned by strong production base, with rapid growth in retail, the financial sector and telecommunications and comparatively slow expansion in manufacturing, agriculture and mining. Finance and telecommunication despite their growth they didn't create jobs and mining and agriculture shed their workers.

National development plan (NDP) - NDP has been developed as a long term socio-economic road map to achieve South Africa vision 2030. The plan broadly outline long term strategies and identifies the roles of different sectors of the societies need to play to reach the vision 2030. The plan prioritizes eradication of poverty, creation of full employment and reduces inequality as critical building blocks towards truly united non-racial, non-sexist democratic and prosperous society. To reach the targeted goal NDP aims to realign all government policies for government medium term strategic framework. NDP has already combined economic policies such as Department of trade and industry policy, the Industrial Policy Action Plan (IPAP) and Department of Economic Development Ministry New Growth Path (NGP) in to a new framework. As a long term goal it will be implemented in 17 years in different phases. The policy has set four broad implementation objectives; providing overarching goals for what we want to achieve by 2030. Building consensus on the key obstacles to achieving these goals and what needs to be done to overcome those obstacles. Providing a shared long-term strategic framework within which more detailed planning can take place in order to advance the long-term goals set out in the NDP. Creating a basis for making choices about how best to use limited resources. The plan have a vision of creating 11 million jobs in 2030 and this will reduce country's unemployment rate to 6%. Reduction of inequality and elimination of extreme poverty by 2030. All jobs that NDP propose to create 90% of them should be created from SMMEs. The plan is very specific in attaining its goals by 2030; it aims to reduce number of people living in poverty from 39% to zero, reduction of income inequalities from 0.69 to 0.6 using Gini Coefficient measure, to raise employment from 13 million to 24 million and to increase per capita income from R50 000 of 2010 to R120 000 in 2030 and share of the nation income of the bottom 40%, from 6% to 10% by 2030. At the end the plan aims to ensure that all South Africans attain a decent standard of living through the elimination of poverty and reduction of inequality

Institutions (or institutional set up)

South African government institutions at the heart of domestic resource mobilisation are led by the National Treasury, the South African Receiver of Revenue, Statistics South Africa, Reserve Bank as well as the Auditor General. This list may include many more institutions such as local government and other but for the purposes of this study a selected list of institutions to focus on was made (see Table 1 with their mandate).

INSTITUTION	ITS WORK MANDATE
NATIONAL TREASURY	In South Africa, the National Treasury's mandate is to manage the national government finances with the aim to promote economic development, good governance as well as social progress (improving standard of living for all South Africans) through efficient and sustainable financial management. This mandate of the National Treasury, is derived directly from the Constitution of the Republic of South Africa as amended, specified in <u>Chapter 13</u> (Constitution, 1996) to ensure transparency, accountability and sound financial controls in the management of public finances. It is also important to outline that the National Treasury legislative mandate is also described in <u>Chapter 2</u> of the Public Finance Management Act (PFMA, 1999). The PFMA argues for the promotion of government fiscal policy framework, coordination of macroeconomic policy, intergovernmental financial relations, management of the budget preparation process, facilitate the division of revenue between all spheres of government and to monitoring the implementation of budgets. Operationally, the National Treasury is mandated by both the Executive and Parliament to ensure the optimal allocation and utilisation of financial resources in all spheres of government with the aim of reducing poverty and vulnerability among South Africa's most marginalised people
SOUTH AFRICAN RECEIVER OF REVENUE (SARS)	The South African Receiver of Revenue is noted to be driven by the desire to contribute directly to economic and social development in South Africa by collecting revenue needed to finance government programmes to meet the constitutional obligations of creating an equitable and just society. Therefore, SARS is mandated through the South African Revenue Service Act (No. 34) of 1997 to collect all due taxes, to ensure maximum compliance to all tax and custom laws that SARS administer and to provide a custom service that optimises revenue collection, protects the borders of South Africa and to facilitate legitimate trade. This gives an indication that SARS administers over nine (9) Acts including: Income Tax Act, Value-Added Tax Act, Customs and Excise Act, Estate Duty Act, Securities Transfer Tax Act, Securities Transfer Tax Administration Act, Skills Development Levies Act, and Unemployment Insurance Contributions Act.
STATISTICS SOUTH AFRICA (STATSSA)	Statistics South Africa is mandated by the Statistics Act, (No. 6) of 1999 to provide the state and other stakeholders with official statistics on a number of demographic, economic and social situations of the country. This statistics is aimed at supporting planning, monitoring and evaluation of the programmes and initiatives of the state and other stakeholders. Statistics South Africa works in close collaborations with the South African Reserve Bank, South African Receiver of Revenue and other institutions of government involved in the collection of data.
SOUTH AFRICA RESERVE BANK (SARB)	The constitution of the Republic of South Africa, of 1996 (Section 223 up to 225) as well as the South African Reserve Bank Act of 1989 as amended, mandates the South African Reserve Bank to achieve and maintain price stability that is to provide a conducive environment for balanced and sustained economic interests. The constitution also outlines the autonomy of the SARB as an independent institution. The SARB has been mandated to actively implement the countries Monetary Policy, Price stability mechanism employed by SARB is only measured through inflation targeting, with an upper threshold of 6%.
FISCAL AND FINANCIAL COMMISSION (FFS)	The Fiscal and Financial Commission is mandated through the Financial and Fiscal Commission Act (No. 99) of 1997 to make recommendations to Parliament, Provincial Legislatures, organised local government (both district and local municipalities either individually or through South African Local Government Association – SALGA) as well as other organs of state on financial and fiscal matters envisaged in the constitution and other national financial legislations.

AUDITOR– GENERAL SOUTH AFRICA (AG)	The Auditor-General derives its mandate from Chapter 9 (Section 181 and 188) of the Constitution of the Republic of South Africa. The AG is defined as the supreme audit institution in South Africa given that it is the only institution that has to audit and report on government expenditure. Each year all government departments (at all spheres of government) and institutions of government are audited with the results being analysed against the perspective of the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA).
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Measures of the success or failure

Resource collection side

In economic literature tax revenue is argued to be influenced by (sensitive to) the GDP, inflation and trade openness. According to Figure 1 below, South Africa's government revenue has been on an upward movement since 1994 (from about R108 billion in 1994 to over R940 billion in 2014). The only time government revenue declined was in 2009 (at R583 billion) from R604 billion in 2008. This decline can be attributed to the global economic situation. According to SARS (2015), despite considerable pressure exerted because of the global economic challenges as well as uncertainties it is argued that SARS collected revenue of about R900 billion for the financial year 2013/14. It is important to note that this is about 10.5% more than the previous year and R1.0 billion more than the revised budget estimate (meaning SARS collected more than it was anticipated). In 2013/14 financial year over 80% of South Africa's collected revenue came from three main taxes: personal income tax, company income taxes and value added tax. An interesting feature emerged that the relative contribution of company income tax declined from 26.57% in 2008/09 to about 19.9% in 2013/14 financial while both the personal income tax and the value added tax increased from 31.4% and 24.7% in 2008/09 to 34.5% and 26.4% in 2013/14 year respectively (SARS, 2015).

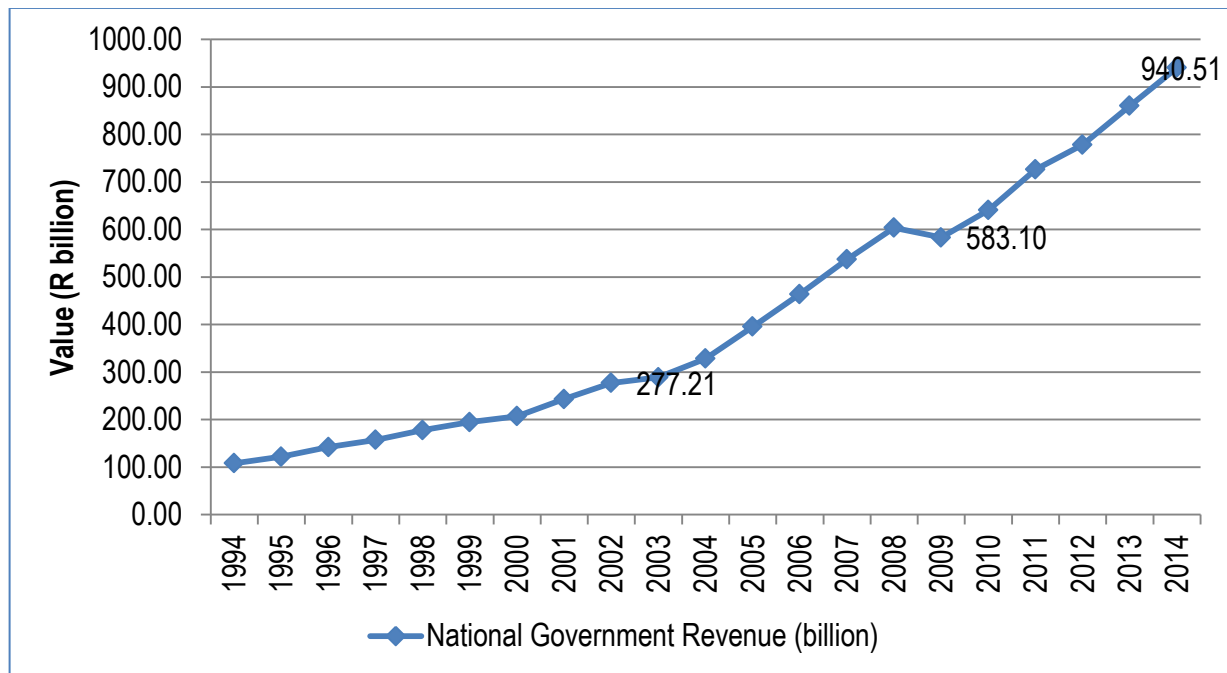


Figure 1: National government revenue from 1994 to 2014

Source: SARB (2015)

Presented in Figure 2 is the total tax collection, reported by SARS in their annual reports for 1998/1999 followed by 2008/09 lastly by 2013/2014 whereby it is clear that the amount collected increased from R200 billion in 1998/1999 to just over R900 billion in 2013/2014. The performance of South Africa's revenue collection can be measured (to some degree) by the amount collected compared to the amounts (estimated). Total tax

revenue data between 1998 and 2014 are presented in Figure 2 below. Some highlights are presented below: In 1998/1999 SARS was estimated to collect revenue to the tune of R149 billion and over performed by over R40 billion (budget surplus), In 2008/2009 SARS was expected to collect revenue to the target R628 billion and underperformed by about R3 billion (budget deficit), In 2013/2014 SARS was expected to collect (as of February 2013) about R898 billion and ended up collecting R900 billion (budget surplus R1 billion).

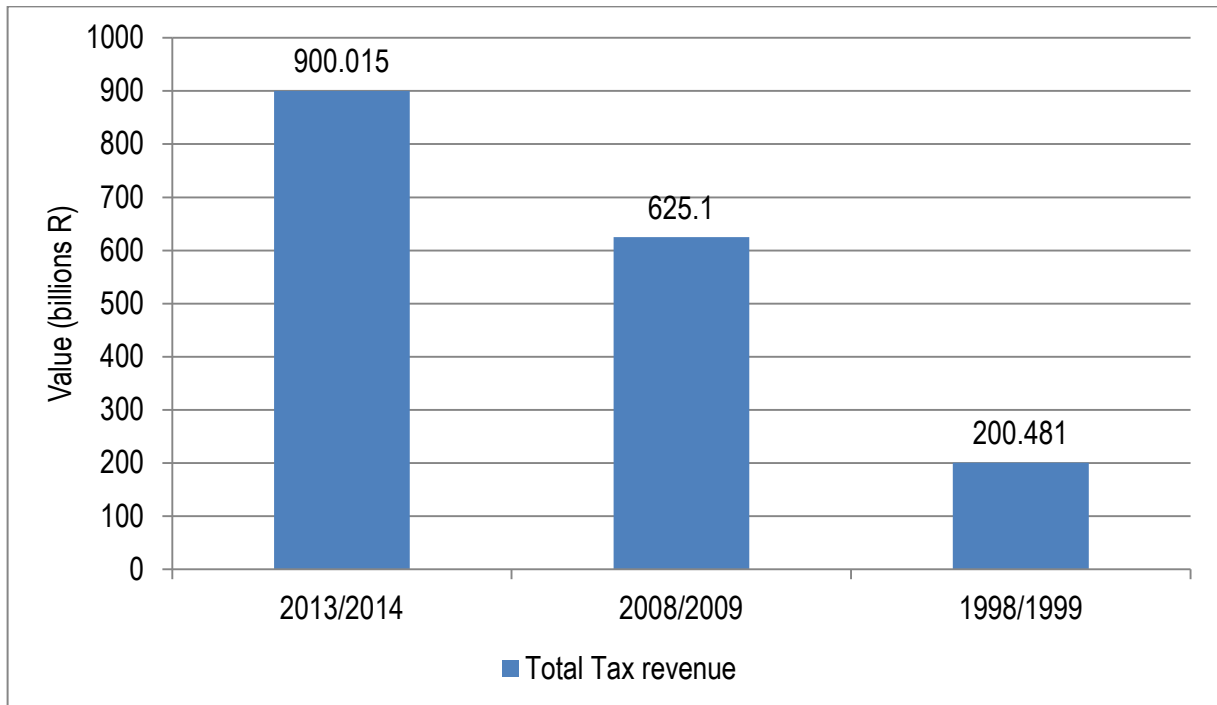


Figure 2: Total South African Government Revenue by SARS Source: SARS (1998/1999; 2008/2009 and 2013/2014)

Certain adjustments were made in compiling Figure 3: tax collection reporting has changed over time (in 1998/1999 income tax was reported as an aggregate figure) and some taxes were not yet there such as the skills development levy which are explicitly reported in 2013/2014. In 2008/2009 the difference between Personal Income Tax and Company Income Tax was about R29 billion, these two taxes collectively accounted for 58% of the total revenue followed by value added tax accounting for 25%. In 2013/2014 the difference between personal income tax and company income tax has increased tremendously to R131 billion, these two taxes accounted for 54% followed by value added tax at 26%. The share of value added tax to the total government revenue has been increasing from 24% in 1998/1999 to 26% in 2013/2014. Custom duties accounted for only 2% in 1998/1999 and in 2013/2014 accounted for 7%

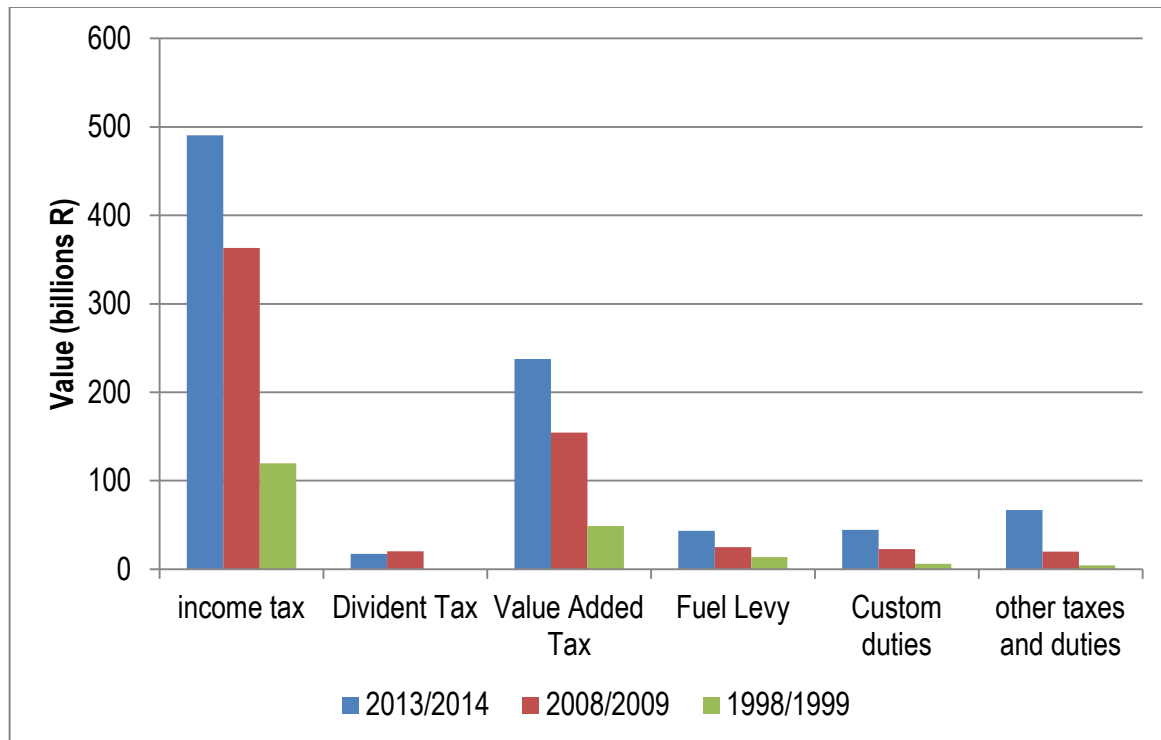


Figure 3: South African Government Revenue by the type of Taxes
 Source: SARS (1998/1999; 2008/2009 and 2013/2014)

Domestic Resource Mobilisation (Expenditure Side)

The relationship between public expenditure on infrastructure and economic growth has always been part of economic literature (Aschauer, 1989). South Africa's expenditure broken down by spheres of government is depicted in Figure 4. It is very clear that a bigger proportion go to National departments, in 2007/08 they accounted for 50% and declined from 2008/09 to 47% in 2013/14. The shares going to the Provinces have been relatively stable at about 43% while local government only gets about 9% in 2013/14 up from 7.9% in 2008/09. It needs to be noted though that local government also collects municipal rates from their residents (a fiscal space granted through legislation – Municipal Finance Management Act). Therefore, this means a close look at National and Provincial expenditure will account for over for over 90% of central government collection.

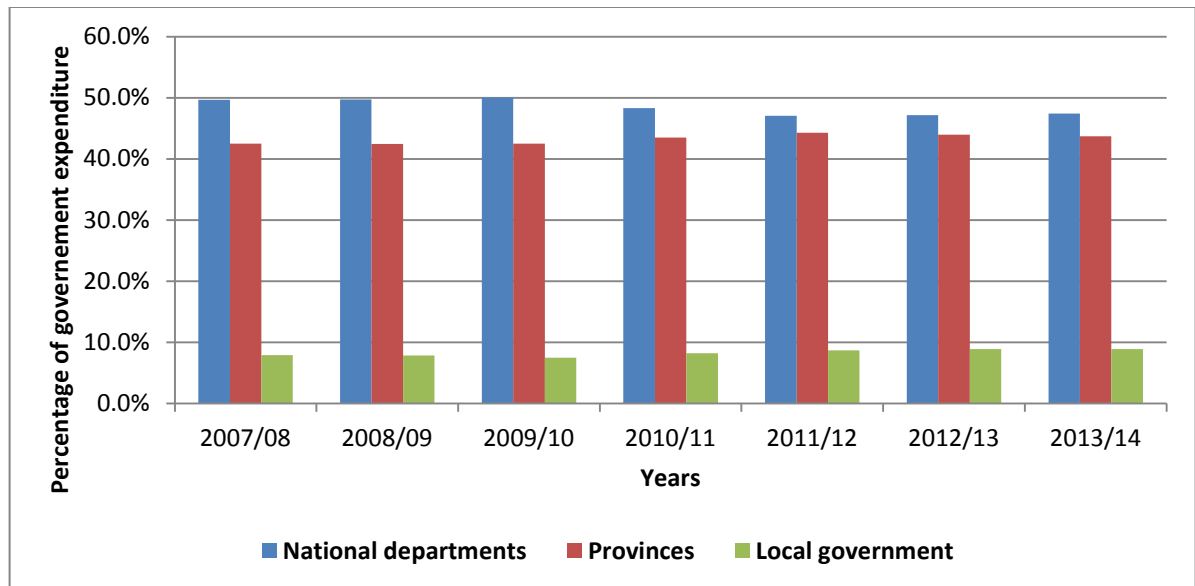


Figure 4: South Africa's government expenditure by spheres of government
Source: National Treasury (2015)

This study focuses more on National government expenditure. There is little attention to both provincial and local government (this is not to play down their importance as they are the closest to the citizenry). Table 1 presents South Africa's national budget by clusters. It needs to be outlined that from 2013/14 the National budget exceeds R1 trillion. Expressed in percentage terms, over 20% of South Africa's budget goes to the social service followed by 13.2% and 12.5% going to the security cluster and economic infrastructure respectively. Considering the social standing of the society it is justifiable to have a high share going to social services, however, over time this needs to be reduced as it is mostly made up of government social grants. Concerning though is the share of budget going to the economic cluster of just over 7% (the economic cluster is one of the few; if not the only, clusters where every Rand spent has the potential of creating another rand). The economic cluster looked at holistically to include the share of economic infrastructure come to a respectable figure of about 20% of the share of budget more or less equal to the share of social service. A detailed account of what constitute each of the sectors outline in Table 1 a close look at Annexure 1 will assist.

South Africa's expenditure on infrastructure has been increasing in absolute terms from R260 billion, in 2010/11, to R286 billion, in 2013/14. However, this picture changes (increases) when the values are looked at in relative terms, expressed as a percentage of the GDP expenditure of government on infrastructure declined from 9.8% (in 2010/11) to 8.1% (in 2013/14). The biggest share of the infrastructure spending has been going to economic services followed by social services and what is concerning in the fact that the share of economic services has been declining while that of social service. Government tax revenue is very fundamental in domestic resource mobilisation and all variables that affect it need to be looked at carefully. The traditional determinants such as the GDP, sectoral outputs, trade openness, inflation rate, external debt, current account balance - to mention but a few (Drummond & Daa, 2012). South Africa's revenue as a percentage of GDP increased from about 28% in 2007/08 to over 30% in 2013/14 (a good indication on

the collection aspect). Expenditure as a percentage of GDP declined from 30% in 2007/08 to just over 28% in 2013/14 (also a good indication of an improvement).

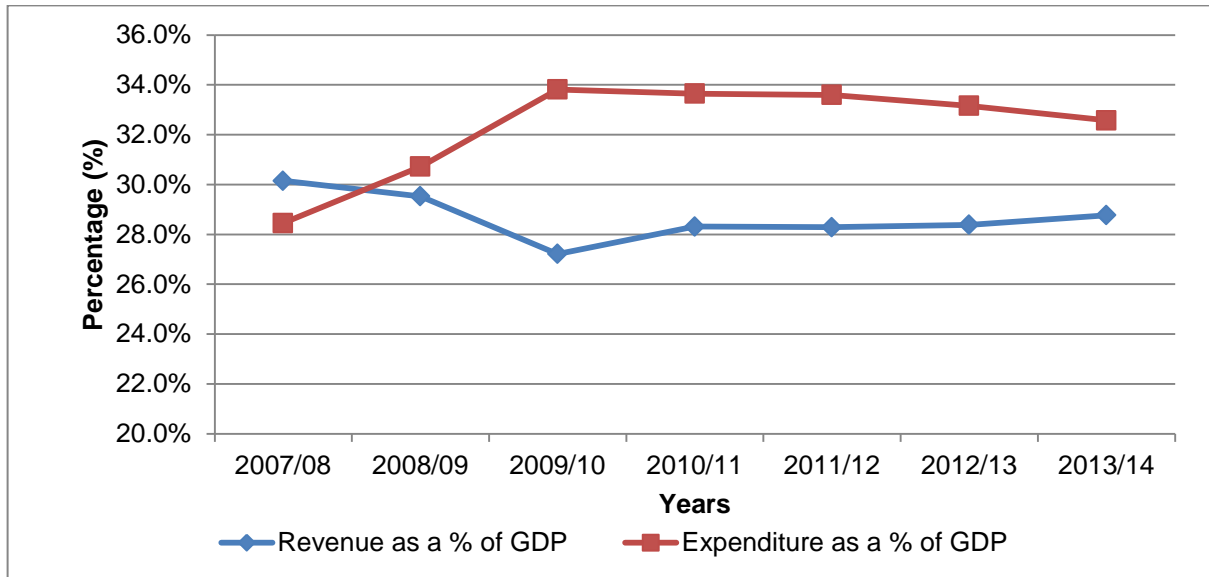


Figure 5: Performance of the economic variable against the GDP

Source: National Treasury (2015)

Current account deficit affects the country's external position (in terms of its credit rating), which in case of borrowings may lead to increased rates meaning increased rates on borrowings (increased debt burden). There is a big debate in macroeconomic literature on what are the unsustainable levels of current account deficit with some scholars arguing that anything above 6% as a percentage of GDP is a cause for a concern. This is argued on the basis that high current account deficit has a crowding out effect of consumption and investments affecting the tax revenue base (Drummond & Daa, 2012). Figure 6: outlines South Africa's current account deficit as a percentage of the country's GDP. It can be seen that in 2011 the current account deficit was 2.2% and worsened to 5.0% in 2012 and further to 5.8% in 2013 and 2014. The continued worsening of South Africa's current account deficit in terms of the credit ranking of the country has not been such good news. However, it needs to be noted that the South African National Treasury anticipates that the level will be reduced progressively in the next the years from 2015.

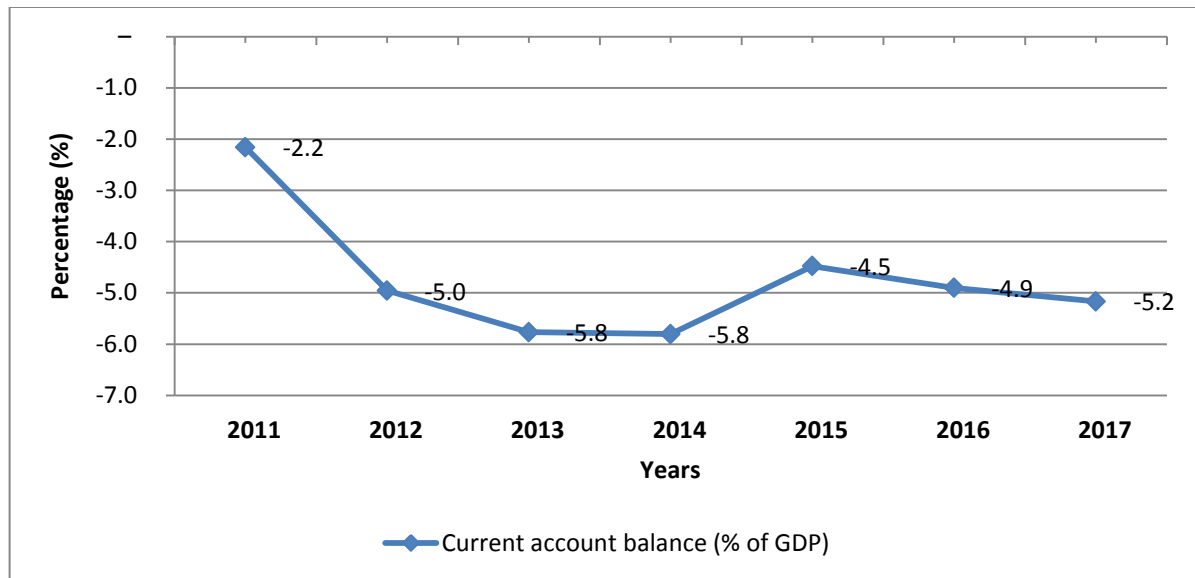


Figure 6: South Africa's current account deficit as a percentage of GDP
 Source: National Treasury (2015)

Review of Government Spending From Auditor General Perspective

The Auditor-General (AG) report of 2014 paints an encouraging picture in that it argued that there are steady improvements in audit outcomes. It is important to look at the work of the AG annually the office audits three aspects of government spending: The fair presentation and absence of material misstatements; Useful and credible information for the purposes of reporting on predetermined objectives; and Compliance with key legislation governing financial matters. The financial year 2013/14 had government budget of about R1 trillion. The AG report notes that 62% of all audited institutions report their performance in a useful and reliable manner. There were 42% of the audited institutions who submitted their annual performance reports without material misstatements. About 20% had good outcomes as they seem to have focused on the rectifying misstatements identified during the audit (Auditor-General, 2014). The concern though in the report is that 72% of all audited institutions did not comply with key legislation relating to financial management. In the year under review (2014) irregular expenditure amounted to R62.7 billion (it is important to outline that irregular expenditure does not necessarily mean wasteful expenditure or fraud. It means that some procurement procedures were not followed in the processes of incurring the cost). To reduce this occurrence the AG recommended that the accounting officers and their teams need to evaluate basic financial and performance management disciplines.

About 119 (25%) audited institutions (out of 465) achieved clean audits up from 22% the previous year. These according to the report were composed of 40 departments and 79 public institutions. Institutions that received financially unqualified opinions with findings stood at 238 (51%), these institution are argued to have passed the critical test of fair presentation of financial statements and have accounted fairly for their financial transactions. There were 16% of audited institutions that received qualified audit opinions, indicating that they were unable to account sufficiently and accurately for all their financial transaction. There were two institutions that received adverse opinions,

similar to those with qualified opinions with an addition of common unreliable financial statements. Then there were 16 institutions that received disclaimer audit opinions. These institutions were not able to provide enough evidence to the auditors to test the fair presentation of financial statements. The most concerning part is that very strategic departments (in terms of service delivery either received qualified statements or disclaimer such as education, public works and health).

Having looked at the institutions, government tax revenue & expenditure as well as the report of the Auditor General, it is equally important to look at illicit financial flows and their implications.

Illicit Financial Flows in South Africa

Illicit financial flows (IFFs) involve practices such as money laundering, bribery by international companies and tax evasion, trade mispricing (OECD, 2014). Conversely, (UNECA, 2011) describe IFFs as money that is illegally earned, transferred or utilized. They further argue that sources of IFFs include commercial tax evasion, trade misinvoicing and abusive transfer pricing. In addition, criminal activities such as drug trade, human trafficking, illegal arms dealing, and smuggling of contraband; and bribery and theft by corrupt government officials form part of IFFs. All these compounded seem to suggest that IFFs take place within a financial system of a country. It is worth noting that Kar and LeBlanc (2013) note a total financial loss of US\$5.9 trillion by developing countries between 2002 and 2011 as attributed to illicit financial flows. In 2011, this loss was estimated at US\$947 billion. Recently, the illicit financial flows rate increase per year is estimated to surpass GDP growth and aid received (CID, 2014). In a study of IFFs which involved 25 countries with 885 interviews the GFI reported an annual estimate of US\$500 billion annually moving out of developing countries (Kar and Spanjers, 2014). In addition, the study found that the developing countries lost approximately US\$6.6 trillion between 2004 and 2012 on IFFs.

South Africa lost R 237 billion in illicit financial flows (IFFs) in 2011 and over R 1 trillion between 2002 and 2010, despite government preventative measures including the Financial Intelligence Centre Act (FICA), the Financial Advisors and Intermediate Services Act (FAISA) and the Financial Regulation Bill, according to a recent report by NGO Africa Monitor (Africayouth, 2015). The IFFs reduce domestic capital formation-affect service delivery; reduce tax collection – low revenues and higher external debt and lower the economic growth and socioeconomic development. All these reduce countries ability to fight poverty. OECD (2014) suggest that illicit financial flows strip out resources that could be used by developing countries to address public services and basic social services such as health, education, security and justice. In addition, the ability of state to mobilize resources beyond tax is crucial for development. On the other hand, illicit financial flows have social and economic impacts. In addition countries need to develop capacity to address these impacts.

Economic Impacts - The growth of momentum of South African economy has faded progressively since 2011, reflecting growing domestic constraints. Real GDP growth

declined from a post crisis peak of 3.6 percent in 2011 to just 1.9 percent in 2013 and to 1.3 percent y/y in the first half of 2014. Domestic factors - particularly industrial action, constraints related to electricity and transport infrastructure, and skills shortages - have played a major part in the economy's lacklustre performance. The economic impact of domestic resource mobilization in South Africa has not been quantified. However, there is a close consensus that the economic impact of domestic resource mobilization includes increased economic growth, socioeconomic development, improved domestic capital formation, improved service delivery, increased tax collection, increased government revenue, low external debt and increased capacity to fight poverty (Gumbi, 2010). As opposed to domestic resource mobilization the illicit financial flows produce negative impacts such as rent seeking, bad governance, political instability, capital flights, the drainage of foreign exchange reserves which limit a country's ability to import, negatively affect domestic resource mobilization by reducing the tax collection base, cancelling out of investment inflows and a worsening of poverty and others (Gumbi, 2010).

Social Impacts - Domestic resource mobilization in fighting illicit financial flows has potential to tackle poverty, inequality, support socio-economic development and strengthen the capacity of the state (Culperper and Bhushan 2008). As part domestic resource mobilization, policies and strategies need to be established to ensure that the dead capital (Illicit financial flows and capital flights) are invested in the development of South Africa particularly the rural areas. The mobilization of domestic resources in South Africa has potential to address the bottlenecks on the development agenda. However, to realize, this success there is a need for greater emphasis on improving the efficiency and effectiveness of the revenue administration, strengthening the institutional framework, selection of taxes and duties which are administratively feasible and lend to realistic collections, widen the tax base and progressively integrate the "informal" sector into the mainstream of the national economy. In addition, there should be increased stimulus to finalize bilateral tax treaties, protect the interests of national revenue from the adverse effects of operation of electronic commerce, transfer pricing mechanisms, non-cooperative tax jurisdictions and other tax shelters and secure legitimately due tax revenues from income attributable to the new and innovative financial instruments, but avoid harmful tax competition.

South Africa - Lessons Learnt

There appear to be substantial evidence of the lessons that could be learned from South Africa's experience regarding the domestic resource mobilization and such evidence could be traced from the country's tax system and Siyakha, revenue performance (African Development Group, 2015). Below are some of the notable lessons learnt in South African's domestic resource mobilization efforts?

Close relationship between the National Treasury and SARS - The constitution of the Republic of South Africa (Chapter 3) mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finance ((National Treasury, 2015). National Treasury in the South African government

set up is responsible for both domestic and international resources allocations. Its role is to set up structures that will enable an efficient and effective mobility of these resources in and across the countries for the benefit of the South African citizens. In addition, its role also extend to ensure that an enabling environment is created that will safeguard the resource mobility within a correct legal compliance frameworks. Hence, the institutions such as South African Revenue Service (SARS), Independent Police Investigative Directorate (IPID) and National Prosecuting Authority of South Africa (NPA) were created. The latter was established to collect and administer all tax revenues, provision of the custom services by facilitating of trade, advice the Ministry of Finance on all revenue matters and to enforce related legislation to the South African society on behalf of the South African government (SARS, 2015). It is further noted that since a strong collaboration between SARS and National Treasury in South African tax environment, a comprehensive and reliable tax statistics/information were available (African Development Group, 2015).

Enabling policy environment - A solid policy formulation and evaluation capacities are amongst the list of the key considerations for the strong tax revenue collection performance indicators of any government entity (African Development Group, 2010). This authored has been revealed that the South African government as compared to other Sub-Saharan counterparts has strong tax policy capacity with the South African Revenue Services (SARS). The South SARS, is also acknowledged for having a range of diverse and complementary tax policy regimes (such as revised tax policy, tax clearance policy, death tax policy, legal tax policies etc) which are aimed at ensuring that tax revenue are collected with a minimal complexities (SARS, 2015).

Administrative capability - domestic resource mobilization and accumulation is a complex task that requires enormous capacity to administer. For any state entity that is entitled to perform such a function, it should reasonably be provided with a necessary administrative capacity. Pfister (2009) established that the capacity to administer the tax revenue on the African continent needs to be strengthened at both human and technical level. In South Africa, tax evasion has been observed from big corporations and medium enterprises linked to political elites. Although such cases are identified and dealt with, in most cases tax officials who are tasked to deal with such cases often lose their jobs as results of political influences. This appears to cripple the much needed administrative capacity of the revenue collection agencies. As a consequence of the lesson learned from the treatments of other officials (who had jobs), officials these agencies tend to act in a more lenient way to the cases that involved political elites. Thus resulting protracted cases that cost the state more than what the case worth.

Information and communication technology (ICT) - In the past four years (2010 to 2014), South Africa has experience a growth in the tax revenue collection. According to SARS (2014), since the year 2009/10, the tax revenue increase from R598 707 billion to R674 183 billion (1.73%). Subsequently, in the following years such increase were sustained (2010/11, 2011/12, 2012/13 and 2013/14). The evidence pointed out that South

Africa received an increase in its tax revenue collections from R674183 billion to R742650 billion (1.57%) in 2012, R813826 (1.63%) in 2013 and R900015 (1.98%) in 2014 respectively. These revenue collection may be attributed by various factors including (but limited) to tax administrative capabilities, policies and ICT application. The latter seems to symbolize the level of modernization and system development. In view of the modernization of tax returns through ICT, it appears that the highest tax revenue collection is evident. The access to internet facilities in South African society has drastically increased and thus, more tax payers are able to use e-filing with the assistance of the SARS's call centre support. It is widely acknowledged that modernization through the use of ICT can result in significant operational efficiencies but must be applied judiciously (African Development Group, 2015). Furthermore, It has been noted that SARS has used ICT with success in order to simplify its operating environment and also to enhance its business intelligence (e.g., through the use of third party information and risk engines), enabling it to reduce transaction and compliance costs, and focus more on high risk taxpayer segments.

Conclusions and Recommendations

South Africa's domestic resource mobilisations standing are very sound, creating a conducive environment for a striving agricultural sector. Most recently there are developments that are concerning such as increased deficit on the current account, increased government public debt and continued existence of the illicit financial flows. It is evident that South Africa has relied strongly on domestically mobilised resources rather than foreign resources. The main instrument used by South Africa to mobilise domestic resource is tax collection which ranges from direct taxes such as income and cooperate taxes to indirect taxes such as value-added tax and fuel levy. South Africa has put in place strong administrative measures to ensure efficient tax collection process, however, the country still experiences large loses in the form of illicit financial flows. It is estimated that the country lost over US\$ 24 billion in the last decade.

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