

**Of SARS and SARAs:
An Application of a Model of Public Management Reform to Tax Administration
Reform in South Africa**

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Dedication

For Ntombizanele Gloria Mkosi, mother extraordinaire.

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Abstract

Since its statutory creation in 1997, the South African Revenue Service (SARS) has virtually unanimously been seen as a shining light of South African public administration due to its widely perceived efficiency and record of consistently and comfortably surpassing revenue collection targets. Although SARS' successes have been well documented, little to no research has occurred on the genesis of this institution. In addition, while the field of tax administration is replete with literature from development economists in particular, there does not appear to be much attempt in the archive to study tax administration or tax administration reform from a public administration perspective. This dissertation attempts to do precisely that.

It seeks to answer the following linked research questions. Firstly, which forces led to the establishment of SARS? Secondly, with respect to the structural idiosyncrasies which define SARS, which of these elements most significantly distinguish SARS from the rest of the South African public administration and other semi-autonomous revenue authorities and what led to these structural idiosyncrasies? The dissertation does this through a document analysis of various primary and secondary literature such as government publications, statutes, parliamentary publications, commission reports and academic literature.

The dissertation perceives the tax administration reform process leading to the creation of SARS through the lens of the sub-field of public administration known as public management reform. In this vein the dissertation applies the Pollitt-Bouckaert model of public management reform as a framework and heuristic device through which the dissertation's analysis is carried out.

These findings are that SARS is most distinguished by its removal from the public service and comparatively high provision for mechanisms of executive control. It further finds that SARS's aforementioned distinctive features arose from fiscal exigencies, a lack of policy contestation and economic paradigm shifts among key groups of elites. The comparatively high emphasis for executive control is found to be as a result of public service reform priorities in the first post-apartheid government.

Key concepts

Tax administration reform; semi-autonomous revenue authority model; South African Revenue Service; public management reform; Pollitt-Bouckaert model.

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Abbreviations

ANC	African National Congress
CODESA	Congress for a Democratic South Africa
COSATU	Congress of South African Trade Unions
DFID	Department for International Development
DPSA	Department of Public Service and Administration
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
IFI	International Financial Institution
IFP	Inkatha Freedom Party
IMF	International Monetary Fund
MERG	Macroeconomic Research Group
MP	Member of Parliament
NA	National Assembly
NDR	National Democratic Revolution
NP	National Party
OECD	Organisation for Economic Cooperation and Development
PSC	Public Service Commission
RDP	Reconstruction and Development Programme
SARA	Semi-autonomous Revenue Authority
SARS	South African Revenue Service
USAID	United States Agency for International Development

Chapter 1: Introduction

Until the 1990s, tax administration was a field which had had a relatively low amount of research attention given to it. This however began to change with the emergence, largely due to the influence of international financial and aid organisations, of the semi-autonomous revenue authority (SARA) model as part of a wave of reconfigurations of public administrations that swept the globe during this period. The main distinguishing feature of a SARA was its autonomy, being its independence from the rest of the public service. Autonomy was argued to be a necessary ingredient for gains in revenue collection efficiency and effectiveness. Since the proliferation of the SARA model, there has been a steady stream of research, still dominated by international financial and aid organisations, into various aspects of the model, including its effectiveness in achieving sustainable revenue collection gains in the global south. Although increasingly circumspect about its effectiveness, the research has still placed a high value on the autonomisation of revenue collection.

The majority of the above research has come from researchers in the development and economics communities. The application of knowledge from public administration is a glaring omission from the research archive on the SARA model. Also missing from the archive are in-depth studies of the *domestic* political-economic forces which have led to particular countries adopting this model, as well as those which have shaped the minutiae that distinguish one SARA from another. Despite the fact that SARAs are prevalent the world over, the form which they take varies considerably and studies of the factors which have shaped these differences – and which are important as they may also assist in accounting for variances in effectiveness of the model between countries – are few if not entirely missing. These questions: of what drives a process of reform and how these drivers shape the end-product of that reform process are questions which are at the heart of the sub-field of public administration that is public management reform (or public sector reform).

It will be in an attempt to contribute to this aspect of the literature that this dissertation will apply a slightly modified seminal model of public management reform developed by Pollitt and Bouckaert¹ to the South African tax administration reform process which took the country from an

¹ Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis - New Public Management, Governance, and the Neo-Weberian State* (Oxford: Oxford University Press, 2011). 31.

intra-departmental revenue collection service to a SARA, the South African Revenue Service (SARS). This dissertation will seek to answer the following two questions:

1. Which political-economic forces led to the establishment of SARS? And;
2. With respect to the structural idiosyncrasies which define SARS:
 - a. Which of these elements most significantly distinguish SARS from the rest of the South African civil service and from other SARAs? and;
 - b. In what way were these elements shaped by the forces in 1?

This chapter begins by discussing the research methodology adopted in this dissertation and proceeds to introduce the SARA model in detail. In doing so, the chapter unravels the history of the model, its purported advantages, its most distinctive features as well as those aspects of its structure and effectiveness which are most hotly contested in the literature. The Chapter continues by presenting and then critically analysing the Pollitt-Bouckaert model of public management reform which frames the discussion in Chapter 3. Chapter 2 then follows as a response to question 2.a. in that it examines the reforms and provides illumination on SARS' most distinctive features. From this basis, Chapters 3 and 4 then address questions 1 and 2.b.

1.1 Research design and methodology

This dissertation takes as its point of reference the idea that tax administration reform in South Africa occurred as an instance of public sector reform. On this premise, the Pollitt-Bouckaert Model of Public Management Reform has been chosen as an appropriate lens through which to conduct the ensuing analysis. The model is used in this dissertation not as an explanatory mechanism but as a framework and heuristic device through which a thorough mapping of the political-economic forces for reform will occur. The dissertation hopes to continue a tradition begun by Karalaeva² of applying the Pollitt-Bouckaert Model to tax policy and in contexts other than Organisation for Economic Cooperation and Development (OECD) countries. Unlike Karalaeva, this dissertation centres only on tax administration and not on tax policy in its entirety.

The findings themselves have been made using a database sourced principally through desktop analyses of publicly available primary and secondary literature such as reports, parliamentary debates, departmental publications, political party publications, academic research and public

² Elima Karalaeva, "Applying a Model of Public Management Reform to Tax Reform in a Post-Soviet Transition Country: The Case of the Kyrgyz Republic" (PhD diss., University of Exeter, 2014).

speeches. This research is therefore most succinctly described as explanatory qualitative research.

1.2 The Semi-Autonomous Revenue Authority

The term “semi-autonomous revenue authority” refers to a governance regime featuring “a dedicated separate organisation for revenue administration ... separate from formal internal structures of the MOF [Ministry of Finance] (or its equivalent) and with a broad range of autonomous powers”³. It is “semi-“ autonomous because unlike institutions such as most central banks, it is still accountable to the executive.

While there are variations between countries on the specificities of their structural design, SARAs tend to share the following typifying elements⁴:

1. Special legal authority

SARAs possess a distinctive legal dispensation which affords them unique powers and privileges under the law. In most cases this includes being outside of the public service and possessing the legal authority to enter into contracts and own property. Thus, they are usually not subject to public sector employment or procurement regulations.

2. Integrated tax administration

They are solely tasked with administering and enforcing all of a country’s revenue laws, thus unifying administration of customs, income tax, VAT, corporate taxes and other state revenues such as, in South Africa’s case, unemployment insurance. The head of the SARA is fully vested with all relevant collection and administration powers in those laws.

3. Alternative governance arrangements

SARAs tend to utilise private sector-inspired governance tools such as boards and performance agreements.

³ William Crandall, *Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model* (Washington: Fiscal Affairs Department, International Monetary Fund, 2010). 8.

⁴ Robert Taliércio, *Designing performance: The semi-autonomous revenue authority model in Africa and Latin America*. World Bank Policy Research Working Paper (Washington: World, 2004); Crandall, *Revenue Administration*, 7; Odd-Helge Fjeldstad and Moore, Mick, "Revenue Authorities and Public Authority in Sub-Saharan Africa," *The Journal of Modern African Studies* 47, no.1 (2009). 1-18.

1.2.1 Origins and claims of the model

The SARA model has its origins in the Executive Agencies thematic of the style of reforms in many developed countries in the 1980s and best exemplified by The UK's "Next Steps" programme⁵. Although having its origins in West Europe and North America, the model has gained its highest popularity in the global south where since Ghana (1985) and Bolivia (1987) were SARA pioneers in the 1980s, the model has been adopted by numerous other countries⁶. In Ghana in 1985, the SARA model was essentially adopted as an emergency measure to resuscitate what had by then become an extremely dire fiscal situation. Since then the model has become the vanguard of tax administration best practice in developing countries and has been applied by countries with much healthier fiscal positions. In the 1990s Zambia (1994), Kenya (1995), Tanzania (1996), Rwanda (1998) and the subject of this dissertation, South Africa (1997), all adopted the SARA model despite the fact that the fiscal outlooks of most of these countries were much better than the model's initial African applicants⁷.

Many OECD countries have also decided to utilise the model. The OECD found that in 2008, more than half (17 out of 30) OECD member countries had what it termed a "unified semi-autonomous body" including the United States, Australia, Canada, Turkey, the United Kingdom, and Japan⁸. As of 2010, there were almost 40 SARAs in the world, most of which are located in Latin America and Africa⁹.

As with any type of executive agency, justifications of the SARA model lie mainly in the realm of economic efficiency and effectiveness. By focusing solely on revenue administration a SARA is said to achieve efficiencies of specialisation, thus decreasing the marginal cost of tax collection¹⁰. The efficiencies arise through the integration of the administration of all taxes, thus permitting a

⁵ Nick Devas, Simon Delay and Michael Hubbard, "Revenue authorities: are they the right vehicle for improved tax administration?" *Public Administration and Development* 21, no. 3 (2001): 211-222; Taliercio, *Designing Performance*, 2.

⁶ Ibid.

⁷ Devas, Delay and Hubbard, 213.

⁸ Organisation for Economic Cooperation and Development (OECD). *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2008)*. (Paris: OECD Forum on Tax Administration, 2009). 26.

⁹ Crandall, *Revenue Administration*, 7.

¹⁰ Devas, Delay and Hubbard, "Revenue Authorities"; Crandall, *Revenue Administration*.

functional internal structure as opposed to one based on type of tax. These efficiencies arise in areas such as taxpayer identification and records, IT, legal services and accounting and auditing¹¹. While tax reform and tax administration reform can in general be undertaken with the aim of achieving procedural and economic equity –such as by equalising compliance costs or tax burdens across gender, income, race stratifications, etc. – the literature in favour of the SARA model does not reveal many equity-based articulations of its primacy. Taliercio is one of the few writers who contends that autonomisation is the mechanism through which “fair tax administration” can be achieved¹².

It is also maintained that a SARA’s positioning outside the public service frees it from political interference, thus allowing it to concentrate entirely on efficient revenue collection¹³. This freedom from political influence is a benefit that has been particularly emphasised in applying the SARA model to countries in the global south, especially in Africa and Latin America where autonomisation is perceived as necessary for putting tax administration beyond the reach of political patronage networks¹⁴.

Moreover, control over tax collection agencies carries high political appeal. This is because tax collection agencies bear incomparably intrusive and pervasive powers as a result of their relatively unbridled access to the financial information of almost all individuals and businesses in society combined with their ability to institute criminal action¹⁵.

Taliercio puts it thusly regarding autonomy and its use as a tool to escape political influence:

“Autonomy is also considered an antidote to the failure of the political system to build in effective accountability mechanisms that channel political influence around and through the public administration in appropriate, salutary ways. When the political system fails to do these things, undue political influence, which distorts and undermines public service provision, is exerted over public administration. Autonomy is then the vehicle by which the

¹¹ Devas, Delay and Hubbard, “Revenue Authorities”, 215.

¹² Taliercio, *Designing Performance*, 5.

¹³ *Ibid.*, 6.

¹⁴ *Ibid.*

¹⁵ *Ibid.*, 7.

intended outcome— competent, effective, and fair tax administration—is supposed to be attained”¹⁶

A third argument often used in favour of the SARA model is that the supposedly unique nature of revenue administration, which requires skilled staff such as tax lawyers, forensic auditors and chartered accountants, demands that tax administration be independent from public service employment and expenditure regulations, which are often characterised as “sclerotic” and “inadequate”¹⁷. This is to allow them the opportunity to maintain an appropriately skilled and incentivised staff complement by providing remuneration which is commensurate with what these individuals would earn in the private sector and by providing more flexibility in recruitment and dismissal”¹⁸. It is claimed that these allowances are specifically necessary for tax administration over any other area of the public administration because “though the problems of a weak civil service affect the whole of government...those problems are felt much more acutely in the tax administration as compared to most other public agencies”¹⁹.

1.2.2 Funding

SARAs are typically funded in one of three ways, each of which has, as the contested nature of the literature on funding mechanisms would suggest, its own attractions and shortcomings: 1) Entirely through an annual parliamentary appropriation; 2) Percentage of revenue collections or; 3) Annual appropriations combined with a percentage of revenue collections above target.

Those in favour of an entirely percentage-based funding mechanism usually cite several reasons for doing so. They argue that because many of the countries in which these reforms are implemented often demonstrate very fragile and unstable public finance management systems, these countries are likely to feature significant variations and uncertainties in funding government entities. Therefore, reliance on parliamentary appropriations – which are inevitably made through extractions from the national revenue fund and are thus at the mercy of the public finance system – create strong obstacles to effective tax administration. Exponents of the percentage-based system further assert that percentage-based systems are superior because they create internal

¹⁶ Ibid., 5.

¹⁷ Ibid.

¹⁸ Crandall, *Revenue Administration*, 6; Taliercio, *Designing Performance*, 5; Devas, Delay and Hubbard, “Revenue Authorities”, 214.

¹⁹ Taliercio, *Designing Performance*, 6

incentives to the SARAs to increase collections or risk losing budget. This relies on the classical (and debatable) assumption of bureaucrats as budget maximisers²⁰.

The percentage-based approach does have some major shortcomings. One of these is the fact that it places the SARA's budget at the mercy of forces which it cannot control. Revenue collections are not merely a function of the performance of the SARA, they are also influenced by changes in tax policy as well as national and global economic performance, all of which the Commissioner and his staff do not control. As a result, it is argued, effective, efficient tax administration can be compromised by economic volatilities, thus potentially jeopardising tax administration at precisely the point in the business cycle it is most required in order to ensure fiscal stability.

There is also a risk that an entirely performance-based funding system – especially one that is paired with individual bonuses if targets are met – will lead to an over-zealous tax authority, one willing to sacrifice procedural and administrative equity in favour of higher revenue collections. This aggressiveness can manifest itself in the revenue authority paying more attention to easy to tax sectors, increasing its number of audits of individuals and being inordinately quick to litigate. This can happen at the expense of addressing important but not revenue-rewarding concerns such as recovering long-standing arrears, expediting trade and enforcing customs prohibitions at border posts²¹.

1.2.3 In opposition to the SARA model

There are several main arguments raised against the SARA model. The first one is based on the reform strategy it inherently advocates, being what has been referred to as an “enclave” approach²². Some argue that a singular focus on tax administration does not adequately address the need for comprehensive public sector reform. While there may certainly be benefits from addressing issues in tax administration, there is a strong argument to be made that an enclave approach distracts from the energetic solution of problems that are pervasive to the entire public service. For instance, Crandall and Kidd found that solutions to human resources problems other

²⁰ Ibid., 8.

²¹ Devas, Delay and Hubbard, “Revenue Authorities”, 218.

²² Taliercio, *Designing Performance*; Arthur Mann. "Are Semi-Autonomous Revenue Authorities the Answer to Tax Administration Problems in Developing Countries? A Practical Guide" Research paper for the project: Fiscal Reform in Support of Trade Liberalization (Washington, Development Alternatives Inc., 2004).

than HR autonomy were not adequately considered by elites before deciding to adopt the SARA model, including the option to reform HR for the civil service as a whole²³. Additionally the adoption of the SARA model could possibly leave issues of the underlying tax system or tax administration unaddressed if autonomisation is believed by national elites to be a panacea for all revenue collection woes²⁴.

Another argument against the establishment of a SARA model is that doing so can be an expensive exercise, during both the process of reform itself but also in terms of additional permanent costs. With the flexibility to determine its own pay scales and the operational and budgetary flexibility to spend more on office and technological equipment, a SARA is likely to spend more per unit of revenue collected than its intra-departmental predecessor. This is particularly true for cases in which the SARA's funding is percentage-based. These costs may be offset by additional gains in revenue and they may in fact be justified in the context of extracting substantially more revenue than the status quo. The costs may also be justified if there had been under-spending (in comparative terms) on revenue collection until the introduction of the SARA. Devas et al raise Zambia's Zambia Revenue Authority (ZRA) as an example of the phenomenon of higher revenue collection costs: whereas revenue collection costs had been legislatively limited to 3% of revenue collections and ambitiously targeted at 1.9%, actual costs were 4% of revenue collected after the introduction of the ZRA²⁵.

There is a possibility that the agentification of the public service through the introduction of a SARA will result in fragmentation of the civil service and therefore produce "negative externalities" on the rest of government in light of the exceptional treatment of the SARA and its staff. It is argued that the better staff remuneration in the SARA might result in other civil servants becoming envious and resentful of SARA staff, thus jeopardising prospects for effective inter-agency cooperation. Moreover, higher remuneration in the revenue authority could result in pressures for higher remuneration across the public administration. This was the case in Uganda where revenue authority remuneration levels were eventually frozen until the remuneration gap with the rest of the public administration was deemed sufficiently small²⁶.

²³ William Crandall and Maureen Kidd, *Revenue Authorities: Issues and Problems in Evaluating Their Success*. No. 6-240. (Washington, International Monetary Fund, 2006). 52.

²⁴ Devas, Delay and Hubbard, "Revenue Authorities", 216.

²⁵ Ibid.

²⁶ Devas, Delay and Hubbard, "Revenue Authorities", 217.

Given that a revenue authority is a crucial and hugely powerful cog in the state machinery ('a super entity'²⁷ of sorts), it is crucial that there be political accountability over its actions. Creating a SARA does however risk producing accountability links that are too tenuous to adequately restrain and modulate the exceptional power that comes with administering revenue laws, thus potentially resulting in unapproved and corrupt actions by the SARA or the concentration of undue political influence in the hands of the principal of the SARA. The emergence of corruption in the Uganda Revenue Authority in the late 1990s serves as an example of how there is potential for abuse of the privileges afforded by autonomy²⁸.

Another often raised argument against the SARA model is that it may essentially amount to an overly radical cure to problems which can be solved through less disruptive means. In cases where the national fiscal position is on the brink and the pre-existing public service remuneration levels come nowhere close to providing attractive pay for skilled individuals – as was the case in Ghana in 1985 – the SARA option might be the correct solution. On the other hand, in much less severe situations, utilisation of the SARA model may be a rather overhanded response²⁹.

Furthermore, even if the necessary reforms extend beyond personnel and include modernisation of tax administration methods, there is no evidence to suggest that this cannot take place in the absence of a SARA. Indeed, some countries have seen the SARA reforms as a much needed catalyst for modernisation but others, as one respondent to the Crandall and Kidd study put it, "could have done most of these initiatives without RA status anyway"³⁰.

In fact, one of the major alternatives to the SARA model is what is referred to as the "gradualist approach" which as the name suggests involves the gradual introduction of modest reforms over a period of time in order to achieve improvements in revenue collection. Chile is cited as a prime example of a country for which this approach has worked well, leading to its tax administration department being "among the best in the developing world" even though its tax administration is not autonomous³¹. That being said, Taliercio cautions against overstating the merits of this approach in light of the fact that Chile's tax administration reforms were implemented over a period

²⁷ Mann, "Semi-Autonomous Revenue Authorities", 2.

²⁸ Devas, Delay and Hubbard, "Revenue Authorities", 217.

²⁹ Ibid., 216.

³⁰ Crandall and Kidd, *Issues and Problems*, 51.

³¹ Taliercio, *Designing Performance*, 10.

of over thirty years and took place in the context of an already professionally-oriented civil service. His contention is that the slowness of this approach must be taken into account when contrasting it to other reform approaches whose rapidity could make them the superior option³².

1.2.4 Effectiveness

Research into the effectiveness of the SARA model is fraught with methodological difficulties. The difficulties lie mainly in being able to attribute revenue collection increases to specific tax administration reforms such as the introduction of a SARA where revenue collections are a function of a large number of variables such as macroeconomic performance, taxpayer morality, tax policy changes, and tax rate changes. It is therefore unsurprising that there are not many researchers who have given themselves the ambitious task of empirically testing whether the introduction of the SARA model – or even more daringly, whether specific features of the SARA model such as autonomy and certain governance frameworks – have had a positive impact on revenue collections. Nevertheless, the research that has been performed has produced rather mixed results. Although the revenue administrators themselves overwhelmingly perceive SARA reforms to have been beneficial to performance³³, there is little evidence to support this. While there was success in boosting revenue collection during the early years of SARA adoption amongst countries in the global south in the 1990s (Ghana for example saw tax revenues as a percentage of GDP grow from 4.6% in 1983 to 17% in 1994 even though tax rates had decreased³⁴), such successes have not always been durable³⁵. For these reasons, Fjeldstad and Moore state that “[t]o date, there is little sign that the creation of revenue agencies has actually increased public revenues”³⁶.

This is the same conclusion reached by Mann³⁷ in a 2004 USAID-funded in-depth study of SARAs in five locations: Peru, Tanzania, Guatemala, Ecuador and Lima (a rare case of a sub-national SARA). Mann uses his own experiences in consulting on SARAs during his time at the World Bank and combines it with an analysis of available case studies to conclude that while the SARA

³² Ibid., 11.

³³ Crandall and Kidd, *Issues and Problems*.

³⁴ Devas, Delay and Hubbard, “Revenue Authorities”, 213.

³⁵ Taliercio, *Designing Performance*, 2.

³⁶ Fjeldstad and Moore, “Revenue Authorities and Public Authority”, 1.

³⁷ Mann, “Semi-Autonomous Revenue Authorities”, 2.

model can be a useful medium through which to implement other wholesale changes to tax administration, it does not serve as a panacea for all revenue collection ills. He finds that while there may or may not be short term improvements in revenue collection ratios, the implementation of a SARA in and of itself does not augur long-term improvements in revenue administration. Other factors, such as the degree of autonomy given to the SARA (modulated by the appropriate degree of accountability and anti-corruption mechanisms), the strength of relationships between the SARA and other institutions in the public service like the departments of finance and justice, play a more influential role in revenue administration success. Fundamentally, his research finds that it is the clichéd factors such as quality of leadership and political will which ultimately determine whether there will be sustainable improvements in revenue collection.

Crandall and Kidd's³⁸ 2006 International Monetary Fund (IMF) study is another attempt at assessing the effectiveness of the SARA model. Like Mann, the researchers combined an analysis of pre-existing research with their own experiences in providing technical assistance to countries with and without SARAs, in formulating conclusions. Unlike Mann however, they also requested SARA officials to complete questionnaires which included a self-analysis of whether the implementation of the SARA model had improved performance. They too found that there was no evidence to suggest that the implementation of the SARA model had achieved improvements in performance which outstripped the performance that would have been achieved had tax administration remained within a government department.

While Taliercio's³⁹ 2004 World Bank study also found mixed results in SARA performance as a whole, he concluded that there was a positive relationship between autonomy and revenue authority performance amongst the six African and Latin American SARAs he studied. From interviews with development officials and staff at the various SARAs, and tax collection data in Kenya, Mexico, Peru, South Africa, Uganda and Venezuela, Taliercio concludes that autonomy, and stability of autonomy (whether high or low), are beneficial to performance. Although he notes that overall performance amongst these countries is mixed, he attributes these poorer performances to a number of elements, including lower autonomy and stability in autonomy, particularly in the cases of Mexico and Uganda. As such, recommendations from this study

³⁸ Crandall and Kidd, *Issues and Problems*.

³⁹ Taliercio, *Designing Performance*.

include that SARAs be given absolute operational autonomy and that they be distanced from the MOF if the position is “highly politicised”⁴⁰.

1.3 The Pollitt-Bouckaert Model of Public Management Reform

Depicted in Figure 1.1 below, the Pollitt-Bouckaert model of public management reform is one of the most recent and arguably most seminal attempts to account for the increasingly ubiquitous phenomenon of public management reform.

The model acts as a mapping of the political-economic and social forces which result in public management reform and is built on the authors’ decades’ worth of experience in scholarship on comparative government. As they put it, the model “represents an inductive synthesis of what we have learnt about the process of reform in many countries”⁴¹. Its creators intend it as a “conceptual map”⁴² more than as a coherent theoretical model with inbuilt causation and effect algorithms. In short, it is a “diagram of forces, and a heuristic device”⁴³.

The central thesis of the model is that public management reforms emerge from public sector elites in a top-down manner and are the culmination of interactions between socio-economic forces and the existing political-administrative system in the country.

It must also be noted that the model is more descriptive than it is normative. Instead of depicting the forces which *should* affect public management reform and proposing who *should* make reform decisions, the model is the authors’ “inductive synthesis” of the forces which *do* affect public management and the actors which *do* make reform decisions. This means that, for instance, when critiquing the degree of elite centrality in the model, one must criticise the authors’ inductions and not the desirability of elite decision-making.

As Chapters 3 and 4 will demonstrate, the emergence of a SARA in South Africa came about as a result of the interplay between various actors and forces, with a complex array of interlinking relationships and effects. It is because of this model’s ability to act as a means through which to navigate these complexities, that it becomes especially useful in this dissertation.

⁴⁰ Ibid., 77.

⁴¹ Pollitt and Bouckaert, *Public Management Reform*, 32.

⁴² Ibid., 25.

⁴³ Ibid.

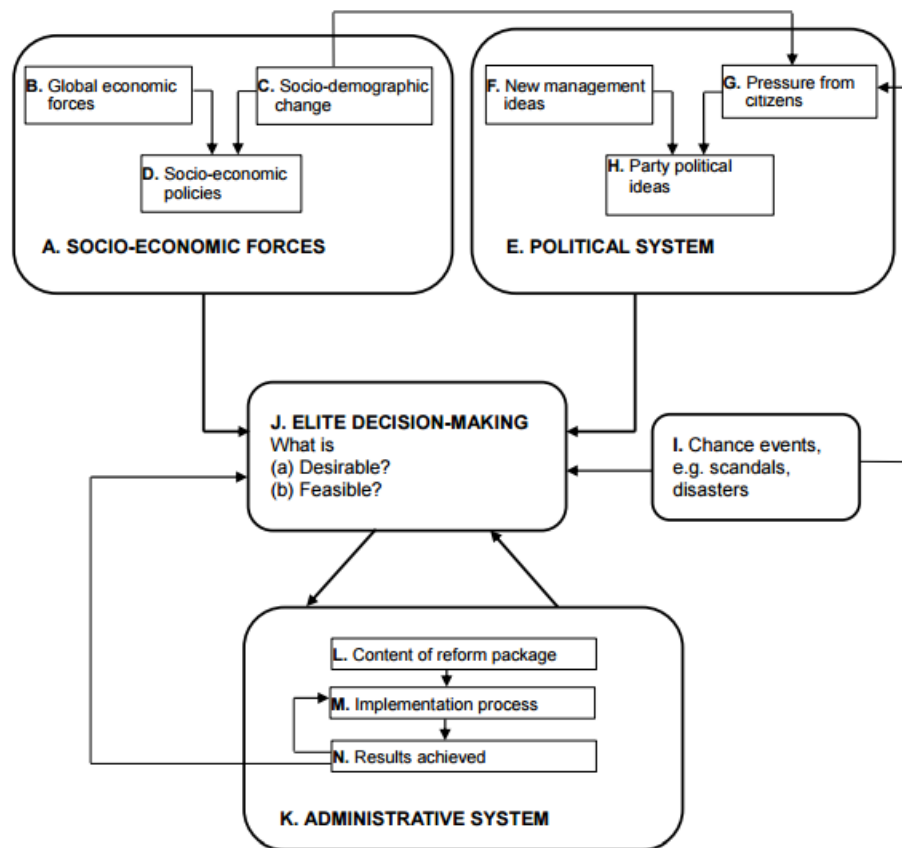


Figure 1.1. The Pollitt-Bouckaert Model of Public Management Reform

Source: Pollitt, C & Bouckaert, G. 2011. *Public Management Reform: A Comparative Analysis: New Public Management, Governance, and the Neo Weberian State*. New York: Oxford University Press. p. 33.

As Figure 1.1 demonstrates, the model incorporates a number of various national and international agents and forces, both human and institutional. The essence of the model is that public management reforms emerge out of the interactions of these various actors and forces.

1.3.1 Key assumptions

The Pollitt-Bouckaert model rests on a number of assumptions. Some of the most crucial assumptions, particularly in relation to the topic at hand, are the following.

- i. **National agency:** Public management reforms are enacted intentionally by the government of the country.

- ii. **Elite centrality:** Public management reforms are initiated in a top-down fashion by political and civil service elites. These elites:
 - a. Have “a measure of choice as to the specific instruments and techniques which are chosen”⁴⁴.
 - b. Are constrained by what is feasible, economically and politically.
- iii. **Piecemeal reform:** Public management reforms are usually not comprehensive⁴⁵.

1.3.2 The forces

1.3.2.1 A: Socio-economic forces

Rather than being the primary drivers of change or inertia, the model conceives of socio-economic forces as being primarily background in nature, with a few exceptions noted below. Thus, by and large, socio-economic forces act as “deep-rooted and “long-lasting”⁴⁶ structural foundations for public management reform.

1.3.2.1.1 B: Global Economic Forces

The inclusion of global economic forces into the model stems from a widely articulated observation that many public sector reforms around the world, for example those which occurred in the United Kingdom and New Zealand in the 1980s and early 1990s, were demonstrably influenced by pressures of economic recession⁴⁷. Global pressures of this sort have also been particularly acute in the developing world where due to the need to seek and maintain foreign direct investment coupled with the pressures of assuaging international financial organisations on whom many countries rely for aid, there has been a resultant aversion to high public spending⁴⁸.

⁴⁴ Ibid., 33.

⁴⁵ Ibid., 34.

⁴⁶ Ibid., 27.

⁴⁷ Owen Hughes, *Public Management and Administration: An Introduction* (New York: Palgrave Macmillan, 2003). 49; Mirko Noordegraaf, “Dynamic conservatism: the rise and evolution of public management reforms in the Netherlands,” in *International Handbook of Public Management Reform*, ed. Shaun F. Goldfinch and Joe L. Wallis (Cheltenham and Northampton: Edward Elgar, 2009). 265; Wolfgang Drechsler, “The rise and demise of the New Public Management: Lessons and opportunities for South East Europe.” *International Public Administration Review* 7, no. 3 (2009): 8

⁴⁸ Gorm Rye Olsen. “The World Bank and the IMF: Tax, Democracy and Shrinking Aid in Sub-Saharan Africa.” *Forum for Development Studies* 28, no. 1 (2001): 147-172.

As a result the prominence of reforms which seek to “lighten the bureaucratic burden” has risen. These reforms have included rightsizing, privatisation, and outsourcing.

Despite the fact that global economic forces have largely been background forces, their role has been limited to compelling change and not directing the “precise timing or degree” of reform. This is an important part of the model, as it means that when students of public sector reform perform an analysis of any reform, they must undertake an examination of the state of the global economy not with the intention of extracting public management solutions, but with the intention of perceiving global economic forces as background forces to reform. Pollitt and Bouckaert write:

“it should be noted that economic pressures do not themselves translate directly into some particular type of management reform. Reformers need ideas - models or patterns or plans or visions of how the public sector could be better organised. Markets may provide the pressure to do something but they do not supply the ideas of exactly what to do.”⁴⁹

They further add:

“economic forms of globalisation do seem to have been a major influence on institutional change, but one which acted through a number of other, intervening variables. These other variables have been crucial in determining the precise shape and timing of the reforms in particular countries.”⁵⁰

1.3.2.1.2 C: Socio-demographic change

Socio-demographic changes are changes “in the pattern of life” of a large number of a country’s citizens in a way that mandates state response⁵¹. Examples of these include increased life expectancy, more single-parent or single member households and changes in the level of unemployment. Other examples of potentially relevant socio-demographic changes include a larger number of child headed homes due to the HIV/AIDS pandemic, an increase in teenage pregnancies and outbreaks of communicable infections such as Ebola. A defining socio-demographic change in the period under study is the acquisition by black South Africans of political rights to which they had previously been denied and therefore an increase in the number of unemployed and poor individuals having rights to state assistance. The common thread running

⁴⁹ Pollitt and Bouckaert, *Public Management Reform*, 36.

⁵⁰ Ibid.

⁵¹ Ibid.

through all of these socio-demographic changes is the fact that they compel state action and thus necessitate reconsiderations of the nature of existing state instruments used to deal with the problems.

Like the effect of global economic forces, socio-demographic changes do not introduce specific kinds of organisational change. Instead, they act as incentives for change⁵².

Together, global economic forces and socio-demographic changes, induce **box D, “Socio-economic policies”**, being the statements of government intent with regard to how government intends to react to challenges posed by socio-demographic changes and any pressures or opportunities presented by the global economic system. These socio-economic policies then influence elite-decision making by shaping the desirability and feasibility of specific public management reforms.

1.3.2.2 E: Political System

These are the features of the macro-political system which permit or restrain change. They are primarily based on the country’s constitution – if it adopts one – and its provisions on making amendments to public sector structures and to the constitution itself. Pollitt and Bouckaert contrast Germany and the UK in this respect. Whereas in the UK “changing the machinery of government” involves merely passing secondary legislation through the legislature, Germany’s constitution “makes it difficult, if not impossible for major restructuring to take place at the federal level” and affords sub-national governments constitutional protection from federally-imposed change through a high degree of political decentralisation⁵³.

1.3.2.2.1 F: New Management Ideas

Pollitt and Bouckaert contend that new management ideas permeate into elites’ perceptions of what the desirable reforms are through the influence of international bodies (the OECD’s public management agency (PUMA) being prominent in the countries examined in detail in their book), management ideas borrowed from the private sector through business schools, books on management written by business “gurus” and the presentations and reports by management consultants⁵⁴.

⁵² Ibid., 37

⁵³ Ibid., 37-38.

⁵⁴ Ibid., 38.

1.3.2.2.2 G: Pressures from citizens

While rarely being the leading force for specific public sector reforms, pressures from citizens can be significant background forces in both causing change and directing the nature and timing of the change. Pressure from citizens for change could be felt by political representatives if for instance, as was observed as a background force for critiques of Weberian forms of public administration, citizens come to become used to the responsive and attentive service they receive from private sector organisations and then “become progressively more and more discontented” with the service they obtain from government entities⁵⁵.

1.3.2.2.3 H: Party political ideas

These are primarily internally generated ideas about how particular political parties “would like to govern”⁵⁶. They are largely rooted in the defining ideological positions of the parties and are thus usually part of a specific political agenda being driven by the party. They can also be responses to popular ideas from citizens and the influence of the actors mentioned in F, hence the model depicts direct connections between new management ideas, pressures from citizens and party political ideas.

1.3.2.3 I: Chance events

This element of the model accounts for the influence of unpredictable and often newsworthy events such as “scandals, natural or man-made disasters, accidents, and unpredictable tragedies such as shootings or epidemics” on precipitating reform⁵⁷. Examples mentioned by the authors include the Cave Creek disaster in New Zealand which focused attention on public accountability in decentralised administration and the space shuttle “Challenger” disaster which resulted in reforms of the USA’s National Aeronautics and Space Administration (NASA).

As a summary of the most influential of the forces described above, Pollitt and Bouckaert write: “Taking a broad view, therefore, the upsurge of reforms in the last twenty years or so can be attributed to an intensification of a number of factors, but perhaps particularly global economic forces, socio-economic change, and the supply of new management ideas (B, C, and F)”⁵⁸.

⁵⁵ Ibid., 39.

⁵⁶ Ibid.

⁵⁷ Ibid., 40-41.

⁵⁸ Ibid., 41.

1.3.2.4 K: Administrative system

The administrative system is the distinctive state and governmental structure of a particular country. The administrative system dictates the cost of change as it informs the extent to which path dependency creates “heavy disincentives for change”⁵⁹. Examples of such country-specific idiosyncrasies include the centralised nature of French government, the generalist academic backgrounds of senior public servants in the UK and the federalised state of government in Germany and many of the Nordic countries. Pre-existing internal rules of operation also form part of the administrative system. These are not matters which can be altered overnight and will undoubtedly frame the way “officials conceptualise and approach a wide variety of issues” including the desirability of certain reforms⁶⁰.

In the same way that the political system described in E can be a restraining force on change, so too can the prevailing administrative system. Pollitt and Bouckaert thus write that “the two act jointly to temper the ardour of the reformers with the sober difficulties of shifting the status quo. Thus we depict them as enclosing and surrounding the more specific pressures of the moment”⁶¹.

There are still however dynamic aspects of administrative systems, depicted in boxes L, M and N.

1.3.2.4.1 L: Content of reform packages

The reform package is the eventual output of the reform process. It is the “the product of the interaction between the desirable and the feasible” in elite decision-making⁶². Pollitt and Bouckaert further describe the reform package at the point of announcement as including “a considerable rhetorical dimension, playing harmonies on the styles and ideas of the moment. They attempt to establish, or reinforce, discourses which support particular institutional changes under consideration”⁶³.

⁵⁹ Ibid., 42.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Ibid., 43.

⁶³ Ibid.

1.3.2.4.2 M: Implementation Process

Pollitt and Bouckaert identify the implementation process as an important part of the reform process. This is chiefly due to the fact that the implementation process can, as influential implementation scholars such as Pressman and Wildavsky⁶⁴ reveal, significantly alter the designs of the original reforms. This arises due to the nature of top-down implementation and the fact that implementation in this fashion often involves a large number of actors, both governmental and otherwise, who become stakeholders in the process and enter it with their own vested interests. In addition, it can come to light during the implementation process that intended reforms “contradict or detract from other reforms which are being carried through at the same time”⁶⁵. In these ways the implementation process, in combination with the results achieved (Box N), “can directly feed back to the elite decision-makers’ ideas” about whether to continue on the particular reform path. Results achieved must however be interpreted with a certain level of circumspection as “rhetoric and reality can be very hard to disentangle...because [reality] is so thoroughly impregnated with the competing discourses through which it is constituted”⁶⁶.

1.3.3 Limitations of the model

As with any model, this model suffers from certain limitations. Many of the limitations below have been noted by the authors themselves. It is also likely that given the relative infancy of this model in public management literature, further critiques will emerge.

Reforms can have varying time spans, either as a result of the breadth of the proposed reform (comprehensive reforms take longer to effect than those affecting only one agency or department) or simply as a result of the intention of the reformer (for example certain governance arrangements could be explicitly transitional in nature, a condition which would be commonplace in post-conflict contexts for instance). In addition, the period over which forces may act to result in change may vary considerably. Whereas a chance event such as a tsunami can cause reforms within weeks, a socio-demographic change like an aging population permits reformers, if predicted early, a time frame of years, if not decades, to settle on the necessary course of action.

⁶⁴ Jeffrey Pressman and Aaron Wildavsky. *Implementation: How Great Expectations In Washington Are Dashed In Oakland: Or, Why It's Amazing That Federal Programs Work At All, This Being A Saga Of The Economic Development Administration As Told By Two Sympathetic Observers Who Seek To Build Morals On A Foundation Of Ruined Hopes*. (Los Angeles: University of California Press, 1984).

⁶⁵ Pollitt and Bouckaert, *Public Management Reform*, 45.

⁶⁶ Ibid.

These time-frames are important to note because they affect the eventual nature of the reform package as reforms which take longer are more susceptible to multi-party influence and thus diversion from their initial renderings. Furthermore, the longer the amount of time spent on deliberations, the lower the likelihood that reform will ever take place. This is because management ideas could become outmoded, citizens could present new pressures or chance events could occur and place more urgent demands on state resources. Despite all of these ways in which time can affect the reform process, this “temporal aspect of reform” is at best understated in the model if not entirely missing⁶⁷.

Secondly, the model is based on assumptions which do not all travel well from the studies of OECD countries on which they are based. The first assumption, being that of national agency in public management reform, is certainly debatable in many countries in the global south in light of the influence of the international financial institutions (IFIs), the World Bank and the IMF, and the conditionalities relating to governance reforms these institutions impose on their funding⁶⁸. The assumption of national agency in reform is debatable even in certain European countries, with Greece and the conditions imposed in its various bailout packages being a prime example. Pollitt and Bouckaert do note the role of international organisations in producing and transmitting ideas for reform⁶⁹ but they limit these institutions’ roles to that of being mere purveyors of ideas rather than making them central to elite decision-making.

For numerous countries in the global south, especially in relation to the tax administration reforms which are the subject of this dissertation, international organisations have certainly not merely been the source of new reform ideas. They have in fact been drivers of reform towards a specific direction. The very fact that the SARA model is more prevalent in African and Latin American states than in OECD countries is testament to this. Moreover the introduction of tax administration reforms has often been made a conditionality of continuing aid in several African states⁷⁰.

Furthermore, even in those instances where the reforms were not made on the basis of aid conditions, it is my contention in this dissertation (see 3.2.2.2 below) that the tax administration

⁶⁷ Ibid. 46.

⁶⁸ Deborah Brautigam and Stephen Knack. "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change* 52, no. 2 (2004): 255-85.

⁶⁹ Brautigam and Knack, "Foreign Aid, Institutions, and Governance", 32, 34.

⁷⁰ Cristian von Soest, *Donor Support for Tax Administration Reform in Africa: Experiences in Ghana, Tanzania, Uganda and Zambia*. Discussion Paper 2/2008. (Bonn: German Development Institute, 2008).

knowledge community is dominated by these organisations. This means that when it comes to tax administration reform theirs is the loudest, if not the only, voice and barring some rare and influential force, the recommendations of the international organisations will be implemented with minor country-specific changes. It therefore does not appear to be accurate to impute absolute national agency to many countries in the global south's public management reforms, especially not when the reforms have to do with tax administration. It may also then be inaccurate to contend that elites in these countries have "a measure of choice", at least in any meaningful sense, as assumption ii.a. would assert.

Thirdly, by omitting the role of *domestic* economic forces, the model overstates the role played by global economic forces. While Pollitt and Bouckaert's induction that global economic forces have contributed to public management reforms around the world is fair, by not framing their inclusion of economic forces into the model with an emphasis on domestic economic forces, they indicate that they either believe that domestic economic forces are always the same as or similar to global economic forces or that domestic economic forces do no merit inclusion at all. I find this to be inaccurate not only for South Africa during the period under study but surely also in other locales around the world as well. While the global economy was experiencing a period of steady economic growth led by the upswing of the global financial services industry and robust export-led economic growth among south-east Asian countries, South Africa, as discussed further in 3.1.1, had recently experienced a period of recession and was at the time operating under relatively flat economic performance. With the dire economic situations of many African countries caused by, among others, famine, civil wars, and political instability, it would not be inaccurate to characterise the 1990s as a period of widely varying national economic performances, something which could surely be said of most decades in modern history, the current one included⁷¹. It is therefore apparent that while there may be broad global economic trends, domestic economic forces seem to be more likely to offer an accurate reflection of how economic forces have influenced public management reforms in a particular country. This is especially true of countries in the global south whose often varied economic growth models make them likely to experience the peaks and

⁷¹ For instance while according to the Asian Development Bank, Bangladesh grew by 6.6% in 2015 amid strong exports and rising consumption expenditure, Venezuela is experiencing a period of economic depression featuring food shortages, foreign currency shortages and hyper-inflation [*Asian Development Outlook 2016: Asia's Potential Growth* (Mandaluyong City: Asian Development Bank, 2016).154.; Julian Borger, "Venezuela's worsening economic crisis – the Guardian briefing" *The Guardian*, June 22, 2016, accessed September 14, 2016, <https://www.theguardian.com/world/2016/jun/22/venezuela-economic-crisis-guardian-briefing>].

troughs of global business cycles differently to industrialised countries, whether more acutely, less severely or barely at all. This was observed in the global financial crisis of 2008 which had much more deleterious effects on the United States and certain Western European countries than it did on many developing countries such as the Philippines and Indonesia⁷². Thus, it becomes that much more crucial for an analysis of economic forces affecting these countries to factor both domestic and global economic performance.

It is for this reason that this dissertation modifies the socio-economic forces aspect of this model to include global *and* domestic economic forces along with socio-demographic changes. This is seen in 3.1.1 below.

1.3.4 Further modification

This dissertation concerns itself with a rather limited time period, a period which ends with the passing of the SARS Bill in 1997. As a result, it does not purport to study how the implementation process of the model affected the SARA reforms since the establishment of SARS. As such, Boxes M: Implementation process and N: Results achieved, will not feature in the analysis in Chapters 3 and 4.

1.4 Conclusion

This chapter has reviewed the SARA model that will be the subject of this dissertation. It has discussed how the model is best marked by its call for an autonomisation of tax administration. Whether the model is actually an effective means of improving tax administration performance remains largely a matter of conjecture especially in light of some compelling opposing arguments and the difficulties of obtaining sufficient conclusive empirical evidence. Whether as a result of public management reforms in industrialised countries during the 1990s or the influence of IFIs the SARA model does remain popular all over the world, especially in the global south.

The chapter has also introduced the model of public management reform through which the adoption of a SARA in South Africa will be analysed in chapter 3. We have seen that the model “embodies interactions between background socio-economic influences, political pressures, specific ideas that are in current circulation, and features of the administrative system itself. It

⁷² International Monetary Fund. *How Did Emerging Markets Cope in the Crisis?* (Washington DC: International Monetary Fund, 2010).

identifies both pressures *for* change and sources of resistance *against* change⁷³. At the centre of the model is the idea that public sector reforms are the product of intentional elite-decisions stemming from desirability-feasibility calculations.

⁷³ Pollitt and Bouckaert, *Public Management Reform*, 46.

Chapter 2: Tax administration reform: the birth of the South African Revenue Services

This chapter details the structural transformation of tax administration in South Africa which resulted in the establishment of the South African Revenue Services. In order to do so, the pre-SARS configuration of tax administration in South Africa is first detailed. An enumeration of the tax administration structural arrangements after the SARS Act was passed then follows and is framed by Crandall's typology of the elements of a SARA. The conclusion to this chapter summarises the major elements of tax administration reform in South Africa which will serve as the focal points of the remainder of this dissertation.

2.1 Pre-SARS tax administration structures

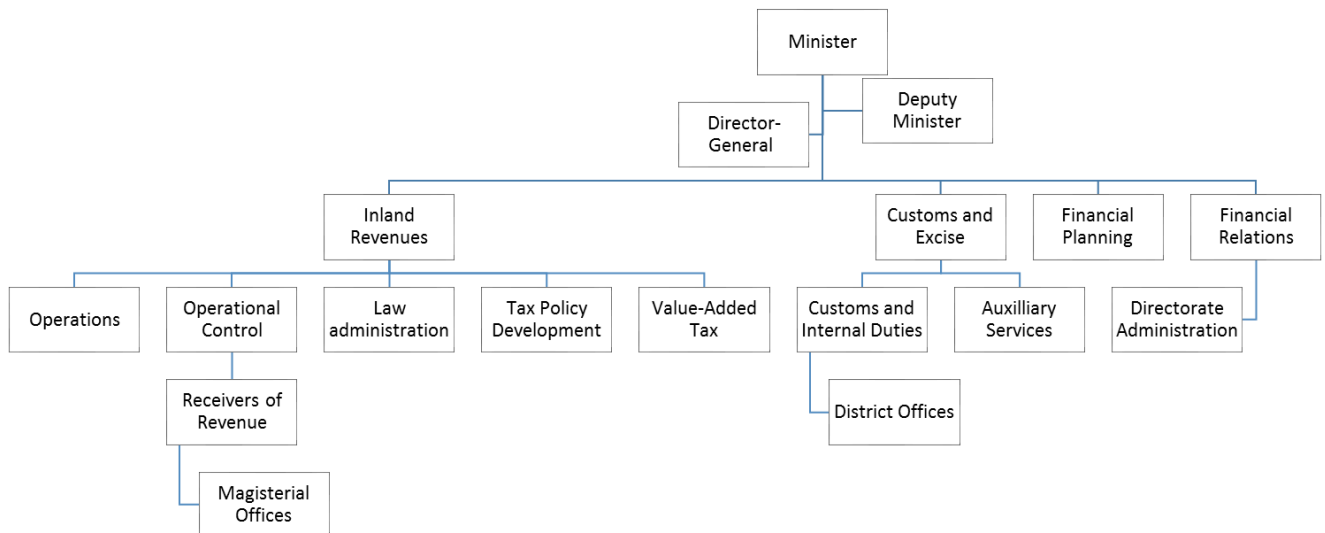


Figure 2.1. Pre-SARS Tax administration in South Africa

Researcher's illustration using *Direct Access to Key People in Southern Africa*, 1993.

Before the transitional institutional reforms which foreshadowed the establishment of SARS, tax administration in South African was performed within the Department of Finance. This occurred through two branches of the department, each headed by a Commissioner (being a position at the level of Deputy Director-General), viz. Inland Revenue and Customs Excise, both accountable

directly to the Minister of Finance. An organogram of the pre-SARS Department of Finance, including the two tax collection branches is depicted in Figure 2.1.

2.1.1 Branch Inland Revenue

Inland Revenue was tasked with the collection of all tax revenues under the various tax laws, including provincial ordinances, other than any revenues accruing to the State as result of the Customs and Excise Act⁷⁴. Its functions were delegated to five directorates, namely Operations, Value Added Tax, Tax Policy Development, Law Administration and Operational Control⁷⁵.

The branch's tax collection function was decentralised to 34 offices of Receivers of Revenue (also referred to as "departmental offices"⁷⁶) littered across the country including in the "homeland" states. These Receivers of Revenue were tasked with the registration, assessment and recovery of all taxes administered by the branch from taxpayers within their "assessing area" and were further responsible for accounting for these taxes to the branch head office⁷⁷. Receivers of Revenue were assisted in their duties by a further 284 "magisterial receivers of revenue" or "magisterial offices", established in the offices of the Departments of Justice or Cooperation and Development, in instances where a town did not have its own Receiver of Revenue⁷⁸.

2.1.2 Branch Customs and Excise

Customs and Excise had as its primary function the enforcement of the Customs and Excise Act and related regulations as well as providing supplementary services such as the determination of the country's trade statistics⁷⁹.

By 1994, a degree of reform within the customs and excise branch had already begun. For instance until 1993 the branch comprised five directorates, being Customs, Legal Services and Control, Internal Duties, Tariff and Valuation and Functional Services⁸⁰ whereas by 1994 these

⁷⁴ *Direct Access to Key People in Southern Africa* (Johannesburg: Penrose Publishers. 1993). 112.

⁷⁵ *Ibid.*; Republic of South Africa. Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa (Katz Commission). *Interim Report of the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa*. (Pretoria: Government Printer, 1994) 25.

⁷⁶ *Direct Access*, 113.

⁷⁷ *Ibid.*, 115.

⁷⁸ *Ibid.*

⁷⁹ Katz Commission, *Interim Report*, 26.; *Direct Access*, 108.

⁸⁰ *Direct Access*, 108.

had been rationalised into two directorates, namely Customs and Internal Duties, and Auxiliary Services.

The taxpayer-facing function, relating to the collection of duties and the enforcement of other aspects of the Customs and Excise Act at borders, took place through 29 district offices, located at various points across the country⁸¹.

2.2 The South African Revenue Services

The South African Revenue Services (SARS) was established through the South African Revenue Services Act No. 34 of 1997 (“SARS Act” or “the Act”). In order to facilitate the analysis which follows, this section details the institutional form given to this new tax administration body with the intention of revealing those parts of its institutional design which distinguish it from its predecessors and the rest of South African public administration and are thus the subject of this dissertation. Figure 2.2 depicts the early organisational structure of SARS and how this linked to the Ministry of Finance.

Crandall’s “Design considerations for a Revenue Authority”⁸² are used as the framework through which the discussion of these structural aspects will take place. These design considerations are based on the proposition that “each Revenue Authority embodies a series of *policy choices* that determines its autonomy, accountability and other characteristics”⁸³. These “other characteristics” are the Revenue Authority’s governance framework and its scope of functions.

2.2.1 Degree of autonomy

Autonomy in this sense refers to the extent to which a tax administration is operationally and otherwise independent from the rest of the public service, especially the finance department or equivalent. Whereas tax administrations with high autonomy are able to operate without a high degree of executive influence on various aspects of their operations, those with low degrees of autonomy are able to have their policy decisions affected through various, often legislatively provided, mechanisms, such as the appointment of senior executives, the budget, policy

⁸¹ *Direct Access*, 108.

⁸² Crandall, *Revenue Administration*, 9.

⁸³ *Ibid.*

directives and the governing/advisory board. Globally, “Revenue Authorities exist along a continuum, with some remaining close to the civil service while others enjoy greater autonomy”⁸⁴.

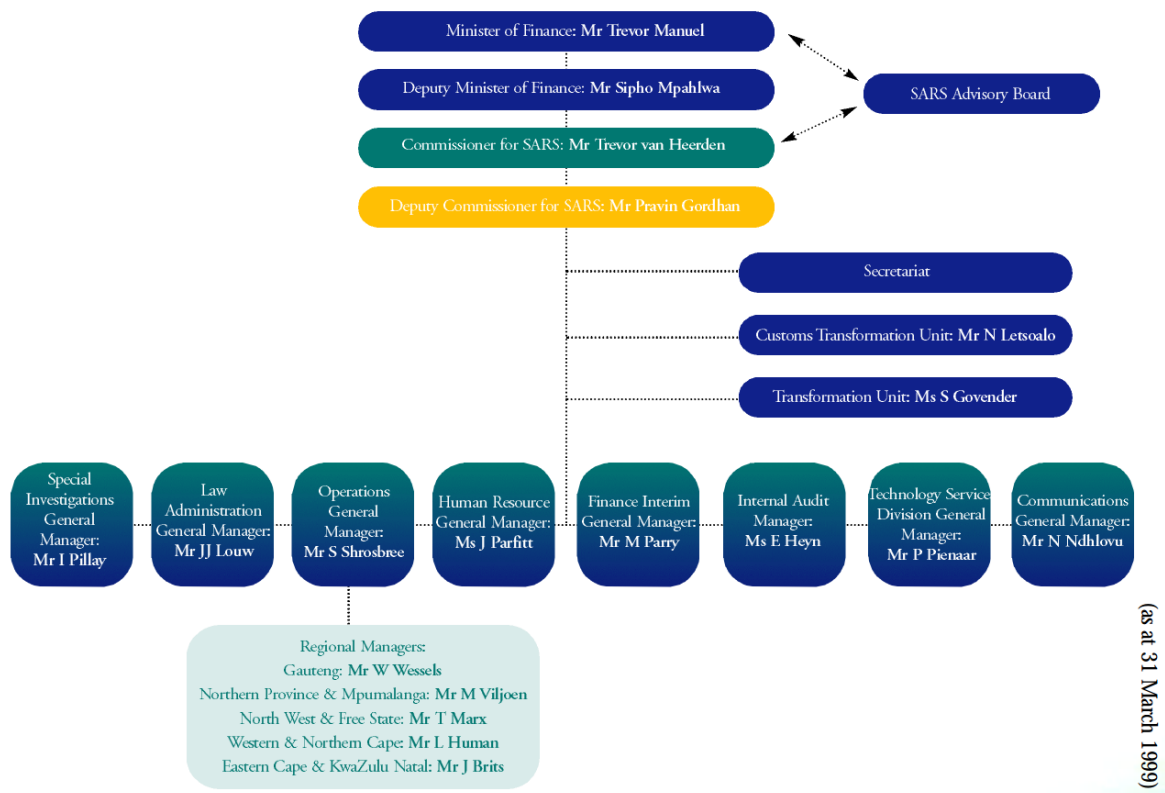


Figure 2.2. SARS’ structure

Source: Republic of South Africa. South African Revenue Service. *Annual Report of the South African Revenue Service 1998/1999* (Pretoria: Government Printers, 1999). 77.

Crandall sees a SARA’s degree of autonomy as a function of its legal form and status, funding mechanism, its degree of budget flexibility, financial policies instituted, control over its human resources and its operational autonomy⁸⁵. The sub-sections below detail the institutional arrangements given to SARS.

⁸⁴ Ibid.

⁸⁵ Ibid.

2.2.1.1 Legal form and status

The legal form and status of a SARA determines the extent to which it has legal power to act individually and without the constraints of public service laws.

The Act established SARS as “an organ of state within the public administration, but as an institution outside of the public service”⁸⁶. In so doing, SARS was made immune to the Public Service Act and the reaches of the Public Service Commission (PSC), permitting the Commissioner much more autonomy in relation to human resources and expenditure in particular. On the other hand, its inclusion into the public administration allowed it to be required to adhere to s195 of the Constitution⁸⁷, which details the basic values and principles of public administration⁸⁸.

In terms of legal authority and powers, the Act allowed SARS to “perform legal acts, or institute or defend any legal action in its own name”⁸⁹, a power constrained by the fact that the Minister was given powers to issue a directive which would require Ministerial approval for any or all decisions⁹⁰. Furthermore, the Commissioner was provided with vested power over all revenue laws not only through having responsibility on behalf of SARS in administering those laws but also by being specifically referenced in various sections of those laws⁹¹.

2.2.1.2 Funding, Budget Flexibility and Financial Policies

Per the Act, SARS is primarily funded through the combination of the following sources⁹²:

1. An annual appropriation by Parliament –SARS’ main source of income.
2. Ad hoc government grants
3. Fees and charges generated from services rendered to a government department or state owned entity.

⁸⁶ South African Revenue Service Act No. 34 of 1997, s. 2.

⁸⁷ Constitution of the Republic of South Africa Act No. 108 of 1996, s.195.

⁸⁸ SARS Act, s. 4(2).

⁸⁹ Ibid., s. 5(1)(i).

⁹⁰Ibid., s. 5(2).

⁹¹Ibid., s. 9(1)(c).

⁹²Ibid., s. 24 (1), 25(1).

The annual appropriation from Parliament was to be based on SARS' estimated income and expenditure for the following year, as determined by the Commissioner, approved by the Minister and reviewed by the Board⁹³⁹⁴. These estimations were to be tabled in the National Assembly (NA) by the Minister⁹⁵. Any surpluses from use of the appropriation were prohibited from being rolled over and were instead to be returned to the National Revenue Fund⁹⁶⁹⁷.

The system above gave the Commissioner discretion in determining the areas to which she intended to direct her appropriation and, given the operational autonomy given to her in the Act (which is tempered by the accountability and governance mechanisms discussed below), she could fluidly readjust the budget across various functions within SARS according to changing needs and priorities as determined by her and her executive committee, a fact that was also observed in the OECD survey⁹⁸.

On the other hand SARS' financial policies – being regulations over matters such as “accounting, asset management and procurement”⁹⁹ – were placed beyond the control of the Commissioner. SARS was required by the Act to adhere to public service-wide accounting and asset management regulations and would subsequently be made to comply with the Public Finance Management Act¹⁰⁰.

2.2.2.3 Human resources

As with any organisation, and especially so for a specialised public service organisation such as a revenue administration, the success or failure of the body hinges on its ability to recruit sufficient and appropriately skilled and motivated staff at all levels. The relationship between the human

⁹³ SARS Act., s. 26.

⁹⁴ This was later amended to require that SARS' allocation be determined in the manner provided for in the Public Finance Management Act No. 1 of 1999 (PFMA). However, the amended Act also permitted the Minister and the Commissioner to determine the funding in another manner if this was approved by Cabinet.

⁹⁵ SARS Act., s. 26(4)(a).

⁹⁶ SARS Act., s. 28.

⁹⁷ This part of the Act was later deleted, thus enforcing the requirements of the PFMA in respect of refunds. Per the PFMA, surpluses can only be rolled over to the following year if this has been approved by the Minister of Finance.

⁹⁸ OECD, *Tax Administration in OECD Countries*, 28; Crandall, *Revenue Administration*, 7.

⁹⁹ *Ibid.*, 9.

¹⁰⁰ SARS Act, s. 22.

resource function and autonomy centres primarily on whether the SARA will be required to adhere to public service-wide human resource policies or those directed by the Minister.

By placing SARS outside of the public service and therefore not subject to public service regulations, the Act allowed SARS independent control over hiring and firing, setting remuneration and setting any other terms and conditions relating to its employees. However, this independence was not unfettered. The Act required that SARS' human resource policies be determined through "collective bargaining between SARS and recognised trade unions" and, significantly, "with the approval of the Minister"¹⁰¹.

2.2.2.4 Operational autonomy

Operational autonomy with regards to a SARA has to do with the extent to which the Minister "has day-to-day authority"¹⁰². The Minister was not directly given such authority by the Act. The Act allowed SARS, through the Commissioner, to "do all that is necessary or expedient to perform its functions properly", specifically including powers such as its human resources function, an ability to own assets of any kind, have its own bank accounts and take out insurance over any aspect of its activities¹⁰³.

Despite this, there were several notable curtailments of SARS' operational autonomy provided for in the Act. Firstly, the Commissioner of SARS was to be appointed by the Minister, with a requirement that the Minister merely consult the Advisory Board and Cabinet before making the appointment¹⁰⁴. Secondly, the Commissioner's ability to act independently of government and the Minister is restrained by a variety of sections in the Act and to various degrees. The most prominent one is s4(3) which requires SARS to comply with any policies, directives or guidelines issued by the Minister. In addition, section 18(1) does not permit the Commissioner to determine "the terms and conditions of employment" of SARS employees without the approval of the Minister. Thirdly, it is also apparent that the Commissioner was not given direct power to influence tax policy while on the other hand the Minister was empowered to influence tax collection policy by virtue of s4(3). Furthermore, the Act provided that the Commissioner only be able to advise

¹⁰¹ SARS Act, s. 5, s. 18(1).

¹⁰² Crandall, *Revenue Administration*, 9.

¹⁰³ SARS Act, s. 5(1).

¹⁰⁴ SARS Act, s. 6(1)-(2).

the Minister on “matters concerning revenue”, “at the Minister’s request”¹⁰⁵, thus empowering the Minister to act against the Commissioner’s wishes ever there was conflict.

2.2.2 Governance Framework

The choice of the governance framework to be given to a SARA involves deciding on the powers and roles to be assigned to the Minister of Finance, the SARA’s governing board – if one is created at all – and the Commissioner (or equivalent position)¹⁰⁶. The question of the governance framework therefore centres on the extent and form in which oversight over the SARA is to unfold and the extent to which the Commissioner is going to be given sole or joint control over the SARA.

The Act established SARS with an Advisory Board, a forum intended to be an “advisory and consultative body” for both the Minister and the Commissioner¹⁰⁷¹⁰⁸. The Board was compelled to inform the Minister of any advice it had given to the Commissioner¹⁰⁹. The Board was to advise the Minister and the Commissioner on all operational matters relating to SARS, including its finances, the efficiency and effectiveness of its revenue collection practices, its human resources practices, its budget and its relations with trade unions¹¹⁰. To do so it was empowered to conduct its own evaluations and investigations into the policies and practices of SARS, require the Commissioner to submit to it a report on any matter on which it intended giving counsel as well as summon any SARS employee to “give explanations concerning such a matter”¹¹¹.

The Act also stipulated the Board’s composition. It was to comprise a maximum of eleven people, specifically¹¹²:

- Up to eight people who were “unconnected” from SARS, all of whom were to be appointed by the Minister after consulting with Cabinet,
- The Commissioner; and

¹⁰⁵ SARS Act, s. 4(1).

¹⁰⁶ Crandall, *Revenue Administration*, 9.

¹⁰⁷ SARS Act, s. 11(2).

¹⁰⁸ The board was discontinued in 2002 through an amendment to the SARS Act. The amendment provided for the establishment of ad-hoc advisory committees. Crandall & Kidd, *Issues and Problems*, 25, 43.

¹⁰⁹ *Ibid.*, s. 13(2)(d).

¹¹⁰ *Ibid.*, s. 13(1).

¹¹¹ *Ibid.*, s. 13(2)(a)-(c).

¹¹² *Ibid.*, s. 12.

- Up to two senior employees of SARS appointed by the Commissioner.

The Act also gave the Minister the power to appoint the chairperson as well as the deputy chairperson of the Board, on the condition that the Minister must consult with the members of the Board before doing so¹¹³.

SARS' first Advisory Board had a composition in which 8 of 10 appointees were ministerial appointments as the Commissioner had not exercised his right to appoint another executive to the board.

2.2.3 Accountability mechanisms

With reference to SARAs, accountability mechanisms refer to the channels of reporting required of a SARA¹¹⁴. This question concerns itself with the frequency, form and contents of the required reporting as well as with the party that is to receive such reports. Accountability mechanism decisions also involve considerations of whether and by whom the institution is to be audited and to which bodies the results of such an audit are to be submitted¹¹⁵.

The Act provided for SARS to undergo an annual external audit of its financial records and statements by the Auditor-General¹¹⁶. The Commissioner was also required to submit to the Minister an annual report on the performance and activities of SARS¹¹⁷. This report had to include a summary of SARS' performance along with its audited financial statements¹¹⁸. The Minister was then required to table the report in the National Assembly and submit it to the National Council of Provinces¹¹⁹.

2.2.4 Scope of functions

The scope of a SARA's functions is determined by the range of taxes and other state revenues administered by the SARA¹²⁰.

¹¹³ Ibid., s. 12(2).

¹¹⁴ Crandall, *Revenue Administration*, 9.

¹¹⁵ Ibid.

¹¹⁶ SARS Act, s. 28(2).

¹¹⁷ Ibid., s. 29(1).

¹¹⁸ Ibid., s. 29(2).

¹¹⁹ Ibid., s. 29(4).

¹²⁰ Crandall, *Revenue Administration*, 9.

SARS' primary objective according to the Act was "the efficient and effective collection of revenue" where revenue was defined as "income derived from taxes, duties, levies, fees, charges, additional tax and any other moneys imposed in terms of legislation"¹²¹. This duty to collect revenues was made with reference to legislation specifically mentioned in Schedule 1 of the Act, but essentially included all revenues and taxes in South Africa except for those taxes which may only be levied, according to the Constitution, by provincial and local governments. These sources of sub-national revenue include gaming licences, liquor licences and property taxes¹²².

The taxes administered by SARS include transfer duties, estate duties, all forms of income tax, all charges from the Customs and Excise Act, value-added tax (VAT) and marketable securities tax. The Act also gave the President the power to amend Schedule 1 by "proclamation in the Government Gazette"¹²³ (s33).

2.3 Concluding remarks

As apparent from the discussion above, the reforms to tax administration in South Africa were far reaching and consequential. The two most comparatively significant aspects of the reforms in tax administration, and which will be the subject of much of the remainder of this dissertation are:

1. Tax administration outside of the public service

This was definitely the most significant and widely affecting reform to take place during the period under consideration. By defining SARS as being outside of the public service, it made the Commissioner not beholden to any public service regulations, except for those specifically referred to in the Act (such as Public Finance Management Act, which would be included in the Act through a 1999 amendment). This was particularly important for activities such as human resources and expenditure, where public service regulations were appropriately restrictive in light of South Africa's post-1994 debt, related fiscal stabilisation policies and progressive political ambitions.

By allowing the Commissioner freedom from public service regulations, she was thus permitted to remunerate employees at private sector-related rates and embark on any capital acquisition

¹²¹ SARS Act, s. 1 "revenue".

¹²² Constitution of RSA, s. 228, s. 229.

¹²³ SARS Act, s. 33.

programme she saw fit on the condition, of course, that such actions be carried out with the approval, tacitly or explicitly, of the Minister and the Advisory Board.

2. Quasi-autonomy

Beyond the more prosaic accountability requirements such as being subject to an annual audit by the Auditor-General and submitting an annual report, and despite being given powers by the Act to “do all that is necessary or expedient to perform its functions properly”, the Commissioner’s powers were constrained by provisions such as s 4(3) and s 18(1) which still empowered the Minister with substantial control over SARS. In addition, the institution of the Advisory Board, which was almost entirely comprised of ministerial appointees, afforded the Minister another avenue through which to exercise influence over SARS. This was over and above the fact that the very appointment of the Commissioner was to be made by the Minister.

It is an inevitable and warranted consequence of being given greater authority that the Commissioner would be subjected to increased accountability and governance requirements especially in light of the importance of revenue collection to the state and the power which comes from administering tax laws, being among the most pervasive and intrusive in any country¹²⁴. It is therefore unsurprising to find that in all SARAs, the minister of finance has some form of oversight over the SARA. It is also unsurprising that the vast majority of SARAs have boards, all of which (as of 2010) are more than merely advisory in nature¹²⁵. However, unlike in most SARAs, in which the other accountability and governance requirements are usually reporting and transparency requirements which are provided for within existing institutional mechanisms¹²⁶, such as the Auditor-General, ministerial review and parliamentary committee reviews, the combination of the legal powers given to the Minister over SARS and the establishment of the Advisory Board made the accountability and governance regime over SARS remarkable in comparison to the majority of other SARAs. Figure 2.3, prepared by Crandall using the results of a 2006 IMF Survey, illustrates this. Taliercio also finds SARS less autonomous than Kenya and Peru but more autonomous than Mexico.¹²⁷

¹²⁴ Crandall, *Revenue Administration*, 3.

¹²⁵ *Ibid.*, 7.

¹²⁶ *Ibid.*, 2

¹²⁷ Taliercio, *Designing Performance*, 77.

The funding mechanism, based on a discretionary allocation by Parliament, also served to curb SARS' autonomy. There was certainly an argument to be made, and SARS' first commissioner, Trevor van Heerden, and first CEO Piet Liebenberg, were among the loudest to make it¹²⁸, that if SARS was funded on a proportion-of-revenue-collected basis, this would not only strengthen the body's autonomy but also naturally incentivise the attainment and even the surpassing of revenue collection targets set by the Minister. This reasoning partly accounts for why 60% of the SARAs surveyed by the OECD have a funding mechanism which is either entirely based on a percentage of revenue or includes an option for a percentage of revenue above a specified target¹²⁹.

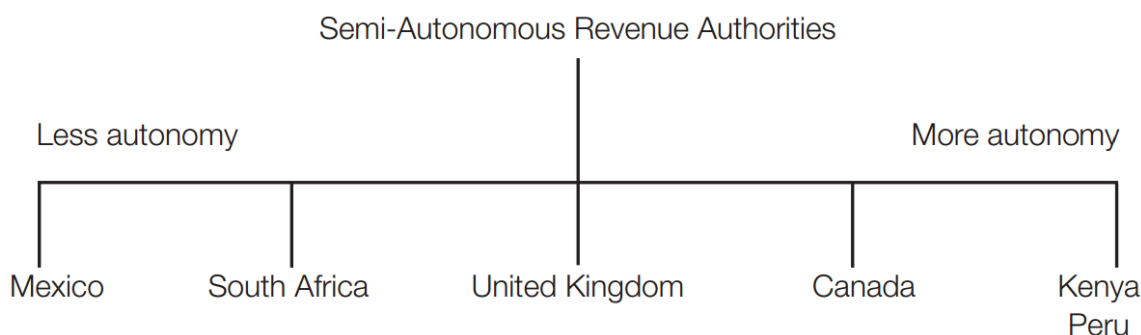


Figure 2.3. A spectrum of revenue authority autonomy among six countries

Source: Crandall, W. 2010. Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model. (TNM/10/12). Washington: Fiscal Affairs Department, International Monetary Fund p. 6

Thus, although bearing numerous indicators of autonomy such as legal personality, SARS' establishment came with certain legislative provisions which restrained its autonomy in several ways. Seemingly, but for the Commissioner's ability to remunerate employees above public service regulations and (limited) powers to orchestrate the internal reconfiguration of the tax administration, the post-1997 tax administration regime in South Africa certainly bore distinctive resemblances to an intra-departmental service.

¹²⁸ Muzi Kuzwayo. "The Victory of the Underdogs" in *There's a Tsotsi in the Boardroom: Winning in a Hostile World* (Johannesburg: Jacana Media, 2007) 57-69. 62; Devas, Delay and Hubbard, "Revenue Authorities", 219.

¹²⁹ OECD, *Tax Administration in OECD Countries*.

Chapter 3: Applying the Pollitt-Bouckaert Model

This Chapter undertakes an application of the Pollitt-Bouckaert model to the reforms which were detailed in Chapter 2. These reforms resulted in the establishment of a SARA outside the public service with relatively strong mechanisms for executive control over the institution, vested primarily in the Minister of Finance. By framing the exposition of the socio-economic milieu in 1994 according to the typology of forces posited by Pollitt and Bouckaert, this chapter in this way performs a direct application of the model. While each of the following sections will not necessarily conclude by linking its analysis of the material with a direct link to the Pollitt-Bouckaert model, the idea here is merely to lay the empirical groundwork – in essence, the data– for the chapter which follows. Thus, this chapter is deliberately broad and multifocal, intended merely to lay out the numerous social, economic and political threads which will subsequently coalesce into the structured argument which takes place in Chapter 4.

3.1 Socio-economic forces

This sub-section seeks to understand the background socio-economic forces at play at the time of tax administration reform in South Africa. The aim is to extract those factors which most impacted elites' notions of desirable and feasible options for addressing the problems in the departments of Customs and Excise and Inland Revenue.

3.1.1 Global and local economic forces

On the whole, the 1990s were a decade of relatively subdued global economic performance¹³⁰. Although it is difficult and probably unduly ambitious to make sweeping generalisations about the state of the global economy at the time, several particularities do stand out, many of which are attributable to the growing prevalence of economic policies such as deregulation and liberalisation of trade.

Firstly, deregulation, or in some instances the sheer absence of regulation, over the financial services industry was resulting in high levels of activity, volatility and growth¹³¹. Investment banks,

¹³⁰ Jonathan Michie and Vishnu Padayachee, "South Africa's Transition: The Policy Agenda," in *The Political Economy of South Africa's Transition: Policy Perspectives in the Late 1990s*, ed. Jonathan Michie and Vishnu Padayachee (London: Dryden Press, 1997) 9 -26. 9;

¹³¹ Ben Turok. *From the Freedom Charter to Polokwane: The Evolution of ANC Economic Policy* (Cape Town: New Agenda, 2008), 59; Allen N. Berger, Rebecca S. Demsetz, and Philip E. Strahan. "The Consolidation of the financial Services Industry: Causes, Consequences, and Implications for the Future." *Journal of Banking & Finance* 23, no. 2 (1999): 135-194. 149.

merchant banks, large insurance companies, stock brokers and hedge funds were all seeing remarkable profits aided in no small part by gains in speculative trading, including the trading of derivatives.

Secondly, the lack of regulation over foreign capital flows in many countries had the positive effect of facilitating international trade and investment in these markets but made currencies and therefore entire economies more susceptible to the pernicious effects of rapid capital flight, a factor which was made even more dangerous by the high volumes of trade which was occurring at the time. The Asian financial crisis of 1997 demonstrated how devastating these effects could be. Other countries in the global south such as Mexico and Argentina were also benefiting from the globalised and highly liquid financial markets¹³².

Thirdly, partly as a result of the global reduction in tariffs brought on by the World Trade Organisation's (WTO's) General Agreement on Tariffs and Trade (GATT), countries with competitive advantages in manufacturing experienced remarkable export-led economic growth. These countries included Taiwan, China and South Korea. Ironically, this was also an era marked by subversive protectionist measures by some industrialised countries and regions. The European Union's Common Agricultural Policy (CAP) to support European agriculture being an example of this.

Fourthly, numerous African economies such as Rwanda, Sierra Leone, Sudan and Congo were struggling economically due to civil wars, political instabilities, HIV/AIDS, droughts, poor governance and colonial and post-colonial debts, which in some countries was arguably exacerbated by the application of austerity policies advocated for by the Bretton Woods community.

In South Africa, due to sanctions, poor economic governance and the civil conflict, the economic outlook seemed more of a mirror of the rest of the continent than it did the industrialised West. In 1994 when the Government of National Unity (GNU) took office, the extent of national debt and a large civil service (combined expenditure on which devoured 92% of the apartheid government's annual budget by the time it left power¹³³), combined with the pressures of satisfying a needy and expectant citizenry were proving extremely strenuous on the reaches of the fiscus.

¹³² Michie and Padayachee, "South Africa's Transition", 9

¹³³ Patti Waldmeir. *Anatomy of a Miracle: The End of Apartheid and the Birth of the New South Africa*. (New York: WW Norton & Company, 1997), 282.

GDP growth had been sclerotic, at 0.9% per annum over the period 1982/3 to 1993/4, including a period of recession and negative growth rates between 1989 and 1993¹³⁴. Capital outflows were at their highest since 1985's debt crisis at 5% of GDP. About 40% of economically active South Africans were outside the formal economy¹³⁵ and only 1 in 10 new entrants were being absorbed into formal sector employment¹³⁶. The National Party's (NP) fiscal irresponsibility resulting from their awareness of their imminent departure from government, compounded by poor economic performance, had led to the budget deficit rising from 0.9% of GDP in 1989/1990 to 10.8% in 1993/1994.

3.1.2 Socio-demographic change

The young South African government had to contend with a wide variety of socio-demographic considerations which, although not necessarily new to the country were, due to apartheid's exclusion of the black majority from material political rights, new to state concern. The most pressing of these were: widespread poverty (46% of individuals in absolute poverty in 1995)¹³⁷; high unemployment, especially amongst the youth; exceptionally high inequality (a Gini coefficient of 0.68 made South Africa one of the most unequal countries in the world); and the need for basic services (electricity, basic healthcare, housing, potable water, etc.) from millions in the country.

3.1.3 Socio economic policies

The African National Congress (ANC)-led government's plans to address these issues were detailed in the White Paper on Reconstruction and Development Programme¹³⁸ (RDP), the successor to the ANC's policy document and election manifesto, known as the RDP Base Document.¹³⁹ The RDP sought to address the socio-demographic changes mentioned above through the combination of "high and sustainable [economic] growth" and developmental

¹³⁴ Michie and Padayachee, "South Africa's Transition", 12.

¹³⁵ Ibid., 13

¹³⁶ Ibid., 13

¹³⁷ Jesmond Blumenfeld, "From Icon to Scapegoat: The Experience of South Africa's Reconstruction and Development Programme," *Development Policy Review* 15, no.1 (1997): 66.

¹³⁸ Republic of South Africa, Office of the President. *White Paper on the Reconstruction and Development Programme* (Pretoria: Government Printer, 1994), 4.

¹³⁹ African National Congress, *The Reconstruction and Development Programme (RDP): A Policy Framework*, (Johannesburg: African National Congress, 1994).

policies¹⁴⁰. These developmental policies included undertakings in the categories of “meeting basic needs” and “developing our human resources”. Notable policy undertakings included:

- Providing free basic healthcare
- Building and rehabilitating schools
- The electrification of households
- A primary school feeding scheme
- Construction of local water infrastructure
- Restitution of land rights to ease poverty in rural areas
- A national public works programme to create jobs and improve infrastructure
- The implementation of affirmative action in the public service
- A national literacy programme

The focus on economic growth would also yield employment opportunities and reduce poverty¹⁴¹.

3.2 The political system

Whereas in the Pollitt-Bouckaert model socio-economic factors are treated as merely contextual, the political system acts as a catalyst or inhibitor to reform. Thus the question this sub-section will set-out to answer is: what was the state of the political system during the tax administration reform process under study? Chapter 4 then draws from this sub-section to answer the crucial follow-up question: what effect did this have on tax administration reform in South Africa?

A synthesis of the Pollitt and Bouckaert model reveals that they conceive of the political system as being constituted by 1) The macro-political structure of the country (or the sub-national structures in the case of local government reforms) and; 2) The political positions of the parties of which the elites involved in the decision-making are part. These party-political positions are rooted in the characterising ideological perspective of the party, and are influenced by new management ideas and pressures from citizens. For this reason, a fair part of this sub-section is devoted to discussing the ANC’s defining ideological perspective as well as its views on two issues of relevance to this dissertation: the public service and the economy.

¹⁴⁰ RSA, *White Paper on the RDP*, 4.

¹⁴¹ RSA, *White Paper on the RDP*, 20.

3.2.1 The macro-political structure

Between 1994 and 1999 South Africa was governed by the 1993 Constitution (Act No. 200 of 1993) (“the Interim Constitution”). The Interim Constitution, in giving statutory effect to the sunset clauses – a power-sharing agreement emerging from Congress for a Democratic South Africa (CODESA) negotiations – provided for a “government of national unity” (GNU). This provision for a GNU meant that until the next set of national elections in 1999 there would be a multi-party cabinet based on the parties’ electoral result in the 1994 election.

After the many guarantees for the protection of minority rights and power-sharing mechanisms sought by NP during CODESA negotiations, a purely party proportional representation system was still instituted at the level of the national assembly, ostensibly to promote minority party representation. In this way, party primacy was entrenched, making it easier for party positions to be carried out in parliament due to the party – and its central and most senior leadership – being placed in direct control over seats. And in a party such as the ANC where the most senior members of the party were placed in government, it made it less politically desirable for members to directly challenge – and thus hold to account – the executive¹⁴².

Given their being “ordinary bills” the Interim Constitution made it fairly easy for the amendment of public service structures by requiring only a simple majority for such Acts. This is evidenced by the fairly long series of Acts passed within the first two years which did precisely that, including: the Public Service Act of 1994, the Public Service Laws Amendment Act 47 of 1997, The Local Government: Municipal Structures Act 117 of 1998 and; the South African Reserve Bank Amendment Act 39 of 1997. All of which was possible because of the ANC’s overwhelming majority of seats (251 of 400, followed by the NP with 82 seats).

This overwhelming majority also meant that almost any tax administration reform option was potentially feasible for the ANC, including those – and this is quite unlikely in the case of a reform related to tax administration – which would require an amendment to the Constitution. Although these required a two thirds majority (i.e. 268 votes), it is not unthinkable for the party to have been able to whip the seventeen more votes required from among the smaller parties (parties other than the ANC, the IFP and the NP) which together occupied 25 seats.

¹⁴² Andrew Feinstein, *After the Party: A Personal and Political Journey within the ANC*, (Johannesburg: Jonathan Bell, 2007), 44.

After heated debates at CODESA between the ANC on the one side, which favoured a unitary state, and the IFP and the NP on the other side advocating federalism and local governance, the Interim Constitution created a quasi-federal government, with many crucial political, administrative and fiscal powers centralised in national government.

Among the provisions which gave effect to the decentralisation to local government and provinces were those that had to do with fiscal decentralisation. Fiscal decentralisation is “the devolution of taxing and spending powers”¹⁴³ to sub-national government. While local governments could raise revenues mainly through property taxes and surcharges on services such as electricity¹⁴⁴, provinces could raise provincial revenues through gambling and lotteries¹⁴⁵. Provincial governments were also to receive a national transfer, the equitable share, being their share of national revenue collections and from which local governments were also to be allocated¹⁴⁶.

3.2.2 New management ideas

The Commission of Inquiry Into Certain Aspects of the Tax System of South Africa (“Katz Commission” or “the Commission”) first interim report¹⁴⁷ was an important contribution to party-political ideas on tax administration. It is for this reason that although it is not a document solely or necessarily reflecting the private-sector generated ideas to which Pollitt and Bouckaert refer when they speak of new management ideas, I have still included a discussion of its most significant findings. I have done so because it had a profound impact on elites’ perceptions of what reforms were desirable and so its findings thus provide crucial illumination on the provenance of the idea of the SARA model and the extent to which alternatives were considered.

3.2.2.1 The Katz Commission

The Katz Commission was officially commissioned by democratic South Africa’s first finance minister, Derek Keys, on 22 June 1994. Chaired by corporate law expert, Professor Michael Katz, its terms of reference were wide. The Commission was “to inquire into the appropriateness and

¹⁴³Odd-Helge Fjeldstad. *Intergovernmental Fiscal Relations in Developing Countries. A review of issues*. Chr. Michelsen Institute Working Paper, (Bergen: Chr. Michelsen Institute, 2001), 5.

¹⁴⁴ Constitution of the South Africa Act No. 200 of 1993 (Interim Constitution), s.178.

¹⁴⁵ Interim Constitution of RSA, s.156.

¹⁴⁶ *Ibid.*, s. 178, s. 155.

¹⁴⁷ Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa [Katz Commission]. *Interim Report of the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa*, (Pretoria: Government Printer, 1995),

efficiency of the present tax system and make recommendations on its improvement taking into account internationally accepted tax principles and practices”¹⁴⁸. Several aspects of the tax system were to receive special attention, including value added tax and the impact of the tax system on foreign investment and trade¹⁴⁹. The Commission further saw it as important that all of its recommendations be “favourable to business and thus encourage new investment”¹⁵⁰ and that “In addition to the factors which are favourable to the promotion of investment in general...[be] designed to promote foreign investment, which must be viewed as an important objective of national policy”¹⁵¹.

The deadline for the first interim report was the ambitious date of 30 November 1994. Despite having only five months in which to produce it, the Commission submitted its first interim report on 18 November 1994. By then, Keys had resigned and been replaced by former Nedbank CEO Chris Liebenberg. Cabinet officially endorsed the recommendations of this report on 8 March 1995.

The Katz Commission report and its recommendations were then reviewed and approved by the Joint Standing Committee on Finance (JSCF), chaired by the ANC’s Gill Marcus. The JSCF strongly endorsed the findings of the Katz Commission report, in a mere two paragraphs¹⁵².

Other than Katz, the commission comprised six individuals from law, economics or chartered accountancy backgrounds: Dennis Davis (commercial law academic), Pierre du Toit (tax lawyer, chartered accountant and member of the ANC’s tax policy committee), Dolly Mokgatle (lawyer

¹⁴⁸ Katz Commission, *Interim Report*, 1.

¹⁴⁹ *Ibid.*

¹⁵⁰ *Ibid.*, 19.

¹⁵¹ *Ibid.*, 20.

¹⁵² Republic of South Africa. Joint Standing Committee on Finance. *Report of the Joint Standing Committee of Finance on the Interim Report of the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa*, (Cape Town: Government Printer, 1995), 5.

These two paragraphs were:

“The written submissions, together with the evidence presented by Inland Revenue indicate a looming crisis situation with regard to tax administration and collection.

The Committee concurs with the recommendations of the Katz Commission, and regards this aspect as the key to the meaningful implementation of all other recommendations. All the above comments and proposals demand serious consideration. The Committee endorses the proposal that Inland Revenue be made organisationally autonomous, accountable to Parliament through the Minister of Finance, without further delay. In this process, Inland Revenue should also be made more representative in respect of both gender and race.”

and businessperson), Philip Mohr (academic economist), Johannes de Villiers Graaf (academic economist), and Mfundiso Njeke (chartered accountant and businessperson).

The Commission's first interim report presented a woeful picture of the state of the two revenue collection departments, Customs and Excise and Revenue collection. It found that:

1. There had been a high turnover and departure of staff in the years leading up to 1994, resulting in there being highly inexperienced staff, staff shortages in skill areas crucial to the functioning of a tax administration and a large number of vacancies at management level. These capacity constraints resulted in delays in processing returns, rulings and claims.
2. Customs and Excise demonstrated an inability to financially incentivise staff to take on positions in crucial, but far flung areas.
3. Customs and Excise suffered from coordination issues with other government departments including the Department of Trade and Industry on whose behalf Customs and Excise was administering an export incentive scheme and the Department of Public Works which had lagged behind in its plans to construct suitable accommodation and facilities at border posts.
4. The state of the infrastructure (buildings, office equipment, computer technology, etc.) in offices of both of the revenue collection branches was deplorable.
5. Largely as a result of the above, relations with taxpayers were poor thus potentially having a detrimental impact on tax morality.

In carrying out its mandate, the Commission received written and oral submissions from the public, including certain "specialist bodies" which the Commission directly requested to make early submissions due to the report's "time constraints"¹⁵³. Although the Commission does not divulge precisely who these specialist bodies were, it is evident from the Commission's references that two of these specialist bodies included the IFIs, the World Bank and the IMF. The IMF was cited on numerous issues throughout Chapter 3 of the report, entitled "Tax Administration": on the importance of tax administration to "economies 'in transition'"¹⁵⁴; on tax regimes and their effects on foreign capital flows, on labour supply and possible base erosion¹⁵⁵; on the state of customs

¹⁵³ Katz Commission, *Interim Report*, 2-3.

¹⁵⁴ *Ibid.*, 13

¹⁵⁵ *Ibid.*

and excise collection in South Africa¹⁵⁶; and on the state of VAT administration¹⁵⁷. The World Bank was referenced on its position on centralised tax administration¹⁵⁸. The OECD was also cited in Chapter 3: on the importance of the human resource function in tax administration¹⁵⁹

The Commission's recommendations can be stratified according to those which related to: 1) Institutional reform and; 2) Physical and digital Infrastructure.

3.2.2.1.2 Institutional reform

This was undoubtedly the area of reform that the Commission saw as the solution for most of the departments' issues. It was the view of the Commission that the deficiencies noted above were primarily the result of an inordinately constraining organisational structure – the prevalence of “organisational rigidities” as the commission put it¹⁶⁰. It asserted that “tax administration in South Africa is weakened by an out-dated management structure, ongoing attrition of qualified staff and the inflexibility of public sector personnel administration”¹⁶¹. Thus, the Commission advocated for “urgent attention to be given to the status and organisational autonomy” of the administration¹⁶². The Commission further recommended that the reformed structure be modelled on the tax administrations of the United Kingdom and New Zealand¹⁶³.

3.2.2.1.3 Physical and digital infrastructure

The Commission's view was that given the “logistical demands” it foresaw being placed on tax administration as a result of the need to widen the tax base, and the increase in trade that would result from the lifting of sanctions, it was necessary that the IT capabilities of the departments be augmented and modernised¹⁶⁴. The Commission argued: “the next decade or two will see millions of people, currently marginal to the economy and therefore to the direct tax system, become integrated into the modern economy, bringing expanded and more complex demands on public

¹⁵⁶ Ibid., 28.

¹⁵⁷ Ibid., 33.

¹⁵⁸ Ibid., 39.

¹⁵⁹ Ibid., 52.

¹⁶⁰ Ibid., 23.

¹⁶¹ Ibid., 31.

¹⁶² Ibid., 263.

¹⁶³ Ibid., 53.

¹⁶⁴ Ibid., 13.

administration, information systems and commerce and trade”¹⁶⁵. The Commission also advocated for autonomy as a means for the Commissioner of the reformed structure to be able to, independently from what it caricatured as sclerotic public service procurement procedures, source the physical infrastructure it required.

3.2.2.1.4 Points of debate in the report

The Commission was aware that its recommendations would involve materially higher expenditure on tax administration. Beyond the once-off investment in infrastructure, freeing the Commissioner from public service employment regulations would result in higher staff remuneration costs. The necessity of this measure aside, it would certainly add to the pressures on Minister Liebenberg and his fiscal affairs team. The Commission’s justification was that higher spending on tax administration would in future permit a lowering of tax rates¹⁶⁶. Also, this would reduce the costs of tax compliance to business and thus permit at least a partial recovery of these costs through the resultant increase in revenue collection brought on by economic growth¹⁶⁷. The Commission also justified these costs by citing those of New Zealand and the United Kingdom, compared to whom, at 0.8% of GDP in the 1993/4 fiscal year, South Africa was underspending (New Zealand spent 1.8% of GDP and the United Kingdom, 2.1% of GDP in the comparable period)¹⁶⁸.

There were other, possibly less expensive, alternatives to the Commission’s proposals. These included retaining tax administration within the department of finance but increasing the authority of the Commissioner over human resources by making special dispensations within PSC regulations. Yet another option would have been to treat the problems within the two revenue collection departments as being the most acute manifestation of issues pervasive to the entire public service and therefore attempting to solve these issues at the level of the PSC or Department of Public Service and Administration (DPSA).

These alternatives were however either explicitly and rapidly eschewed or altogether ignored by the Commission. The Katz Commission considered the intra-public service approach and discarded it on the grounds that the amendments required to existing PSC regulations, particularly

¹⁶⁵ Ibid., 8.

¹⁶⁶ Ibid., 53.

¹⁶⁷ Ibid., 47, 53

¹⁶⁸ Ibid., 40.

in respect of public service remunerations, would be too significant¹⁶⁹. It is also evident that the Commission did not believe that any such adaptations of the PSC's regulations would be sufficiently comprehensive, asserting that "the Commission wishes to stress unequivocally, however, that the problem is deep-rooted...that ad hoc ameliorative measures cannot be expected to reverse the deteriorating situation"¹⁷⁰.

The Commission also argued that the case for an intra-public service solution had been made by the previous Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa, the 1988 Margo Commission. The Margo Commission had also expressed concern regarding the departments' struggle to hire adequately skilled and experienced staff¹⁷¹. The Katz Commission saw the recommendations made by the Margo Commission – which included augmenting the status of the offices of the Commissioners by raising their remuneration and making them directly accountable to Parliament – as being neither fully adopted and to the extent that they were adopted, unsuccessful.¹⁷² According to the Commission this had prompted the Joint Committee on Public Accounts, even prior to the establishment of the Katz Commission, to call for an urgent investigation into the possibility of forging the departments as independent bodies.¹⁷³

3.2.2.2 International sources

The evidence suggests that international forces had a contribution to the entrance of new tax administration ideas into the South African political system. One of the most important ways in which this occurred was through the Katz Commission, as mentioned above. The World Bank and the IMF as part of an "unusually large research effort"¹⁷⁴ had both launched various missions on tax administration in South Africa, the recommendations of which were taken into consideration by the Katz Commission and, as evidenced by their recurrent mentioning in the report, were found to be persuasive.

¹⁶⁹ Ibid., 31.

¹⁷⁰ Ibid.

¹⁷¹ Ibid., 30.

¹⁷² Ibid.

¹⁷³ Ibid.

¹⁷⁴ Vishnu Padayachee. "The Evolution of South Africa's International Financial Relations and Policy: 1985–95," in *The Political Economy of South Africa's Transition: Policy Perspectives in the Late 1990s*, ed. Jonathan Michie and Vishnu Padayachee (London: Dryden Press, 1997), 27-54. 30.

IFIs and aid organisations are hegemonic in the tax administration knowledge community. Even a cursory glance at the institutions and funders of the seminal publications and writers on tax administration and tax administration reform over the past two decades demonstrates this: De Jantscher et al (IMF)¹⁷⁵, Crandall¹⁷⁶ (IMF), Devas et al (University of Birmingham, funded by the DFID)¹⁷⁷, Mann¹⁷⁸ (a former employee of the World Bank, producing a study funded by USAID) and Taliercio¹⁷⁹ (World Bank). Although the diversity of researchers appears to be expanding in recent times, these organisations had an even firmer stronghold on tax administration research during the 1990s.

This hegemony is unsurprising in view of the fact that tax administration as a field of study has by and large been approached from a developmental perspective, these international organisations' ostensible *raison d'être*, with a view to improving revenue collection outcomes in so called "frail states"¹⁸⁰. Since these institutions are well-resourced, were arguably pioneers of a multi-disciplinary engagement with development and were highly involved in plenty of national development initiatives from the mid twentieth century, it is a matter of course they have come to lead global thought on various development-related issues, including tax administration reform¹⁸¹. More cynically, the influence on development research of the Bretton Woods institutions in particular is artificially created through their desire to propagate their "neoliberalism" through aggressive "loan selling" and related imposition of policy-related conditionalities, often preying on already highly indebted countries¹⁸².

3.2.3 Pressure from citizens

As the Katz Commission revealed, by the end of apartheid, tax administration was in dire straits. Many of these issues, because they resulted in delays and errors in the procedural aspects of the

¹⁷⁵ Milka Casanegra de Jantscher, Carlos Silvani, and Charles L. Vehorn. "Modernizing Tax Administration," in *Fiscal Policies in Economies in Transition*, ed. Vito Tanzi (Washington DC: International Monetary Fund, 1992), 120-141.

¹⁷⁶ Crandall, *Revenue Administration* as well as Crandall and Kidd, *Issues and Problems*.

¹⁷⁷ Devas, Delay and Hubbard, "Revenue Authorities".

¹⁷⁸ Mann, "Semi-Autonomous Revenue Authorities", 2004.

¹⁷⁹ Taliercio, *Designing Performance*, 2004.

¹⁸⁰ Devas, Delay and Hubbard, "Revenue Authorities", 213

¹⁸¹ Olsen, *Tax, Democracy and Shrinking Aid*, 147-148.

¹⁸² Patrick Bond, *Elite Transition: From Apartheid to Neoliberalism in South African* (Pietermaritzburg: University of Natal Press, 2000), 158.

tax system such as filings and rulings, were being felt directly by the taxpayer. For example, the Commission found that 68% of company assessments were outstanding at the end of February 1994¹⁸³.

The business community in particular was frustrated by these issues and, unsurprisingly, taxpayer relations, including with individuals, were poor. The Commission received numerous submissions from ordinary citizens who shared their personal frustrations and urged the Commission to recommend widespread change. Indeed, the list of submissions to the Commission shows numerous private individuals along with the usual suspects: organised business, academics, organised labour, and tax practitioners.

While the more informed sectors of the citizenry might have called for autonomisation, the majority of this pressure did not point to any specific reform. Instead, it made it clear to the elites that reform, both rapid and substantial, was needed.

3.2.4 Party-political ideas

While the creation of the SARS Act involved numerous political parties particularly in the parliamentary processes of the two houses of parliament and their respective finance committees, the ANC, as the occupant of the clear majority of seats in these fora and being the ruling party, undoubtedly led the creation of the Act. It is therefore the ANC's party-political ideas which are most germane to this analysis.

The ANC was founded in 1912 shortly after the unification of South Africa, through collaboration between two groupings of elite Africans: mission-educated professionals and ruling traditional leaders. Among its chief aims in those early years was the protection of these elites' interests in the face of an increasingly oppressive and racist, young South African state¹⁸⁴. Over the course of its century of existence, the ANC has been the political home to various interests and groups, at least partly due to a belief in unity within the liberation movement¹⁸⁵. Communists, socialists, African nationalists, Africanists, traditionalists, organised women and labour, religious bodies, multi-racial grassroots movements, have all been welcomed into the fold informally and in some cases more formally, such as with the tripartite alliance, the party's alliance with the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). Largely

¹⁸³ Katz Commission, *Interim Report*, 31.

¹⁸⁴ Saul Dubow, *The African National Congress* (Johannesburg: Sutton Publishing, 2000), 11.

¹⁸⁵ Anthony Butler, *The Idea of the ANC* (Johannesburg: Jacana, 2012).

as a result of this the ANC has hardly ever, if at any point, displayed a large measure of ideological purity.

That notwithstanding, one of the ideas which has often appeared in ANC literature has been that of the national democratic revolution (NDR). Introduced by the SACP in a 1962 document as a bridge between its own socialist ambitions and the ANC's national liberation priorities, it was intended as the first stage of what would be a two stage revolution ultimately leading to a socialist state¹⁸⁶. It is a matter of serious conjecture – and in all likelihood completely untrue – whether modern ANC leaders still see that as being the ultimate goal¹⁸⁷. The NDR appears in ANC documents and in speeches of ANC intellectuals and leaders as being a revolution aimed at achieving a “united, democratic, non-racial, non-sexist and prosperous society”¹⁸⁸. Presented in this rather opaque manner, the NDR is thus susceptible to various interpretations, revisions and delays, including confusion or even obfuscation on the SACP's primary concern, being the “time frames and strategic relationships between avowed immediate (national) and ultimate (international socialist) objectives”¹⁸⁹. However, this opacity has a sizeable political advantage: it presents an organisational mission that is potentially wide enough to accommodate, and with political dexterity, placate during times of conflict, all members of the broad church of the ANC and its alliance partners¹⁹⁰. This opacity does also lead to some internal contradictions: the party is at once supportive of internal debate but through its belief in democratic centralism, its list system and other internal organisational tendencies also quite undemocratic¹⁹¹; it seeks to portray itself as a “grass-roots, mass-mobilised party”¹⁹² yet platforms such as the Progressive Business Forum suggest a party willingly captured by money politics and the interests of business elites; it

¹⁸⁶ Blade Nzimande. “What is the National Democratic Revolution?” *Umsebenzi Online* 5, no. 66 (2006), accessed August 27, 2016, url: <http://www.sacp.org.za/main.php?ID=1850>; Butler, *The Idea of the ANC*, 74.

¹⁸⁷ Nzimande, “National Democratic Revolution”.

¹⁸⁸ Joel Netshitenzhe. “Second Keynote Address: A Continuing Search for Identity: Carrying the Burden of History” in *One Hundred Years of the ANC: Debating Liberation Histories Today*, ed. Lissoni, et al. (Johannesburg: Wits University Press, 2012), 14.

¹⁸⁹ Butler, *The Idea of the ANC*, 75.

¹⁹⁰ Ibid.

¹⁹¹ Anthony Butler, “How Democratic is the African National Congress?” *Journal of Southern African Studies* 31, no. 4 (2005): 719-736.

¹⁹² Richard Calland, *Anatomy of South Africa: Who Holds the Power?* (Cape Town, Zebra, 2006), 116.

styles itself as an adherent of social democracy¹⁹³ yet its macroeconomic policies have largely pivoted further to the right.

While the NDR serves as the party's (fairly unstable) ideological mooring, the ANC had, at the time of the establishment of SARS, adopted certain positions on more precise topics. Two of these topics are relevant to this dissertation: the public service and the state; and the economy. In performing this discussion, sub-issues such as privatisation, decentralisation, and race will also be touched upon.

3.2.4.1 The public service and the state

As conceded by senior government officials interviewed by Cameron and Thornhill¹⁹⁴, the ANC – and most of the parties involved in the multi-party negotiations leading up to the formation of the post-apartheid state – had not devoted as many resources to the question of post-apartheid public administration as they had to economic issues or political issues such as coalition governance or federalism. This is illustrated by the fact that the only significant public administration-related resolution to emerge from the transition-period negotiations was the sunset clause¹⁹⁵.

Thus, when forced to produce something more than an impressionistic vision of post-apartheid public administration – during the preparation of the RDP and in the first year of being in government – they had to build their vision of public administration largely from the NDR upwards. In this regard, the NDR's tenet of non-racialism was key¹⁹⁶.

3.2.4.1.1 Non-racialism

While non-racialism is firmly planted into the NDR and the national democratic state (NDS) to which it leads, its entrenchment into ANC policy has been far from natural or perfunctory. Its establishment now has come about in the same manner in which most policy decisions are made in the ANC: through compromise. In this case, compromise resulted from the party's African nationalist and Africanist roots, and its attendant view of the primacy of the cause to liberate African people, being tempered by the pragmatic utility of multi-racial organisation during the

¹⁹³ Netshitenzhe, "Continuing Search for Identity", 24.

¹⁹⁴ Robert Cameron and Chris Thornhill. "Public Service Reform in South Africa: 1999-2009: editorial" *Journal of Public Administration* 44, no. 1 (2009): 897.

¹⁹⁵ Ibid.

¹⁹⁶ Paseka Ncholo, "Reforming the Public Service in South Africa: A Policy Framework." *Public Administration and Development* 20, no. 2 (2000): 87.

liberation movement (such as its alliance with the UDF and the formation of the Congress Alliance which produced the Freedom Charter), and importantly, the strong non-racial, class-oriented perspective of the SACP. Also, the entrenchment of non-racialism was arguably aided and legitimised by the Christianity (ideas such as that “all men are created equal before God”¹⁹⁷) which has been a continual feature of ANC discourse since its creation. The most prominent example of the divisive nature of non-racialism within the ANC is the breaking away of a faction of Africanists and their formation of the Pan-Africanist Congress (PAC) in 1959.

Despite non-racialism essentially becoming official ANC policy in 1956 with its adoption of the Freedom Charter (which stated that “South Africa belongs to all who live in it, black and white”¹⁹⁸) as ANC policy, non-racialism has not been met with robust definitional examination in the party¹⁹⁹, thus partly accounting for such seemingly clumsy party expressions as: “[the mission of the ANC is] the liberation of Africans in particular and blacks in general... [recognising] the central role of the working class”²⁰⁰.

It was this philosophy of non-racialism that the ANC brought into its thinking on public administration during the construction of its election manifesto, the RDP, and once it entered government in 1994. The philosophy made clear that if a non-racial society was the ultimate goal, racial inequities had to be uprooted from public institutions.

The public administration inherited by the ANC in 1994 was one which carried with it myriad such racial inequities. Two of the most discernible were: its quasi-militaristic, centralised nature and its racialisation, both in terms of the racialised public service institutions – such as the Bantustan authorities and the tricameral parliament – but also its overwhelmingly white, male representation, especially at the highest and most influential levels of the public service²⁰¹. This is illustrated in in Table 3.1 below, which presents the racial and gender profile of senior management (defined as Director up to Director-General) in the South African public service in 1994.

¹⁹⁷ Waldmeir, *Anatomy of a Miracle*, 62.

¹⁹⁸ The Congress Alliance. *The Freedom Charter* (Johannesburg: Pacific Press, 1955), 1.

¹⁹⁹ Fiona Anciano. "Non-racialism and the African National Congress: Views from the Branch," *Journal of Contemporary African Studies* 32, no. 1 (2014): 35-55.

²⁰⁰ Netshitenzhe, “Continuing Search for Identity”, 15.

²⁰¹ Ncholo, “Reforming the Public Service, 89; Robert Cameron, Redefining political-administrative relationships in South Africa 2010, 683.

The ANC's vision of post-apartheid South African public administration was eventually reflected in the RDP as well as the White Paper on the Transformation of the Public Service (WPTPS)²⁰², released in November 1995, a forerunner of the Public Service Act (PSA).

This vision included consideration of three important themes: transformation, privatisation and decentralisation.

	African	Coloured	Asian	White	Male	Female
% of Senior Management	2	1	3	94	95	5
% of National Population	76	8	3	13	49	51

Table 3.1. Racial and Gender Profile of the Senior South African Public Service in 1994.

Source: Report of the Presidential Review Commission on the Reform and Transformation of the Public Service in South Africa, 1998, Annexure 2.

3.2.4.1.2 Transformation

From the above two documents, and in light of the prevailing demographics and party-philosophy, it is apparent that the reforms which were highest on the ANC's agenda once coming into power related to creating a more demographically representative civil service, eliminating racialised administrative structures and building institutions, particularly at subnational levels, which would be able to support the provision of quality public services to the millions of South Africans who had until then been denied these.

To this end, the ANC government speedily did away with the Bantustan authorities and the tricameral parliament (as was directed in the 1993 constitution) as part of a wider rationalisation

²⁰² Republic of South Africa. Department of Public Service and Administration. White Paper on Transformation of the Public Service, (Pretoria: Government Printer, 1998)

and restructuring process, and soon published various white papers, including on affirmative action²⁰³ and service delivery and training²⁰⁴.

These initiatives, although very quickly and widely impactful, were modulated by the need to abide by the sunset clauses, a power-sharing arrangement implicit in which was a commitment to protect the jobs of public servants from the last apartheid government. In light of the sunset clauses government policy on the transformation of the public service had to include plans such as utilising early retirement packages to incentivise remnants from the previous regime, particularly those in senior positions, to vacate their posts. However, this ploy was not always successful in achieving rapid transformation²⁰⁵. Michie and Padayachee for instance lamented the “excruciatingly slow pace of change”, attributing it to “bureaucratic inefficiencies” and a fear by the GNU of alienating employees from the previous public services (national and homeland)²⁰⁶.

The attempt at rapid transformation of the public service, a process which was riddled with difficulties, produced several lessons for ANC elites. These were lessons which the ANC elites in all their various state positions are likely to have factored into the manner in which they reformed or designed new public institutions, including the tax administration.

One such lesson was how the relationships between administrative heads of departments and their political principals unfolded. While most ministerial positions were held by members of the ANC – Agriculture, Finance, Environmental Affairs, Minerals and Energy being among those occupied by a member of the National Party – a large number of senior management positions were still held by officials from the apartheid era. Admittedly, many of these officials retired normally, took early retirement or resigned over the first few years of the Mandela presidency²⁰⁷. However, while still in their positions – along with the not insignificant number who held steadfast in their positions throughout – tensions existed between them and their ANC superiors and

²⁰³ Republic of South Africa. Department of Public Service and Administration. White Paper on Affirmative Action in the Public Service, (Pretoria: Government Printer, 1998)

²⁰⁴ Cameron, Robert. "Redefining Political-Administrative Relationships in South Africa," *International Review of Administrative Sciences* 76, no. 4 (2010): 676-701.

²⁰⁵ Kealeboga Maphunye, "The Features of South Africa's Post-1994 Civil Service and the Challenges It Faces in the New Dispensation" *African Administrative Studies* 58. (Tangier: African Training and Research Centre in Administration for Development, 2002), 1-9.

²⁰⁶ Michie and Padayachee, "South Africa's Transition", 12.

²⁰⁷ For instance Waldmeir, *Anatomy of a Miracle*, 282 states that half of the inherited directors-general left within eighteen months of the new regime.

political principals. This often resulted in role conflict “due to suspicion of public servants from the apartheid and homeland administrations [and] a lack of faith in the competence of public servants in implementing policy as it was intended”²⁰⁸. This was exacerbated by many public servants who served under apartheid also doubting the competence of their ministers and the newly appointed senior public servants mistrusting ministers from the previous regime, all of which was undoubtedly fuelled by issues of race and political ideology²⁰⁹.

3.2.4.1.3 Privatisation

Privatisation has for many years been a provocative issue in the alliance. The ANC has not had a consistent position on privatisation, with the issue at times exposing the discord which sometimes exists between the ANC in government, ostensibly more receptive of the idea, and the ANC as a party²¹⁰. This ambiguity on the matter has its genesis in the 1992 ANC economic policy conference in which in an effort to allay the fears of the business community and be consistent with his remarks at the 1992 World Economic Forum wherein he had presented the ANC as more receptive of market tools, Mandela suggested the inclusion of privatisation as a policy option which an ANC government might consider, a suggestion he made as a riposte to strong refusals to discard nationalisation by other party members²¹¹. In this way, while not ever having had any real backing from any quarter within the alliance, privatisation entered the party’s policy agenda. Then in the RDP and the RDP White Paper, privatisation was labelled a potentially beneficial policy option which would be subjected to “a considered debate...with proper consultation with all relevant stakeholders in South Africa through appropriate structures”²¹². The argued benefit would be the generation of funds which could be used for RDP social policies²¹³. In 1995, plans for the privatisation of Telkom and South African Airways were announced²¹⁴ and

²⁰⁸ Karen Miller, *Public Sector Reform: Governance in South Africa* (Glasgow: Ashgate, 2005), 73.

²⁰⁹ Miller, “Governance in South Africa”, 73.

²¹⁰ Calland, *Anatomy of South Africa*, 124.

²¹¹ Waldmeir, *Anatomy of a Miracle*, 256.

²¹² RSA, *White Paper on the RDP*, 29.

²¹³ Michie and Padayachee, “South Africa’s Transition”, 21.

²¹⁴ Adam Habib and Vishnu Padayachee, “Economic policy and power relations in South Africa’s transition to democracy” *World Development* 28, no. 2 (2000): 252.

once GEAR (Growth, Employment and Redistribution) was published in 1996, it was clear that privatisation, now euphemistically labelled “restructuring”, was now official government policy²¹⁵.

Given the still highly contested nature of the privatisation debate within the party in 1995, It is not by chance that Mandisi Mpahlwa, ANC member of parliament (MP) and Chairperson of the Portfolio Committee on Finance declared, during the NA debate on the SARS Bill: “This is a crucial position [that SARS is positioned outside of the public service but within the public administration], as it very clearly means that we are not in the process of privatising revenue collection”²¹⁶.

3.2.4.1.4 Decentralisation

Federalism was one of the most controversial topics during the CODESA negotiations. While the ANC favoured as unitary a governance structure as it could engineer, the IFP and the NP, which were confident of winning Kwa-Zulu Natal and the Western Cape respectively in the first provincial elections, were both in favour of a more federalist structure. The IFP leadership was also well aware that this was surely “the only constitutional formula which would give regionally based” structures like itself any hope of having substantive power²¹⁷. The ANC was in general wary of decentralisation because it feared creating bulwarks of local white opposition which might be strong enough to obstruct its transformative political ambitions.

This contestation resulted in the eventual South African Constitution, in both its interim and final forms, settling on what was essentially a compromise. It created a three-sphered form of government – local (including Traditional Authorities), provincial and national – in which the majority of executive power remained with the national executive, some decentralisation occurred to local government while provincial government was afforded fewer powers than the other two spheres, thus creating what has often been termed a quasi-federal system²¹⁸ or an “hourglass”

²¹⁵ Republic of South Africa, Department of Finance, *Growth, Employment and Redistribution: A Macroeconomic Strategy* (Pretoria: Department of Finance, 1996), 17.

²¹⁶ National debates,

²¹⁷ Waldmeir, 194.

²¹⁸ Maphunye, Kealeboga J. "The features of South Africa's post-1994 Civil service and the challenges it faces in The new dispensation." Morocco, Tangier, African Training and Research Centre in Administration for Development (2002), 6; Cameron, R., and C. Thornhill. "Public Service Reform in South Africa: 1999-2009: editorial." *Journal of Public Administration: Special Issue 1 44* (2009): 897-909. (900).

system²¹⁹. Along with this, there was a bicameral parliament with a separate house of parliament, the Senate, to provide for another role for the provinces in legislation.

3.2.4.2 The economy

It is valuable to understand ANC economic thinking during the mid-1990s from a historical perspective. During its earliest years ANC economic thinking could be described as non-existent at worst and unclear at best. It would only be until the entry of communists into the party during 1920s that it would be forced to commence with a more rigorous examination of its position on economic matters, a process which would only see a concrete outcome in future decades.

Its African nationalist orientation, which as demonstrated in the 1943 African Claims document, essentially advocated for an inclusion of Africans into the prevailing capitalist order, demanding that Africans be able to freely participate in commerce and trade, was to thus prove malleable to the Marxist-Leninist views of the SACP. This would in the 1950s result in a “composite form of indigenous radicalism embodied in the vague but often compelling idea of African socialism”²²⁰, itself a coalescing of ideas made only possible by the SACP’s “abstruse” idea of a “colonialism of a special type” (CST) in the 1950s²²¹. Although fairly unclear in its finer points, CST essentially allowed for the sublimation of the class struggle into to the national struggle by linking “national oppression and class exploitation” in its analysis²²². Coupled with the turn to mass politics, this small ideological convergence would form the base of the alliance between the ANC and the SACP, an alliance which would continue to impact the ANC’s economic policies in decades to come²²³.

From this alliance in the 1950s, although not official ANC policy, Marxism would continue to have a profound influence on ANC economic thinking until at least the early 1990s. It was part of the political education provided to new recruits both in the underground and on Robben Island, thus

²¹⁹ Joachim Wehner, "Fiscal Federalism in South Africa." *Publius* 30, no. 3 (2000): 47-72. 48; Richard Simeon and Christina Murray, "Multi-Sphere Governance in South Africa: An Interim Assessment." *Publius* 31, no. 4 (2001): 65-92. 66.

²²⁰ Dubow, *African National Congress*, 15.

²²¹ *Ibid.*, 54

²²² Raymond Suttner, *The ANC-led underground up to 1976: A social and historical study* (Johannesburg: Jacana, 2008), 42.

²²³ *Ibid.*, 43

also increasing its popularity²²⁴. It influenced ANC foreign policy, making it gravitate towards alliances with communist countries such as the USSR²²⁵. And although not every exile was necessarily a fervent Marxist, ANC literature, such as *Strategy and Tactics* (1969) and the “Green Book” (1979)²²⁶, as well as propaganda (*African Communist*, *Sechaba*, *Mayibuye* and *Radio Freedom*) portrayed a unitedly left-leaning party²²⁷.

The 1950s also saw the publication of the foremost reflection of the ANC’s pre-1990 economic position: the Freedom Charter. The Freedom Charter envisioned an interventionist state, calling for nationalisation of “mineral wealth, the banks, and monopoly industry”²²⁸, a position partly inspired by the British government’s nationalisation of numerous industries in the 1950s²²⁹, and state intervention in business to ensure that it acts in favour of the “well-being of the people”²³⁰. One of its most famous and debated statements – “The people shall share in the country’s wealth”²³¹ – is as much a reflection of a socialist economic agenda as it is of the multi-racial Congress Alliance members’ divergent economic, racial and ideological backgrounds. From blue collar workers to professionals, from nationalists to socialists, from black miners to white academics, the nebulosity of the statement could draw all behind it²³².

Beyond the Charter however, the ANC in exile never clearly expressed the process by which the kind of economic change it envisioned would take place beyond the fairly impressionist views in the Charter and from Marxism. Padayachee goes as far as to write: “in ANC circles itself little attention was paid to economic policy questions until the early 1990s”²³³. It is not inaccurate to state that – apart from notable exceptions such as Thabo Mbeki and Tito Mboweni – the ANC in exile was not a highly economically literate cohort, an observation lent further credence by the

²²⁴ Ibid., 161

²²⁵ Ibid., 162

²²⁶ Weldmeir, *Anatomy of a Miracle*, 73; Nicoli Nattrass, “Politics and Economics in ANC Economic Policy,” *African Affairs* 93, no.372 (1994): 344.

²²⁷ Suttner, *ANC-led underground*, 162.

²²⁸ The Congress Alliance, *Freedom Charter*, 1.

²²⁹ Alan Hirsch, *Season of Economic Hope* (Durban: University of KwaZulu-Natal Press, 2005), 33; Turok, *Freedom Charter to Polokwane*, 22.

²³⁰ Ibid.

²³¹ The Congress Alliance, *Freedom Charter*, 1.

²³² Hirsch. *Season of Economic Hope*, 34.

²³³ Padayachee, “South Africa’s International Financial Relations”, 42.

fact that in the late 1980s and early 1990s the alliance relied heavily on the trade unionists, through ventures such as the Macroeconomic Research Group (MERG), to lead economic research in the alliance, including being the principle drafters of economic policy documents, such as for the ANC's 1990 Harare conference as well as the RDP²³⁴.

As can be observed from the rhetorical distance between Nelson Mandela's famous words on 5 March 1990, that "[t]he nationalisation of the mines, banks and monopoly industry is the policy of the ANC and a change or modification of our views in this regard is inconceivable", and the RDP together with the final South African constitution (which enshrined property rights) ANC economic thought underwent much change in the early 1990s.

Numerous reasons have been posited for the ANC's shift towards economic orthodoxy and fiscal conservatism: the fall of the Berlin Wall²³⁵, which prompted even the hardened Marxist, Joe Slovo, to ask *Has Socialism Failed?*²³⁶ (to which, with qualifications, he essentially answered "Yes"); recurrent contact, both formal and casual, by ANC elites with local and foreign business people; ANC meetings with Bretton Woods institutions, beginning when a delegation was sent to Washington DC in the late 1980s²³⁷; the streams of policy advice on South Africa produced by these organisations during the early 1990s²³⁸; the economic success of China and the Asian Tigers²³⁹; the influence of the reportedly affable finance minister of the De Klerk government, Derek Keys, in advising several ANC leaders including Mandela and Trevor Manuel about the sober realities of fiscal governance and the dire fiscal and economic predicament of the country²⁴⁰; commitments relating to the 1993 \$850 million loan from the IMF²⁴¹; the merger into the RDP and

²³⁴ Tom Lodge, *Politics in South Africa: From Mandela to Mbeki* (Cape Town: David Phillip, 2003), 21; Weldmeir, *Anatomy of a Miracle*, 255.

²³⁵ Gerhard Mare, "The State of the State: Contestation and Race Re-Assertion in a Neoliberal Terrain" in *State of the Nation: South Africa 2003-2004*, ed. John Daniel, Adam Habib and Roger Southall (Cape Town: HSRC Press), 34.

²³⁶ Joe Slovo. "Has Socialism Failed?" *South African Labour Bulletin* 14, no. 6 (1990): 11-28 cited in Walmeir, *Anatomy of South Africa*, 252.

²³⁷ Weldmeir, *Anatomy of a Miracle*, 255.

²³⁸ Bond, *Elite Transition*, 155-191; Padayachee, "South Africa's International Financial Relations", 45.

²³⁹ Hirsch, *Season of Hope*, 38.

²⁴⁰ Weldmeir, *Anatomy of a Miracle*, 257.

²⁴¹ These commitments included that the budget deficit would be reduced to six percent of GDP while expenditure containment would be preferred over tax increases in order to contain this deficit. Import surcharges would be abolished and real national wages, especially those of civil servants, would be

thus dilution through compromise of the ANC alliance partners' (SACP and COSATU) economic viewpoints.

Whether it was the work of one of the above forces or their combined influence that did it is unclear. What is clear, however, is that the understanding – or the extent to which they were factored into policy-making – of global economic power relations by senior ANC leaders did change²⁴².

The ANC's 1994 election manifesto, the RDP, although still largely progressive, was, much to the pleasure of the international community²⁴³, an indication of the beginning of the party's movement towards economic orthodoxy. Its joint aims of poverty alleviation and economic reconstruction were to be achieved through economic growth paired with a focus on social development as part of a singular development strategy. Broadly, the RDP would achieve its twin aims of growth and social development through meeting the basic needs of citizens, upgrading human resources, strengthening the economy, democratising the state and society and reorganising the state and the public sector.²⁴⁴ Markers of the dreaded and impending "neoliberalism" scorned by commentators from the left could be found in its views such as its openness to privatisation, partiality to tariff reductions, calls for restraint on government spending and a stressing of the necessity of considering capital movements, the foreign exchange market and foreign investment. At the same time RDP recognised the role of the state in addressing market failures such as high inequalities and facilitating economic growth, spoke of a living wage for workers and suggested an inclination towards import substitution and redistribution of 30% of land used for commercial agriculture. Consistent with a desire to obtain political buy-in from all quarters of the broad church while at the same time pacifying the anxieties of the local and international business communities, it was equivocal on both nationalisation and privatisation, describing these as options which under the correct circumstances might have their own advantages. These ambiguities also betray its nature as a negotiated document largely drafted by policy writers from the trade union movement

decreased. Bond, *Elite Transition*, 156; Padayachee, "South Africa's International Financial Relations", 32); Turok, *Freedom Charter to Polokwane*, 58.

²⁴² Habib and Padayachee. "Economic Policy and Power Relations".

²⁴³ Michie and Padayachee, "South Africa's Transition", 20.

²⁴⁴ ANC, *RDP*.

and then adapted by various members of the alliance, including the ANC leadership²⁴⁵. These ambiguities resulted in its meaning “different things to different people”²⁴⁶ within the Alliance, which for the internal political reasons explained above, was to the benefit of the ANC leadership.

The RDP was superseded by the secretly drafted²⁴⁷ Growth, Employment and Redistribution (GEAR) policy document in 1996 as official state and ANC economic policy. GEAR reflected a party, or at least an ANC leadership in government, that had embraced the economic orthodoxy of the time. GEAR called for a reduction in the budget deficit by cutting public spending (especially on civil service salaries) the lowering of taxes on business, a decrease in trade tariffs, a medium-term expenditure framework, privatisation and investment in infrastructure. These were said to be necessary for boosting local investment and attracting foreign direct investment, all of which would lead to higher GDP growth and reduce poverty and unemployment. GEAR was met with ire by the ANC’s alliance partners, but was maintained in tandem with increased spending on basic healthcare, basic education and social grants.

The public policy process leading up to the enactment of SARS Act began shortly after the publication of the RDP White Paper and ended with the passing of the SARS Bill in August 1997, a year after the publication of GEAR. Thus the period in which the process unfolded was, like the period from 1990 to 1994, marked by the movement of ANC economic policy towards trade liberalism and fiscal conservatism.

Whereas a single explanation for the shift in the thinking of ANC elites between 1990 and 1994 is not easily or reliably forthcoming, an explanation for the period between 1994 and 1996 might be easier to isolate since there was an important change particularly for the ANC’s top economic minds (Manuel, Mboweni, Marcus, Mbeki, etc.): they were now actually in government, facing the very challenging domestic economic environment painted in 3.1.1 above and confronting the idea that the most prosperous countries in the world appeared to be those which had embraced neoliberal economic orthodoxy.

²⁴⁵ Lodge, *Politics in South Africa*, 21; Ben Turok. *Beyond the Miracle: Development and Economy in South Africa: A Reader*. (Cape Town: Fair Share University of Western Cape, 1999), 54.

²⁴⁶ Lodge, *Politics in South Africa*, 56.

²⁴⁷ GEAR became government policy despite the fact that COSATU leadership were not afforded an opportunity to contribute to its drafting and were only expected to engage with the policy document in a meeting of the ANC National Executive Committee (NEC) as if it were a “*fait accompli*”. This underscored “the growing influence within Mandela’s government of Thabo Mbeki’s office and the two ministries with which Mbeki worked most closely: finance, and trade and industry”. Lodge, *Politics in South Africa*, 25.

Chapter 4: Summative analysis

What the preceding chapter has done is to identify the myriad threads, of varying degrees of length and strength, embodying the political-economic forces driving and restraining tax administration reform in South Africa during the mid 1990s. This chapter's object is to pull together these threads to create a tapestry of the South African political-economy during the period under study, insofar as the research has revealed it to be contributory to the establishment of SARS. Put differently, and drawing from the Pollitt-Bouckaert model, this chapter answers the questions of why a SARA model outside the public service with comparatively close executive control occurred as the most desirable and feasible reform option for South Africa.

From the factors outlined in Chapter 3, the factors posited by this dissertation as being most pivotal to SARS' creation are the following:

1. The fiscal position of the country (**fiscal exigencies**)
2. The absence of competing and compelling models of reform (**lack of policy contestation**)
3. Favourable positions and movements within the ruling party and Treasury on economic matters. Specifically, on the following economic issues (**economic paradigm shifts**):
 - a. Privatisation
 - b. Prioritisation of foreign investment
 - c. Opinions on IFIs
4. Institutional racial demographic transformation as a public service reform priority (**public service reform priorities**)

4.1 Fiscal exigencies

Section 3.1.1 demonstrated the immense strain under which the South African fiscus was in the immediate post-apartheid period. On the one hand the transitional government had made a commitment to the IMF to keep the budget deficit below 6% of GDP and to decrease real public sector wages. It had inherited a not insignificant amount of debt, and a budget 92% of which was being spent on the combination of servicing this debt and paying the public service wage bill. On the other hand there were numerous legitimate popular and political demands for much higher public spending on basic services, health, education and the other socio-economic policies mentioned in 3.1.3. It thus became clear that public expenditure was not going to substantially decrease and attention had to be paid to improving the revenue side of the fiscal equation, a feat that was not going to be aided by the fact that apartheid-era tax rates had been constrictively high

and by all accounts the already sluggish economy was not likely to react well to tax increases. Instead, an aggressive effort to improve revenue collection was needed.

Thus, in spite of there being intra-public service options which might have resulted in improvements, these options were not perceived to be desirable as they necessitated a more gradualist approach to reform, demanding time that the government reasonably could not have believed itself to have considering the pressing economic and political concerns mentioned above. Moreover, the SARA option, being a dramatic but possibly rapidly implementable shift from the status quo was made more desirable by the fact that the experiences of other developing countries before it and the possibility to consult with the international aid community, made speedy reform technically feasible. In light of the importance of revenue collection for achieving any political objectives, and the fact that the current state of revenue collection was deplorable and merited speedy resolution was accepted by all quarters (see 3.2.3 above on pressure from citizens), the SARA option became politically feasible as well.

4.2 Lack of policy contestation

While numerous issues in the early post-apartheid period were the subject of much policy contestation on ideological and pragmatic grounds (such as affirmative action policies, the new constitution, and the extent of social spending), the autonomisation of the revenue service was, disagreements in 3.2.4.4 included, a virtually unanimously supported solution by the political parties.

From the data outlined in Chapter 3, it is my contention that this lack of contestation was aided by there being an absence of any other option being put forward or debated. The Katz Commission, through its spirited advocacy of New Zealand or United Kingdom-type reforms and rapid dismissals of alternatives to these, essentially evoked the Thatcherite maxim, TINA, “There Is No Alternative”. The tax administration reform literature, dominated by the IFIs as discussed above, practically spoke of nothing but the SARA model. Thus, when the fiscal exigencies referred to above meant that the manifestly deleterious state of affairs in the two tax departments had to be urgently addressed, the SARA model was inevitably given utmost preference. The success of the SARA model was assisted further by the niche nature of tax administration, which meant that expertise on the subject within government and civil society was lacking.

My analysis of a dearth of tax administration expertise is similar to the one provided by others on economic policymaking in the early to mid-1990s. Padayachee²⁴⁸ for instance argues that relative economic illiteracy was one of the factors which contributed to the ANC's economic policy shift towards economic orthodoxy. He contends that because there was an absence of a "tradition of substantive economic policy debate within the ANC" they suffered against the "furious assault" on their economic positions taking place on several fronts. This, combined with the "incoherence and unclarity" of these positions, a feature exacerbated by regular conflict between alliance leadership and academic economists working with them such as those in MERG, meant that that they were unlikely to be able to avoid persuasion by the foreign business schools, think tanks, and investment banks which many of them attended in 1992-93 for short executive training programmes.

In the same way that the ANC's weakly constructed, internally conflicting economic policies had made these policies vulnerable to international influence, so too did the alliance and the government's shortage of tax administration expertise essentially render them at the mercy of the intellectual largesse of the international financial and aid community.

4.3 Economic paradigm shifts

The evidence detailed in 3.2.4 above revealed economic positions – or at the very least, shifts in positions – by groups of key elites in the ANC and in government which, taken together, suggest a policy environment favourable to the implementation of the SARA model as a reform option.

Firstly, the ANC's official ambivalence to privatisation in the face of a Treasury much more willing to utilise it, created the space for the political manoeuvring required to implement an option as suggestive of agentification and privatisation as the SARA model is.

Secondly, the publication of GEAR made clear what even the terms of reference of the Katz Commission had referenced, that it was the view of Department of Finance that the post-apartheid economic strategy which was most likely to address the country's socio-demographic issues needed to include an effort to attract foreign direct investment, a task which intrinsically necessitates the emittance of signals more favourable to attracting international business. Thus, the SARA model, the vogue of international tax administration and increasingly a feature of Western governance, would certainly have been beneficial to the campaign to present South

²⁴⁸ Padayachee, "South Africa's International Financial Relations", 46.

Africa as a sound investment destination and to prevent capital flight. As Waldmeir²⁴⁹ notes, this tradition of courting international favour has roots in the ANC's strategy against the apartheid government and would thus not have been completely alien to senior party leaders.

The fact that the model has strong roots in policy advice from the IFIs might, given the scepticism to these organisations prevalent in various corners of the tripartite alliance²⁵⁰, have proceeded to receive political obstruction both from the Ministry of Finance and the ANC caucus in parliament. Even the RDP presented a party wary of the IFIs, stating “[r]elationships with international financial institutions such as the World Bank and International Monetary Fund must be conducted in such a way as to protect the integrity of domestic policy formulation and promote the interests of the South African population and the economy”²⁵¹.

In light of this cynicism, key elites might not have perceived the SARA option as a desirable option. However, in view of the increasing embrace of economic orthodoxy and its related prioritisation of foreign direct investment occurring within Treasury and certain influential quarters of the ANC, it became possible for the policy advice from the IFIs to be better received or to at least be relatively denuded of its potential affront.

4.4 Public service reform priorities

Highest on the ANC's public sector reform agenda was the project to transform the demographics from their historically white and male patterns. Crucial to the success of this project was the need to have sufficient power to realise this ambition in light of likely impediments to the reform project's path. Fortunately for this endeavour, the Interim Constitution had created a purely proportional representative system and had centralised numerous powers in national government and the national houses of parliament, thus decreasing the chance for uneven application of the ANC's reforms across the country.

It was also a project the ambit of which would reach across the breadth of state institutions. Although several initiatives had been undertaken during the transition to a SARA, it was necessary for the executive to have sufficient political influence over the now semi-autonomous body to ensure adequate completion of the project.

²⁴⁹ Waldmeir, *Anatomy of a Miracle*, 282.

²⁵⁰ Bond, *Elite Transition*, 158-159, 174; Waldmeir, *Anatomy of a Miracle*, 255; Padayachee, “South Africa's International Financial Relations”, 47.

²⁵¹ ANC, *RDP*, s.6.5.16.

There are several other examples of the fortification or augmentation of executive powers for the purpose of institutional transformation among the public service reforms of the era. A reform of this nature can be found in the combined reformatory effect of the 1996 Constitution and the Public Service Laws Amendment Act²⁵². These resulted in executive control of the human resource function of the public service being shifted from the PSC, where it had been placed by the interim constitution, to the minister of Public Service and Administration. Cameron similarly contextualises an amendment to the PSA in 1998 which decentralised human resource functions to provincial governments. The amendment did not decentralise these powers to the administrative heads of the departments but instead to the members of the provincial executive councils (MECs) overseeing these departments. He writes²⁵³: “the new ANC government did not trust white bureaucrats of the old order, who were still present at the higher levels of public administration in disproportionately high numbers. Politicians with executive powers were needed to transform the higher echelons of the bureaucracy.”

It is thus apparent that the combination of the sunset clauses and the young government’s experience in governing in the early post-apartheid years justifiably made the ANC reluctant to afford inordinate powers to senior administrators such as the Commissioner of SARS. Thus, seen with the aforementioned intentions and reforms in mind, the Minister of Finance being provided with the kind of powers detailed in Chapter 2 and consequently reducing the autonomy of the Commissioner in favour of higher direct executive influence, is consistent. Given that the first commissioner of SARS was slated to be Trevor van Heerden, a relic of the apartheid era Department of Finance, affording the Minister with control over SARS would have been seen as doubly important.

²⁵² Cameron, *Political-administrative Relationships*, 684.

²⁵³ *Ibid.*, 685.

Chapter 5: Conclusion

Characteristic of the tendency observed by Pollitt and Bouckaert to intertwine rhetoric with reality when presenting the final “reform package”, the introduction of SARS was not without its share of flamboyant descriptions by government elites. Introducing the SARS Bill in parliament, Trevor Manuel evoked unfortunate Maoist imagery by describing the Bill as a “great leap forward”²⁵⁴ while in 1998, then Commissioner, Pravin Gordhan, remarked: “the activities and the changing character of the South African Revenue Service (SARS) in the year under review are best captured by the image of a caterpillar changing into an elegant butterfly”²⁵⁵.

SARS’ record since inception does appear to vindicate this exuberance. SARS has consistently met – and often far exceeded – revenue collection targets. Under its administration, tax revenues have grown from 22.6% of GDP in 1994/95 to 25.7% of GDP in 2014/15, reaching a peak of 27.1% in 2007/08²⁵⁶. At the same time, the number of registered taxpayers has risen dramatically. Registered companies, for instance, have grown from 0.81 million in 2002/03 to 2.9 million in 2014/15. All of this has been done with widely acclaimed efficiency and strong taxpayer relations.

Whether autonomisation was the primary causal factor for these revenue collection feats is debatable. Friedman²⁵⁷ for instance argues that an important reason for SARS’ tax collection success has been a pre-existing culture of rule compliance in South Africa and a resultantly high tax morality. According to the kind of classical understanding of the relationship between autonomy and revenue authority performance discussed in Chapter 1, one would expect that SARS’ performance would have suffered demonstrable setbacks as a result of autonomy deficiencies. Of course other beneficial factors such as the stability of the autonomy, the widening of the tax base, improved processing and investigation, a growing economy and a high tax

²⁵⁴ Republic of South Africa. National Assembly. *Debates of the National Assembly* (Cape Town: Government Printer, 1997), August 1997.

²⁵⁵ Pravin Gordhan. “Commissioner’s Report” in *South African Revenue Service Annual Report 1998/1999*. Republic of South Africa, South African Revenue Service (Pretoria: Government Printer, 1999), 3.

²⁵⁶ Republic of South Africa, National Treasury and South African Revenue Service. *2015 Tax Statistics – Highlights* (Pretoria: National Treasury, 2015), 5; Republic of South Africa, National Treasury and South African Revenue Service. *2008 Tax Statistics* (Pretoria: National Treasury, 2008), 4.

²⁵⁷ Steven Friedman, “Sending Them a Message: Culture, Tax Collection, and Governance in South Africa”. *Centre for Policy Studies, Policy: Issues and Actors series* 16, no. 3 (2003); See also Dumisani Hlope, and Steven Friedman. “... And Their Hearts and Minds Will Follow...? Tax Collection, Authority and Legitimacy in Democratic South Africa” *IDS Bulletin* 33, no. 3 (2002): i-xx.

morality could have overcome the constraints purportedly imposed by lower autonomy. However, a plausible conclusion is offered by Smith²⁵⁸: that there existed a “supportive political environment” and that the “close working relationship” between Treasury and SARS was actually conducive to SARS’ performance as, among other benefits, the relationship facilitated SARS’ playing a larger role in the formation of tax policy.

It is thus quite apparent that the tax administration canon is far from conclusive on whether there exists a direct relationship between autonomy and authority performance. Fortunately for this researcher, the research burden of this dissertation did not include this onerous task. Instead this dissertation sought to answer the following research questions:

1. Which political-economic forces led to the establishment of SARS? And;
2. With respect to the structural idiosyncrasies which define SARS:
 - a. Which of these elements most significantly distinguish SARS from the rest of the South African civil service and from other SARAs? and;
 - b. In what way were these elements shaped by the forces in 1?

As a heuristic device to ease what would otherwise be an almost prohibitively complex task, a modified form of the Pollitt-Bouckaert Model of public management reform was utilised. This model, arguably the most seminal model of its kind in the literature at the moment, was unpacked and critically examined in Chapter 1. It is a model which views public management reforms as emerging from deliberate elite calculations of desirability and feasibility, calculations which are shaped by socio-economic forces and the prevailing national political-administrative system. Given its underappreciation of the influence of domestic economic forces, the model was modulated to include these in its conception of socio-economic forces. In light of the specific temporal concern of this dissertation, the model was further modulated to exclude the iterative influence of the implementation process and the results achieved therefrom. Also included in Chapter 1 was an introduction and critique of the SARA model, the tax administration model embodied in the creation of SARS. This revealed revealing the SARA model’s widely applied yet theoretically and empirically contested nature.

From this conceptual foundation, the research questions could then be answered. Using a wide variety of publicly available primary and secondary data sources, primarily documental in nature,

²⁵⁸ Laila Smith. “The Power of Politics: The Performance of the South African Revenue Service and Some of Its Implications” *Centre for Policy Studies, Policy: Issues and Actors series* 16, no. 2 (2003).

Chapters 2 to 4 proceeded to provide such answers. Chapter 2 demonstrated that SARS was markedly different to its preceding institutions primarily because it was established outside of the public service, thus providing unprecedented (in the South African context) powers to the Commissioner. However, the autonomy which these powers were ostensibly intended to provide was modulated by legislative provisions providing for influence over the SARA by the Minister of Finance. In this way, SARS was comparatively under more executive control and thus less autonomous.

Chapter 3 then mapped the political-economic landscape insofar as it was relevant to the contemplated research questions. This map facilitated Chapter 4's inductive analysis of why a semi-autonomous body was instituted and how its comparatively higher degree of executive control came to be legislated. The evidence examined produced four principal factors which when taken together provide answers to these research questions. Firstly, it was found that pressures from citizens for progressive and redistributive economic policies, a grim inherited economic position and a large, expectant poor and unemployed population created high fiscal exigencies which demanded a rapid amelioration of the deleterious state of the tax administration. Secondly, the relatively radical, seemingly rapidly implementable SARA option was aided by a set of circumstances which made the SARA model relatively uncontested as the appropriate policy choice: the model was the sole and primary model being advocated by the tax administration literature, produced largely by the international aid community; domestic familiarity with tax administration reforms was low; and the Katz Commission was assertive in its promotion of the model. Thirdly, elites were made further receptive to the model – or at the very least, less likely to be able to mount a strong unified objection to it – as a result of party-political ideas on privatisation and international investor relations which were ambiguous and on a neoliberal trajectory. To the extent that concerns about privatisation existed, these were tempered by the provision of strong executive powers to the Minister of Finance. The inclusion of such executive powers was also found to have reasonably been influenced by the fourth factor in this analysis: the need to fulfil the primary public service reform priority of the era i.e. deracialisation. In order to change the demographics of the public service in the country at the time, lessons from these kinds of reforms in the broader public administration, such as sluggish transformation and the emergence of conflict, made creating executive power a priority in this particular reform.

This dissertation constituted – as far as this researcher could tell – the first published application of the Pollitt-Bouckaert model to the South African context and, specifically, to tax administration

reform. This application, while methodologically limited as discussed below, does provide certain insights on the application of the model and its heuristic value. One in particular merits discussion here. While this model, and other such models which seek to account for or at least frame what are dynamic and complicated processes, is incredibly useful in focusing and thus easing a research project, it should never be applied blindly. For instance, one of the central findings of this dissertation – the role of fiscal exigencies in driving desirability calculi towards the SARA model – might not have been uncovered had there not been a critical examination of the model revealing its undervaluing of domestic economic forces. It was an investigation into such forces which revealed the pressing fiscal pressures and unpromising economic outlook of the era. And it was this investigation which then allowed for a more complete representation of the socio-economic forces driving the SARA reform in South Africa.

It is also, with the same qualification as above, the first academic investigation into the creation of the South African Revenue Service. It demonstrated that beyond the prosaic answer for the need to rescue a malfunctioning inherited revenue service, there existed a complex of mutually supporting forces – with hitherto unexplored links to sub-areas of analysis on South Africa's transitional period – which account for the application of the SARA model in South Africa. It thus affirmed how paradoxical such a facile answer would have been for a period of such unprecedented complexity and institutional reform for the country. Its method and findings should hopefully prove useful to future researchers, particularly in its eclectic approach which blends themes in politics, public administration, development and economics to reach conclusions about the nature of the South African polity.

As this dissertation constituted a desktop analysis of publicly available data, there is scope for further research within these same research questions, especially through field-oriented research methods such as interviews with figures involved in *inter alia* the parliamentary finance committees, National Treasury, the Ministry of Finance, the ANC and the IFIs' missions to South Africa during the period under study. If our ambitions are to understand public management reforms around the world, this dissertation's modifications to the Pollitt-Bouckaert model prove that further lessons could be learnt through more application of the model in diverse localities and types of public administration. In this way, this dissertation will hopefully be but a modest early step in the long and fruitful journey of modelling public management reform.

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