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Sida REVIEW

Philip Bottern
Jens Peter Christensen

THE SWEDISH SUPPORT TO THE SOUTH AFRICAN
REVENUE SERVICE THROUGH AN INSTITUTIONAL
COOPERATION WITH THE SWEDISH TAX AGENCY,
1998–2008

The Swedish Support to the
South African Revenue Service
through an Institutional
Cooperation with the
Swedish Tax Agency,
1998–2008

Philip Bottern
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The views and interpretations expressed in this report are the authors' and do not necessarily reflect those of the Swedish International Development Cooperation Agency, Sida.

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List of Abbreviations and Acronyms

ANC	African National Congress
ATAF	African Tax Administration Forum
AfDB	African Development Bank
CIT	Corporate Income Tax
CGT	Capital Gains Tax
DFID	Department for International Development (UK)
DRC	Democratic Republic Congo
IMF	International Monetary Fund
LBC	Large Business Centre
MFA	Ministry for Foreign Affairs (Sweden)
MoF	Ministry of Finance
OECD	Organisation for Economic Cooperation and Development
NT	National Treasury
NTB	National Tax Board of Sweden (Riksskatteverket) from 2004 STA
PIT	Personal Income Tax
SA	South Africa
SARAP	South African Risk Assessment Programme (Escort Risk Analysis/selection Systems for CIT and VAT)
SARAP, CMTS	Escort Case Management and Tracking System
SARS	South African Revenue Service
SESAM	Escort Computer Audit System (Computerised Audit System)
SITE	Standard Income Tax on Employees
STA	Swedish Tax Agency (Skatteverket) before 2004 NTB
SEK	Swedish Krona
Sida	Swedish International Development Cooperation Agency
SAICA	South African Institute of Certified Accountant
SAIPA	South African Institute of Professional Accountant
SALGA	South African Local Government Association
TIN	Tax Identification Number
VAT	Value Added Tax
WM-Data	Now INTRACOM IT-Services (located in Denmark)
ZAR	South African Rand

1. Executive Summary

In 1998 the South African Revenue Service (SARS) and the Swedish Tax Agency (STA) established an institutional cooperation with the long-term objective “to ensure that taxes are paid according to the law at the correct time”. Sida decided to support the cooperation with a budget of SEK 38.5 mill. up to its finalisation in December 2008.

In January/February 2009, an evaluation of the cooperation was conducted with the purpose to “identify and document lessons learned and assess the impacts and the results generated by the programme”.

As the cooperation was sparsely documented and no external reviews have been carried out during the 10 years, the evaluation team has used a results based approach assessing to which extent SARS has been able to fulfil its mandate in SA and thereafter identified activities according to which the cooperation between SARS and STA in particular has been useful.

The cooperation has been implemented as a twinning concept with Swedish tax-experts carrying missions in SA and experts and managers from SARS visiting Sweden for benchmarking and training and were exposed to the general administration of taxes in Sweden. The interactions revealed relevant areas for cooperation that led to further conversations, discussions and benchmarking and later on to formal implementation of best practises in South African tax administration. All activities have been implemented based on SARS’s needs and demands with high flexibility from STA.

Since its autonomy in 1997, SARS has evolved to become one of the top performing government agencies in South Africa. This is seen by the collection of revenues, which has increased from ZAR 184 bill. in 1998/99 to ZAR 673 bill. in 2007/08, which corresponds to 33% of GDP.

This impressive result has been reached by systematically closing the tax gap in particular by improving the service to tax payers and by working more strategically with compliance and enforcement policies. This includes the implementation of a modern audit risk management approach to revenue collection by specializing on high tax contributors without forgetting to reach small and medium size companies.

SARS’s staff composition has changed significantly towards more African, coloured and Indians. The share of females has also increased and even to 42% at the management level. Also within anti corruption progress is seen where initiatives have been implemented to support the general No Tolerance Policy of Corruption in SARS.

The cooperation between SARS and STA has had a large impact on the fast development of SARS. The most important results of the cooperation are:

- Strategy development. SARS is more focused and the comprehensive modernisation programme (Siyakha II) comprises most development activities.
- Segmentation of taxpayers is now a core SARS approach to service, audit and compliance strategies.
- Several IT programmes which are also used by STA have been implemented: Computer audit (SESAM), Case Management and Tracking System, Escort Risk Analysis/selection for 1) Corporate income tax audits, 2) VAT audits and 3) VAT returns.
- E-governance best practises from STA are now used e.g. bulk scanning centre for hard copy tax returns, use of e-filing of tax returns and pre-filled (pre-populated) tax returns.
- Establishment of 2 Large Business Centres (LBC), like the centre SARS staff experienced in Sweden.

- SARS's development to a more horizontal and team based organisation is an important contribution from benchmarking visits in Sweden.
- Anti corruption initiatives – phasing out of cash desks in regional offices, from personal to institutional contact, use of personal bank accounts, reducing issuing personal checks and practises for audits are also contributions from Sweden.

During the cooperation it was not possible to establish single tax payer registration, due to data problems and data structures in other government institutions. Likewise the implementation of IT systems was slowed down due to data problems, a too hasty implementation strategy, and lack of a strategy for training. Finally, the development of a strategy for regional SARS centres was never implemented.

The activities implemented in the cooperation have all been relevant for SARS and decided on during discussions at management level of SARS and STA. The activities have also fitted well into overall South African policies, where the increased revenue collection has been a key to the balancing of the public sector finance.

The cooperation has been effective and the overall objective – *To ensure that taxes are paid according to the law at the correct time* – has been reached.

A particular effective aspect is the moving from benchmarking visits in the earlier stage of the cooperation to implementation of best practices in SA – often after piloting in STA.

The cooperation between the two partners has also been efficient, and one of the most important reasons is the flexibility and the demand driven approach, so no funds were wasted due to strict planning procedures.

In a few cases the demand driven approach had the effect that some activities were implemented to hastily and without enough strategic considerations – in particular implementation of too many IT systems simultaneously, and the attempt to establish single tax-payer registration with more focus on strategic planning could have made the cooperation more efficient and effective.

The activities have been clearly segregated from other donors and the cooperation was SARS's only long-term cooperation within revenues.

Some delays in the cooperation were caused by high staff turnover in SARS and several organisational changes, so it was difficult to build continuous relations between experts.

The results of the cooperation have been integrated into SARS's organisation, work plans and strategy. This is due to SARS's high involvement in the implementation and SARS's co-funding of activities e.g. for IT licenses, air tickets and accommodations.

Sweden has adopted a strategy for partner-driven cooperation for global development and SARS expressed some areas that could be supported. The first would be to establish a tri-lateral cooperation with a SARS sister agency in another African country. This should be a strategic partner with regional leadership role like South Africa itself. Countries like Nigeria, Uganda and Kenya are examples.

Another option could be for Sida/STA to support SARS in spearheading the launching of the African Tax Administration Forum (ATAF) and a regional centre in SA.

From the evaluation, five main lessons have been identified which are all useful for future design of development assistance programmes:

1. Twinning works – especially between likeminded institutions and on a long-term basis so the cooperation can move from benchmarking to implementation of international best practises.

2. Co-funding stimulates the development partner in the selection and implementation of relevant activities. SARS's contributions for licenses for IT software, travel costs and accommodations stimulated their interest and secured a good ownership.
3. Programme design can encourage synergies with the private sector. The private IT company WM data was given a clear role in the cooperation with delivery of IT systems. This strengthened its relation to SARS and has resulted in a new SARS financed contract to WM-Data in 2009.
4. Flexibility works in a dynamic institutional cooperation with good strategic leadership. Because of SARS's fast development, adjustments were needed continuously, so the cooperation would not have worked with a traditional log-frame planning. The flexibility could have resulted in inefficient ad hoc planning, but the strong SARS leadership secured that most activities fitted well into SARS's strategy.
5. Cooperation with middle-income countries can have regional effects. Building on the STA-SARS cooperation, SARS has spread experiences to other countries in the region and even spearheaded regional initiatives (ATAF). So the cooperation provided development assistance to other countries in the region as well. This is a model example on how development assistance to a medium income country can have regional effects.

2. Introduction

The institutional cooperation between the South African Revenue Service and the Swedish Tax Agency was initiated in 1998 and finalised by the last mission from Sweden in December 2008. During the cooperation, numerous South African and Swedish tax experts have interacted in the two countries and long lasting relations have been established between the two institutions and individuals. The capacity of SARS has increased significantly during the 10 years, which has resulted in the tripling of revenues collected for the national budget. Several of the improvements in SARS's functioning can be related to the institutional cooperation with STA.

Sida has supported the cooperation with a total funding of SEK 38.5 mill. and by December 2008 a team of consultants was contracted by Sida to carry out an evaluation of the cooperation in its totality with the purpose of identifying and documenting lessons learned and assess the impacts and the results generated by the programme. The TOR for the evaluation can be found in Annex A.

The present report presents the consultant's findings.

The evaluation team would like to thank all persons met for their cooperation and willingness to support with documentation and participation in meetings and interviews. A special thank goes to SARS and in particular Ms Emelda Behr and Mr Lincoln Marais for their hospitality and support during the team's stay in South Africa in January 2009.

Copenhagen, 18 February 2009

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3. Evaluation Approach

An assessment of the outcome of the STA-SARS cooperation from 1998–2008 needs to take into consideration the overall development in SARS's capacity and possible contributions from other internal and external development initiatives. SARS has experienced significant developments during these years building on fundamental changes in its strategy, organisation, leadership and HRD. Revenue collection has also benefitted from a very positive development in the South African economy in recent years triggered by the growth in the global economy. Simultaneously, the public sector in South Africa has experienced major post-apartheid reforms that also have influenced the capacity of SARS.

In order to assess the overall development in SARS capacity, the evaluation has used a results based approach where "capacity" is defined as the degree to which SARS is able to fulfil its mandate of implementing tax policies, conduct revenue collection, enforce tax legislation and provide tax payer services. Any improvement in SARS's ability to fulfil its mandate since 1998 has served as a proxy for improved capacity of SARS.

The evaluation went through three analytical steps. First, an assessment was made of the STA-SARS cooperation during the ten years in order to identify key focus areas and outputs (Chapter four). Secondly, an assessment was made of all key achievements SARS has reached during 1998–2008 (Chapter five). Finally, the evaluation made an assessment of the SARS achievements in order to determine to which degree the STA-SARS cooperation has contributed or can be attributed to these achievements (Chapter six and seven).

The evaluation has followed Sida guidelines (and the manual "Looking Back, Moving Forward, Sida 2004) and has been structured around five crosscutting aspects of the cooperation: Impact, relevance, efficiency, effectiveness and sustainability.

The evaluation was initiated by a desk review of all available project documents as well as relevant background reports, analysis etc from e.g. Sida, STA, SARS and IMF. A list of references can be found in Annex E.

Based on the desk review, a gross questionnaire was developed serving as an overall guideline for the evaluation and as a checklist for the semi-structured interviews undertaken in Stockholm and South Africa. The interviews comprised management and experts from STA and SARS as well as Sida, NT, SAICA, SAIPA, University of Pretoria, WM Data and SALGA.

The cooperation has only been sparsely documented and reviewed during the ten years, which has been a challenge for the evaluation. A rough log frame was established before first and second phase was initiated, but has not been used to guide project implementation. In order to overcome the lack of available documentation, the evaluation had to spend more effort on conducting focus interviews with key decision makers in SARS and key experts participating in the cooperation.

In total, almost 40 persons were interviewed, guided by questionnaires forwarded to them prior to the interviews whenever possible. To compensate for the sparse written documentation, the evaluation team used the interviews to identify concrete examples on how the cooperation has been conducted and how the STA experiences have been utilised by SARS.

An introduction to the evaluation methodology and the gross-list of evaluation questions can be found in Annexes B and C.

4. The Institutional Cooperation between the Swedish Tax Agency and the South African Revenue Service

In 1995 a team of British consultants carried out a fact-finding mission to SA and SARS. The mission prepared a report, which presented a list of recommendations on what could be done to support SARS both on revenue and on customs. Among several countries Great Britain (DFID) and Sweden expressed interest in supporting SARS and in 1996 conversation started between SARS and STA. In 1997, STA and SARS came up with a suggestion for an institutional cooperation to support the revenue side of SARS, which was approved by Sida soon after.

From the beginning a clear division of tasks was established between different donors. STA concentrated on the revenue side, while customs were supported by other donors, in particular DFID and later on by the Netherlands' development assistance.

The first phase of the institutional cooperation took place from 1998 to 2000 with two extensions up to 30 June 2002 with a total budget of SEK 19 mill. The initial budget covered the extensions as well, since the activities in the agreement(s) were implemented slowly and only speeded up after Mr. Pravin Gordhan took over as SARS commissioner in early 1999.

The second phase of the cooperation lasted from July 2002 to June 2005, with a total budget envelope of SEK 19.5 mill. As in the first phase, the implementation was slower than expected, and two extensions were approved by Sida up to 31 December 2008, when approx. SEK 3 mill. was left in the budget.

The content of the cooperation was defined in formal agreements between the two parties, which included matrixes (log frames) with objectives at 3–4 levels (long term, major, overall and projects), activities corresponding to projects, indicators and means of verifications and external factors.

The long term and major objectives of the cooperation were respectively:

- “to ensure that taxes are paid according to the law at the correct time” and
- “the improvement of the effectiveness and efficiency of SARS”

Annex G summarises the planned content of the Institutional Cooperation in a matrix.

The log frames were not elaborated precisely enough to work as implementation tool for the cooperation and have not been used for monitoring or reviewing the cooperation.

This means that during all 10 years of cooperation, the implementation of activities did not follow the planning of the two parties in the formal agreements and concrete activities were defined through conversation between the top management level in SARS and STA and implemented upon requests from SARS. In spite of this, most planned activities have actually been implemented, although not in the sequence planned for.

The approach meant that the start up of activities were delayed during the first years of the cooperation and that the implementation had larger breaks e.g. in 2005/2006, where SARS needed consolidation after some very hectic years.

During the cooperation, Swedish experts carried out missions on particular activities to SA and experts and managers from SARS visited Sweden for benchmarking and training. In the first phase of the

¹ Up to 2004 STA was called the National Tax Board. Throughout this report, the term Swedish Tax Agency (STA) will be used.

cooperation, many interactions were based on strategic discussions at the management level of the two parties and later on implementation of best practises seen in Sweden took place including advanced IT systems. The implementation of the IT systems was outsourced to a private IT Company (WM Data, now INTRACOM It-Services)), which already delivered IT systems to STA and other advanced tax authorities at a total budget of approx. SEK 10 mill.

Sida's approach to the cooperation was mainly to follow the cooperation in a yearly meeting with SARS and STA, where a brief activity-focused progress report was discussed and through some general communication with SARS and STA. This means that Sida left the responsibility to STA and SARS for the development and management of the cooperation for all 10 years without much interference. The reason for this approach was mainly that Sida trusted STA's ability to handle a development assistance programme with SARS including to provide guidance and support to SARS with the necessary expertise.

Further Sida, STA and SARS shared the vision that the cooperation worked well and this view was also stated in some of the yearly meetings between the SARS commissioner, Sida and STA management and supported by a review and assessment of Swedish development cooperation in SA in 2006 and 2008.

Although included in the formal agreements between Sida, STA and SARS and in particular stressed in the second phase of the cooperation, no formal reviews were carried out during the course of the cooperation, so progress, activities implemented and results are not well documented or monitored. Likewise, a lot of reports, agreements and minutes from yearly meetings between SARS, STA and Sida have not been finalised properly and sometimes only exist in draft versions, without being formally approved by the parties.

During the course of the cooperation, SARS's capacity has developed considerably with significant contributions from the Swedish cooperation, which has been the only long-term cooperation on revenues. However, SARS did also have its own internal development projects and has been supported by other initiatives from the government and other external partners.

In continuation the report presents an analysis of the overall development of SARS's capacity to demonstrate the amazing development of the institution from 1998 to 2008.

5. Development of the Capacity of the South African Revenue Services

As mentioned above, there is no doubt that SARS has undergone a tremendously positive development during the ten years that the STA-SARS twinning cooperation has taken place. Under the leadership of Commissioner Pravin Gordhan, SARS has evolved from a bureaucratic and rather inefficient organisation to become one of the top performing government agencies in South Africa, as revenue collector, employer and as service provider. As such, SARS has become a role model for the public administration in South Africa and for other tax agencies on the African continent and beyond.

Since 1998, SARS has been very successful in collecting revenues and absorbing volume growth while integrating and transforming the organisation. The revenue growth has been driven by South Africa's GDP growth spurred by fast economic development and increased employment, together with improvements in compliance, taxpayer behaviour and significant tax policy changes. Simultaneously, SARS has been able to significantly transform the entire organisation to improve efficiency and service provision.

This positive development is very clearly documented in fiscal and financial statistics, annual reports, general government surveys² and international benchmarking and has unambiguously been underlined during all interviews conducted by the evaluation team, from SARS managers and STA experts over external stakeholders in other government agencies and professional partner associations representing tax payers interests to randomly selected tax payers interviewed by the evaluation team in the streets of Pretoria.

In the following, key characteristics of SARS development and achievements from 1998 to 2008 will be presented along with key challenges for SARS in the coming years. The chapter does not attempt to present a complete picture of all aspects of SARS mandate, achievements etc. The aim is rather to present general achievements in areas where the twinning cooperation has been active in order to outline contributions and attributions of the cooperation to the general development of SARS.

5.1 SARS's Role and Mandate

SARS's role and mandate is outlined in the South African Revenue Service Act 34 of 1997. It was established to collect revenue and ensure compliance with the tax law. Its vision is to be an innovative revenue and customs agency that enhances economic growth and social development, and supports South Africa's integration into the global economy in a way that benefits all citizens.

In accordance with the SARS Act, SARS is an administratively autonomous organ of the state. It is delinked from public service, but part of the public administration. When SARS was established, it maintained a dual role of being responsible for both law making and regulation as well as law implementation, enforcement and providing tax payer services. This dual role has recently shifted and from 2008 National Treasury is responsible for tax regulation while SARS does the laws implementation and enforcement as well as tax payer services and outreach functions.

According to its strategy, SARS aims at providing an enhanced, transparent and client-orientated service to ensure optimum and equitable collection of revenue.

Its main functions are to:

- collect and administer all national taxes, duties and levies;
- collect revenue that may be imposed under any other legislation, as agreed on between SARS and an organ of state or institution entitled to the revenue;
- provide protection against the illegal importation and exportation of goods;
- facilitate trade; and
- advise the Minister of Finance on all revenue matters.

5.2 Main Sources of Tax Revenue

The main sources of tax revenue falls into four categories:

- Personal income tax (PIT),
- Corporate income tax (CIT),
- Value-added tax (VAT) and
- Fuel levy.

² In a recent general government survey, SARS scored 6.8 out of 10 points in citizen's satisfaction regarding its services, which is among the three highest scoring government agencies in South Africa. This survey also documented that the obligation on tax compliance is well understood among tax payers (ref. among others to The Country Wide Tax Survey, The Taxpayer Awareness of Tax Obligations Survey (2007) and Quantitative Research Assessment of Tax Filing Season Campaign 2007. All surveys were published in 2008.)

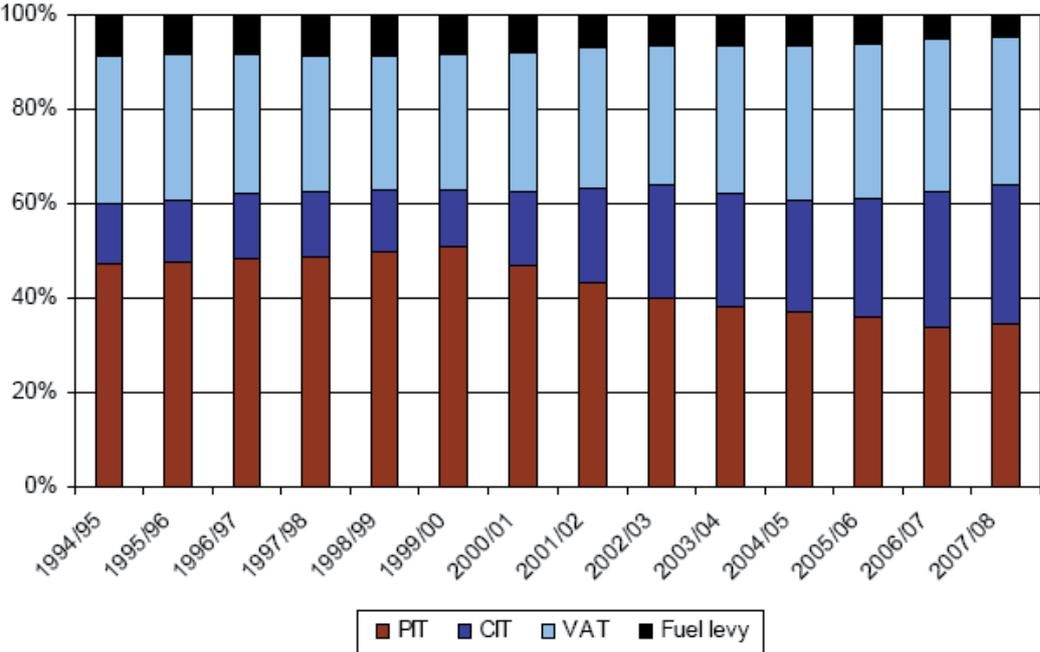
The Katz Commission gave input to an income tax reform in 1997 that has spurred a row of changes in income tax legislation in recent years, hereof the enactment of the capitals gains tax law in 2001, significant PIT reliefs during 2003–7 (lowering the max. marginal tax to 40%), PIT simplification reducing tax brackets from 10 to 6, abolishment of the retirement fund tax in 2007 and presently phasing out of the dividend tax. Important taxation initiatives towards multinational companies have also been undertaken.

5.3 Key Performance indicators 1998–2008

Major achievements in SARS’s performance since 1998 are perhaps best captured by the significant rise in *revenue collection*. Over these ten years, total tax revenue has more than tripled from ZAR 184 bill. in 1998/99 to ZAR 673 bill. in 2007/8, averaging a 13% increase per year. With an average inflation rate of 5.3%, this is an impressive real growth and the real growth is even faster than the average growth of GDP at 3.6% from 1998 to 2007. Relative to GDP the revenues correspond to 25% in 1998 and 33% in 2007. A complete overview of the development in tax revenues from 1994/95 to 2007/08 can be found in Annex D.

As illustrated in figure 5.1, the growth in CIT has been a major contributor to these tax gains growing from 10.5% in 1994/95 to 24.5% in 2007/08.

Figure 5.1: Composition of main sources of tax revenue 1994/95–2007/08



Source: 2008 Tax Statistics, National Treasury Department

Among the driving factors behind this increase in tax revenues is the ability of SARS to broaden the *tax base*. The individual taxpayer register grew 10% per year over the period, while the corporate tax payer register grew a staggering 30% in 2007/8 alone. The latter still has a lot of potential for growth, though and the big gain can be attributed to a special SARS campaign targeting the business community. The combined growth of the taxpayer’s registers has more than tripled the registered taxpayers from 2.5 mill. in 1996 to 8.3 mill. in 2008.

SARS has also improved its *audit efficiency* since 1998. By 1998 SARS would only be able to assess 1% of tax return forms in 2 working days. By 2008, SARS managed to complete assessment of 90% of tax return forms in 2 working days. Tax refund turn around time has also been minimised significantly to an average of 3–4 days.

Taxpayer service has improved due to a number of initiatives that mainly fall into two categories: *segmentation* and *e-governance*.

SARS has worked a lot on improving taxpayer services by using the principle of *segmentation*, i.e. targeting case handling and services towards specific taxpayer groups. These groups now comprise

- practitioners
- small businesses
- employers
- embassies
- tax exemption institutions
- pension fund administrations
- parliamentarians
- ex pats

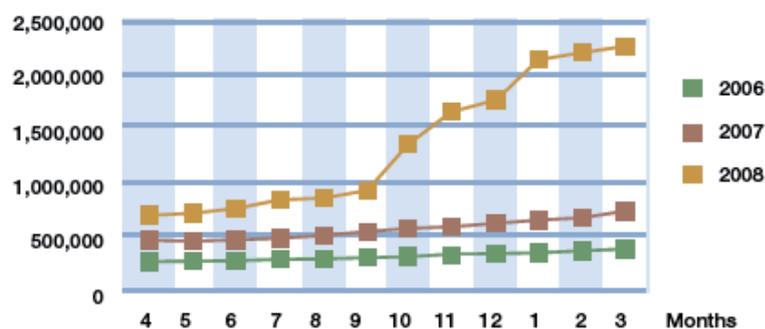
By 2002, the first national *call centre* was established and SARS now operates four call centres according to the segmentation principle. These call centres supplement a total of 46 branch service centres and provide a single entry point to SARS.

The establishment of two *Large Business Centres (LBC)* has been a major success, where large businesses are now receiving specific targeted services. This innovation has improved services immensely according to the SAICA and SAIPA and transformed large business services from being chaotic and fragmented to providing a single entry point for all tax services from SARS with dedicated SARS specialist available to assist in all typical large business queries.

Major *e-governance* service initiatives are based on the objective of transforming SARS filing system from paper born to e-filing. SARS has introduced a *bulk-scanning centre* that converts all paper tax return forms into e-files, before they are processed in SARS. This allows for all tax returns to be converted to electronic case handling achieving significant efficiency gains as illustrated above.

E-filing has gradually been introduced for tax payers since 2003 and has risen to more than 2 mill. e-filers in 2008. The figure below present recent developments in e-filing, including all taxes (income tax, secondary tax on companies, provisional tax, PAYE and VAT).

Figure 5.2: e-filing register for all taxes



Source: SARS Annual Report 2007/8

Further, efficiency and service delivery gains have been achieved by reducing the personal tax return forms from *20 to 1 page* and by using *pre-populated data*. This makes it very easy for taxpayers to complete the form, in many cases by just signing the form.

Despite these positive developments, challenges regarding e-services still remain. A major step forward would be the introduction of single taxpayer identification numbers (TIN), but SARS has not been able to establish an inter-governmental cooperation on this initiative as yet. Other challenges include problems of data exchange due to data compatibility problems or access to valid, updated data.

SARS also recognises that it has to be cautious of not technologically outpacing society in its e-services investments. Being a dual economy, the bulk of small taxpayers are poor and without access or skills to use the internet. The same goes for the older generations of the society that do not use the internet either. Presently, only 10.5% of the total population uses the internet (ref. *Internet World Stats*). Another argument for being cautious is the fact that South Africa faces major restrictions from its internet infrastructure, which is characterised by poor bandwidth capacity. This hampers easy execution of interactive e-services.

Other major SARS achievements include the active *international role* SARS is playing in international forums. E.g. is SARS now representing all African countries in the OECD and has been chairing the World Custom Organisation. SARS has recently invited for the very first African OECD conference in South Africa. Being the host of this conference, SARS invited other African countries to attend the meeting and was able to include important African issues on the agenda. SARS has also used its leading role to host the International Conference on Taxation, State Building and Capacity Development in Africa in August 2008. Participants came from the African countries, OECD, IMF, AfDB and major donor representatives. This resulted in the Pretoria Communiqué, which includes an initiative to establish a regional tax centre and the African Tax Administration Forum by the end of 2009.

5.4 Institutional Development 1998–2008

The achievements of SARS can be attributed to two major organisational reforms undertaken from 2001–2006 (Siyakha – ‘we are building’) and from 2007 onwards (Siyakha 2 or The Modernisation Programme).

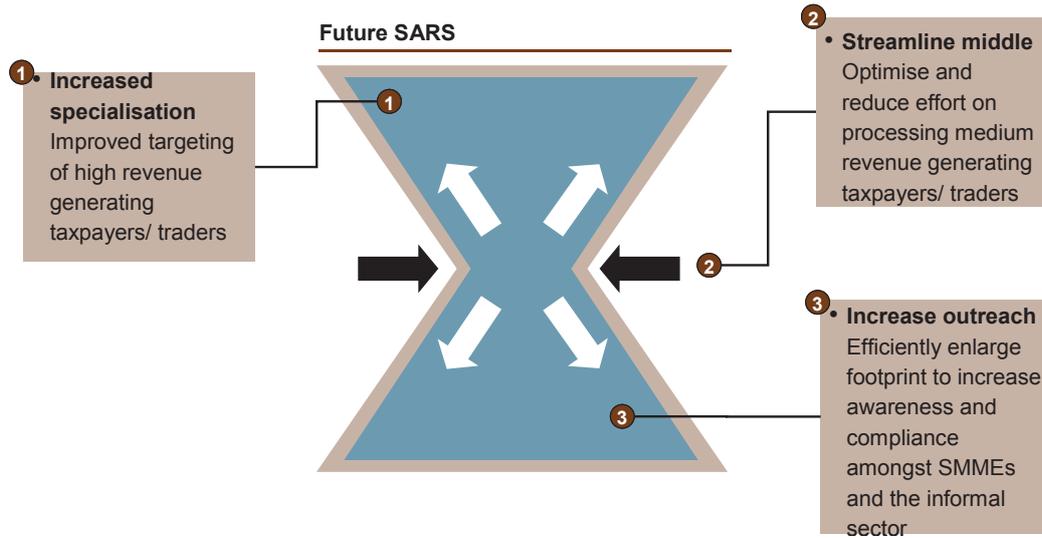
These organisational initiatives have reformed the strategic approach of SARS and transformed the organisational setup and the whole culture towards a more service oriented approach to tax revenue collection.

Two major strategic changes characterises the reforms: the adoption of an *audit risk management* approach to revenue collection and the launch of a three-legged *compliance strategy* to minimise the tax gap.

The move towards *risk management* followed the conclusion by SARS management that SARS audits were not consistent with the aim to maximise tax revenue. Prior to Siyakha, the tax assessment where targeting the segment of mid-contributors, which were largely complying with tax regulations, while high level tax contributors (big companies) as well as small businesses and the informal business sector did not get the same attention despite constituting a higher proportion of the tax gap and potential overall tax contribution.

Based on this analysis, SARS changed its whole approach to conducting audits and began specializing in high tax contributors and reaching out to small and medium size companies and the informal business sectors in order to harvest the comparatively bigger tax revenue gains in these segments. The figure below illustrates the new strategic approach.

Figure 5.3: SARS risk management approach outlined in the Siyakha reform 2001



Source: SARS presentation to the evaluation team

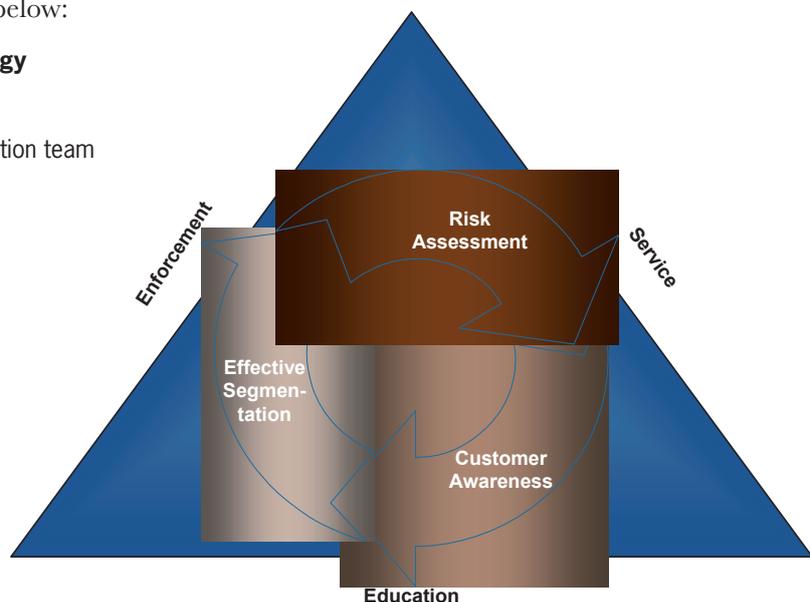
The change towards risk management is recognised by SARS to contain certain risks of exclusion of large proportions of small tax contributors. This group fall within the SITE (Standard Income Tax on Employees) and consists of taxpayers with earning below 60,000 ZAR annually, who do not have to declare tax unless they want to claim tax deductions. This threshold has administratively been expanded to 120,000 ZAR annually and may consist of 70% of all taxpayers.

This risk management approach, while attempting to improve efficiency in revenue collection (by cutting down administrative costs), risks to alienate many taxpayers, as this practice does not provide them with a feeling of contributing to the society. Not assessing this large group of taxpayers does also send a wrong signal of non-compliance being OK. This segment of taxpayers may even become richer later and start paying more tax and need attention from this perspective as well. SARS has tried to counter these downsides of the risk management approach by launching TV ads targeting this large segment of tax payers (up to 70% of all tax payers) and inviting them to the service centres.

The shift towards a risk management approach is strategically embedded in a three-legged *compliance strategy* to tax revenue collection, which is based on a proportional response to the behaviour of taxpayers and businesses. It is illustrated below:

Figure 5.4: SARS Compliance Strategy

Source: SARS presentation to the evaluation team



The compliance strategy is building on the following principles:

- Excellent service for those who are compliant and low risk
- Service and education for those who seek to be compliant but may not understand their obligations
- Assistance and understanding for those who make honest mistakes
- Full weight of the law for those who are knowingly non-compliant

Before Siyakha 1 was introduced in 2001, SARS was a bureaucratic and inefficient agency characterised by an organisational silo culture and focus on products rather than working processes and service delivery. Audits were done in order to maximise tax assessment volume, while no attention was paid on how to most effectively close the tax gap. The individual SARS employee was paid a bonus on how many assessments were done, while no overall strategy was guiding SARS on how to focus its resources on closing the tax gap. This was only corrected when Siyakha introduced risk management and the compliance approach.

Siyakha 1 also introduced a flatter and more empowered organisation with introduction of a dedicated taxpayer service function, dramatically improved enforcement and better trained/motivated staff.

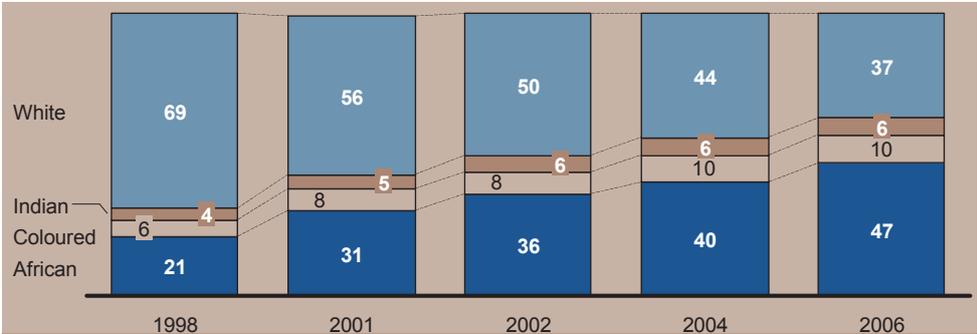
The second reform initiative – Siyakha 2 or the modernisation programme (2007 and onwards) – attempts to consolidate achievement of Siyakha 1 by strengthening the e-governance approach to gain efficiencies and further reduce processing times and tailoring service and enforcement to market segment needs. The initiative also focuses on SARS’s ability to absorb other government enforcement and collection roles by implementing social security by 2010 and administer wage subsidy.

Other tasks may emerge in the near future as South Africa considers the introduction of new tax revenue sources within environment, use of natural resources (mining) and electricity consumption. Revenue collection, audit, enforcement and service delivery must cope with these tasks as well.

SARS staff envelope has risen from approx. 10,500 to approx. 15,000 fulltime employees over the last decade. A major challenge has been the high staff turnover due to stiff competition for SARS managers and specialists from the financial sector (banking, insurance etc.). SARS has been able to somewhat counterbalance this development, though, as its independence from public service provides it with discretion to settle salary negotiations. This has closed the salary gap for SARS managers to approx. 20% compared to the private sector.

The post-apartheid era has also transformed the staff composition of SARS and resulted in many changes in career developments and management recruitments as illustrated below.

Figure 5.5: Change in SARS employee diversity since 1998



Source: SARS presentation to the evaluation team

The gender balance has also changed and females now constitute 65% of all SARS employees. The table below presents recent development in the female workforce as percentage of the total workforce and illustrates significant improvements in gender balance at both general and managerial level:

Table: Percentage of female workforce 2004–2008

Staff Occupational level	March 2004 %	March 2005 %	March 2006 %	March 2007 %	March 2008 %
Management Staff	37	35	40	42	42
Supervisory Staff	47	45	46	47	53
General Staff	70	70	71	71	70
All Staff	65	64	65	65	64

Source: SARS Annual Report 2007/8

The Siyakha initiatives have increased the focus on HRD and the need to align HR initiatives to the overall SARS strategy. This is a process still ongoing. A string of initiatives has been launched including:

- performance management and staff appraisal
- career development and talent management
- change management communication
- cooperation with the labour force unions
- staff recruitment and retrenchment
- climate surveys

The grading and levels of management has been slim lined in order to match a flatter hierarchy and cross-sector working processes. The bonus system has also changed. Prior to Siyakha, the system was merely linked to the number of assessments performed by the individual employee. This has now changed and takes into consideration the new service approach.

The constant changes in recent years in tax legislation, organisational set up and management pose a challenge to SARS. While acknowledging the overall significant improvements SARS has achieved, critical voices were also raised during the interviews with SAICA and SAIPA. Here, the view was presented that the constant changes also makes SARS staff struggle to catch up to be updated.

Some examples were presented:

1. When attending meetings with SARS management, SAIPA and SAICA experience was that no follow up takes place because SARS managers changed positions in between meetings and new managers had to start from scratch at the next meeting,
2. Tax laws are rushed through without proper consultation with stakeholders and without giving the laws a reality check,
3. Front service staff servicing tax practitioners are often not updated on recent changes in tax legislation,
4. Once mistakes have appeared in tax return forms, it is difficult to correct them,
5. When having a dispute with SARS staff, no proper guidance is provided on case handling time, deadlines and procedures

These critical observations seem to be side effects of the fast development that SARS is undergoing and they may indicate a need for slowing down reforms and consolidating achievements.

5.5 Siyakha and Anticorruption Gains

The institutional initiatives in the Siyakha reforms do also have positive anti-corruption gains supporting the general No Tolerance Policy of Corruption in SARS. The whole change in the service approach from personalised to institutionalised service delivery minimises the risk of illegal kickbacks being paid to SARS staff. This aspect is further strengthened by the move towards e-governance, where no face-to-face contact is experienced when e-filing tax return forms. SARS is also moving away from cash-desks and tries to transfer tax returns directly to bank accounts instead of using checks or cash payouts.

Audit assessment procedures have also been strengthened by requiring two or more auditors to be present during a major audit in order to reduce the risk of irregularities during the audit.

6. Areas in the STA–SARS Cooperation and the Development of SARS Capacity

In this section the contribution and attribution to SARS development from the institutional cooperation will be identified.

It is a challenge to identify all activities and results of the cooperation precisely, because of the way the cooperation worked and the limited monitoring and documentation especially in the beginning of the cooperation.

Managers and later on also experts from SARS experienced the general administration of taxes in Sweden and were inspired by the way STA handles all tax issues from overall strategy development to concrete scanning of completed tax returns. The interaction in South Africa and Sweden revealed numerous relevant issues in tax administration in both countries that led to conversations, discussions, benchmarking and later on to formal implementation of best practises in SARS's organisation. Simultaneously other practises were introduced in SARS without much formal implementation.

Further SARS had several benchmarking visits in or from other countries and internal SARS projects implemented and these did also influence the functioning of SARS.

In continuation follows the consultant team's analysis on which parts of the cooperation in particular have attributed or contributed to SARS's development from 1998 to 2008. By attribution is meant a direct implementation of a practise from Sweden, while a contribution is a practise that had a larger impact on SARS's development in a specific area.

6.1 Management and Strategy

At an overall level of contribution to SARS general strategic work came through numerous conversations – in particular at the management level, during the first phase of the project. These overall discussions covered issues like:

- Overall strategy development
- Compliance risk management
- Analysis of the tax base and tax gap analysis
- Development of strategies to close the tax gap
- Strategies for better service to the tax-payers
- It strategy e.g. for audit, case handling and compliance and e-government approaches

These overall strategic issues resulted in the implementation of several activities and more concrete outcomes and overall strategy development in e.g. compliance risk management and the SARS Modernisation Programme.

The positive atmosphere at the management level including the relation between the commissioner and top level Swedish management has without doubt created a very positive and trustful cooperation, where ideas easily could be fostered and assessed and later on implemented as best practises in SARS. The concrete results of this are presented below in details.

6.2 Operation (Enforcement, Compliance and Audit)

Segmentation of taxpayers

The Swedish practises of segmentation of taxpayers into smaller groups – e.g. large and small businesses was a clear contribution from the cooperation and led to SARS's use of the segmentation approach for analysis of the tax base, audit, compliances and also for risk analysis, where focus and resources now has been directed towards larger businesses instead of medium size businesses. Segmentation is also used for services where taxpayers are divided into 8 different groups as mentioned in chapter 5.3.

Compliance audits

The cooperation has also attributed to improve the practises with compliance audits with a sophisticated IT system, SARP, SESAM (see below) but also on manual compliance audits, where the auditors' now work more systematically and strategically in selecting tax-payers to audit.

E-governance for tax returns

An attribution from the cooperation is the scanning of completed tax returns (tax declarations) from the tax payers, which makes automatic assessments possible and saves a tremendously workload in processing tax returns. SARS started the scanning after SARS-experts experienced bulk scanning facilities in Sweden.

Likewise, SARS has started with pre-populated tax returns from 2007 where most information on tax returns is already filled in when taxpayers receive the tax return. This was introduced in 2007 and according to SARS, 97% of all tax returns could be pre-populated in 2008. SARS's ambition is to increase the amount and fill in more pre printed information in the future.

The reduction of pages in the tax returns from 20 to 1 in 2007 has been an important factor for making the pre-population of tax-returns possible. This was likely also a contribution from the cooperation when SARS experts reviewed the tax return format critically and realised, that many of the data asked for did not serve any specific purposes. The reduction in pages is obviously not only an administrative simplification but also an important advance for the service given to the taxpayers, so the information asked for is minimal and it is easy to get an overview of the tax information for the taxpayer.

Another administrative simplification, which also has implications for service is the reduction in the number of tax-brackets from 10 to 6. This and other changes in the tax legislation – most importantly the establishment of the Capital Gains Tax (CGT) in 2001, the reduction in tax-deductions for income tax (to broaden the tax base) and the automatic yearly adjustments in the income tax brackets are also contributions from the cooperation – in fact the whole structure of the SA tax legislation has many similarities with the Swedish.

6.3 Service to Tax Payers

The overall change in SARS towards a service-oriented organisation is a result of numerous influences from the cooperation and management decisions. The most important contribution from the cooperation is probably on the overall development of SARS service strategy but in more concrete terms, the establishment of the Large Business Centres with 2 branch offices is a direct attribution from the cooperation as well as the establishment of 4 call centres, where segmentation of tax-payers is also used specifically by opening a special service line for practitioners (tax accountants and tax-auditors).

6.4 Use of IT Programmes for Auditing, Compliance, Tracking and Risk Analysis

Implementation of IT systems has been an important attribution from the cooperation to SARS and 5 systems, known as South African Audit Risk Analysis Programme, SARAP have been implemented fully or partly in the organisation.

Computer Audit System (SESAM)

The first IT system was the introduction of the SESAM system for computer auditing. Presently about 22 SARS experts can use the system fully in auditing private businesses and more than 500 SARS experts are able to analyse the information extracted from the businesses' accounting systems. Presently, SARS pays WM-Data for the use of about 500 licenses, which corresponds to more than SEK 1 mill. yearly.

The first group of SARS experts was trained for SESAM in 1998/99 but the approach did not work properly. The planned cascade effect (training of trainers) did not work, in particular because trained experts left SARS. Another training round caught up on this and several training activities have taken place afterwards.

The introduction of the SARAP Escort Case Management and Tracking System (CMTS) in 2002 to 2004 was quite successful and it is estimated by SARS that more than 1000 SARS experts can use this system today, although its full potential depends on the functioning of the other 3 SARAP programmes mentioned below.

The implementation of the SARAP, Escort Risk Analysis of CIT (2001), VAT Audit and VAT returns (2002) were more complicated because of several data and system problems. There have been many obstacles, but WM Data, STA and SARS have continued to find solutions and good perspective exists for the full implementation of the programmes.

Generally a lot of training has taken place for the implementation of the SARAP systems, and problems have been similar to the training experience with SARAP, SESAM, i.e. experts are trained typically in Sweden or Denmark, trained experts leave SARS for the private sector and the cascade approach cannot work, partly because the experts have left SARS but also because a strategy for transfer of knowledge to other SARS staff was not properly developed and planned for.

Another reason for the relatively slow implementation of the SARAP programmes was that SARS was too ambitious when it decided to implement all 5 sophisticated systems simultaneously along with other changes in the organisation. It would also have been more strategic to build up a data warehouse before the SARAP Escort Risk Analysis for CIT, VAT Audit and VAT returns were implemented fully, because they did not function properly without sufficient quality data.

SARS has recently made a clear point on its willingness and dedication to the SARAP systems in the future. It deals with all the issues presently including data management issues and has renewed SARAP licenses and will continue to use WM Data in a direct commercial partnership – also for IT programmes to custom.

6.5 Human Resource Development

In the early years of the cooperation, some activities within HRD were implemented in South Africa and Sweden e.g. related to salary systems and negotiations with trade unions. In 2005 the cooperation within HRD started again but with few results because of 4 consecutive changes of the HRD director in SARS in less than 2 years.

In 2007, HRD cooperation was activated again and work on recruitment, retrenchment, performance management, career model and models for employer-trade union cooperation have been discussed during one benchmark visit in Sweden and three in SA. The results of the HRD activities cannot be evaluated at present, but it seems like the recent activities are already well incorporated in the HRD division and some organisational changes should make implementation possible.

6.6 Gender

It should be noted that the cooperation had no particular activities on gender issues, which is not seen as an issue in the evaluation due to the strong internal SA agenda on this including promoting the right and opportunities of all groups. No systematic list of all people that have participated in the cooperation exists in SARS, but in general fewer females were among experts from both side, which can be seen from the rough figures below, based on information from STA on experts on mission in South Africa and the actual experts, the team met in SARS.

Participation of men and women in the cooperation

	Female	Male
Sweden experts (involved in SA)	8	15
South Africa (experts meet in SA)	5	13
Total	13	28

6.7 Anti Corruption

SARS has a No Tolerance Policy on Corruption which it follows strictly e.g. in case of corrupt behaviour, staff is not only fired but also reported to the police for prosecution. Further SARS has taken several actions to avoid corruption and this has been noticed by people from the business sector, when SARS staff e.g. carry out audits at their premises. It seems like the cooperation with STA has supported the anti corruption agenda by seeing Swedish practises, where in particular personal contact between STA staff and clients is avoided and STA auditors never carry out audits without at least 1 colleague (audit in pairs).

In SARS all audits are at least carried out in pair, all interaction with SARS is with the institution and not persons e.g. in call centres, re-payment of taxes is as far as possible deposited in tax-payers bank account, cash desks at tax offices are faced out and checks are used as little as possible. Further the relatively high level of salaries paid to SARS staff should also encourage anti corruptive behaviour from the staff.

6.8 SARS' International Activities

Although this has not been a direct part of the cooperation a clear "spin off" has been an increased capacity of SARS to take a role in international activities and cooperation. In the cooperation SARS experienced STA and Sweden's role in international cooperation and development work and acquired

skills and knowledge to handle international development assistance work. This resulted in an ability to implement benchmarking visits to and from other countries and arrange training events for primarily other African countries in SA.

Likewise SARS has taken a role for promoting good tax administration and supporting other countries on this including establishment of similar tax systems in other countries (Botswana and Namibia). The capacity has increased steadily and in 2008 SARS hosted an OECD meeting and organised the International Conference on Taxation, State Building and Capacity Development. As a result of the conference SARS took a leading role to establish the African Tax Administration Forum, as mentioned in chapter 9.

6.9 Strategic Planning and the Demand Driven Approach

In conclusion the cooperation has had a large effect on the development of SARS and several contributions and attributions have been identified by the evaluation team.

As can be seen the approach has been highly demand driven and it seems like little attention has been paid to the plans listed in the formal agreements between SARS and STA, nor has the cooperation been reviewed formally or monitored by indicators etc.

The very demand driven approach in the cooperation has the strength that the cooperation's content has been quickly aligned towards the fast changing needs of SARS and only relevant activities have most likely been implemented. This has ensured that activities selected were needed by SARS, when they were implemented

In a more traditional development work set-up, agreements and log frames specifying, inter alia, all activities and timing are established and followed, but sometimes this is a too rigid planning instrument. The advantage, however, is that the stringent planning assures that a strategic development approach is followed in the designing of the programme.

The risk with the demand driven approach is that the cooperation loses the strategic focus and turns into ad hoc planning, without considering if activities fit into the strategic planning of the institution or programme.

This has generally not been the case in the SARS-STA cooperation, because the strong strategic leadership in SARS assured that the demand driven approach followed the strategic needs of SARS and in general fitted into a strategic planning process.

The only clear exception, which, however, was costly, was the implementation of the 5 SARAP IT systems, where a better sequencing and slower implementation would have been more effective and a strategy for a data warehouse and for training of trainers should have been developed before the implementation of the IT-programmes.

7. Assessment of the Cooperation

After the presentation of the activities in the cooperation, which have contributed or can be attributed to the development of SARS from 1998 to 2008, follows the conclusion of the evaluation, which is structured into 5 sections on respectively impact, relevance, effectiveness, efficiency and sustainability.

7.1 Impact

The cooperation has had a large impact on SARS and its development from a bureaucratic organisation to an outward looking service oriented organisation. It has contributed to the capacity development of SARS in many ways and the way SARS functions today within its legal mandate, including its strategic and management approach.

Below are listed the major impacts:

- SARS development to a more horizontal and team-based organisation in most recent years is a contribution from the cooperation
- The cooperation has contributed to anti corruption initiatives in SARS e.g. phasing out of cash desks in regional offices, from personal to institutional contact, use of personal bank accounts, reducing issuing personal checks and practises for audit. The well-established Non Tolerance Policy on Corruption, was obviously also important for this, but the cooperation has undoubtedly supported this policy strongly.
- Strategy development is another important area, where the project contributed tremendously. SARS is working much better today e.g. by now having a comprehensive modernisation programme (Siyakha II) instead of several ongoing individual activities and the conversations at management level during the course of the cooperation supported this strongly.
- A contribution from the STA experiences from segmentation of taxpayers in SARS's approach to service, audit and compliance strategies.
- Most attributions from the cooperation came within use of IT programmes, where the cooperation – including the well functioning out-sourcing to WM Data – had an important impact on SARS. The SESAM and SARAP CMTS are now implemented fully and the three other SARAP IT systems i.e. Escort Risk Analysis/selection for 1) CIT Audits, 2) VAT audits and 3) VAT returns are also useful to SARS today and fully included in SARS's IT platform.
- Further e-governance attributions from the cooperation include the establishment of a bulk scanning centre for hard copy tax returns, use of e-filing of tax returns and pre-populated tax returns which are all implemented.
- The implementation of LBC is a particular SARS success highly praised by all external stakeholders. LBC is a direct attribution from the cooperation, and explicitly highlighted in all meetings conducted by the evaluation team as a model copied from Sweden.

One area where the cooperation did not have the planned effect is single tax payer registration in which STA's experiences should have been used. It seems like this issue was complicated by the linkages to data structures in other government institutions, and these are not yet ready for a new system with a single Taxpayers Identification Number (TIN).

7.2 Relevance

The activities implemented in the cooperation have all been relevant for SARS and have strengthened SARS's development. Most of the activities have been discussed at the management level of the cooperation and in this way strategic consideration has been taken for the alignment with the strategic needs of SARS.

Although the implementation approach has been highly demand driven, it seems like most of the activities listed in programme and planning documents were implemented at some point of time, but rarely at the time or with the approach originally planned for. Other activities were defined along the course of the cooperation, e.g. when SARS experienced best practises in Sweden and appreciated their usefulness and possibilities for full or partly duplication in SA.

The fact that SARS has contributed with funding for several activities and in particular for SESAM and SARAP licenses, travel costs and accommodations demonstrates also that the activities were relevant and needed by SARS.

The institutional cooperation programme has been highly relevant not only for SARS but also for overall South African policies. A key priority is the creation and maintaining of a stable macroeconomic environment to support the general growth in the economy and the private sector's fast development.

SARS increased revenue collection and credibility has been a key to the balanced public sector finance and the incremental public savings during the last decade. This way the cooperation between SARS and STA has strengthened the general public sector and the public sector's ability to improve the provision of services.

7.3 Effectiveness

The overall objective of the cooperation was

- To ensure that taxes are paid according to the law at the correct time

and the major objective of the project was

- the improvement of the effectiveness and efficiency of SARS

The overall objective has been reached fully as revenue collection has more than tripled from 1998 to 2008 and strict enforcement practices have been implemented to diminish the tax gap further.

The major objective has also been reached as SARS's capacity has improved tremendously as described in chapter 5 of this report towards an effective and efficient institution, that is able to reach its goals at a reasonable use of resources – SARS's budget corresponds to approx. 1% of the collected revenues.

The cooperation has been effective in moving from benchmarking visits in South Africa and Sweden – in particular during the earlier phase – towards implementation of best practices in SA. Some best practises were even piloted by STA e.g. large business centre and computer audits and improved during implementation in South Africa.

To fully appreciate the effectiveness of the cooperation it could be considered if SARS would have advanced as much as described in section 5 without the cooperation with STA.

In the evaluation team's view, SARS would have advanced substantially as well without the cooperation – primarily driven by the possibilities given by its autonomous status and the leadership of the commissioner and the management level. However, the advances would have been much slower, less strategic focused and SARS would most likely not have implemented the new and well suited "tools" to strengthen SARS's core function in collection of revenues – in particular the establishment of the LBCs, electronic handling of tax returns including pre-population, the increased service orientation of the

organisation, the use of segmentation strategies for tax payers, the use of sophisticated IT systems and the recent shift towards a more horizontal and team-based organisation.

Although the demand driven approach has been effective and all activities have been included in the cooperation due to requests from SARS, it is likely that a cooperation focusing more on strategic planning including monitoring could have resulted in slightly better results and a better timing of some of the activities. A clear example of this is the implementation of SESAM and SARAP IT systems, where too many systems were implemented simultaneously and implementation took place before data was properly organised in particular for the SARAP, Escort Risk Analysis of CIT, VAT Audit and VAT returns.

Also for two other important areas in the cooperation a more strategic approach could have been useful. The first area is the development of a strategy for the regional SARS offices, which is an area STA finds, is of high importance for a well functioning tax administration system, but this was not implemented in the cooperation, because SARS did not prioritise this. The other area is the development of the single tax-payer registration (TIN), where a strategy for its implementation is needed, that not only covers the SARS internal IT systems and data warehouses but also cooperation and alignment with other public institutions. Such a strategy could have secured a better foundation for this activity and its success.

Finally it seems like more SARS experts could have been included in activities during training in SA and some needs e.g. debt management was not included in the cooperation because some SARS experts were not aware of the institutional cooperation programme.

7.4 Efficiency

The cooperation between the two partners has been efficient and only a few areas can be identified where some resources could have been used better.

At an overall level the relatively high level of efficiency is due to the fact that activities were implemented, when SARS expressed that they had capacity and time for their implementation and the specific activities were continuously evaluated by the highly demand driven approach. This approach was possible due to the flexible approach in the cooperation and STA's ability to implement activities relatively quickly.

This approach had the effect that the cooperation for some periods was inactive, when SARS was too involved with other activities and did not prioritise the cooperation with STA. During those periods no funds were spent and instead extensions were given by Sida without needs for additional funds.

When activities were implemented in South Africa, SARS experts were available and meetings were well planned and the Swedish tax experts seem to have used their time efficiently during their missions. Likewise the benchmark visits and training in Sweden were well organised and planned and the SARS experts seem to have prepared clear reports with focus on best practises with relevance for SARS.

What have facilitated all this is also the establishment of excellent relations between the Swedish and the South African experts including at the top management level that ensured that the activities selected had the necessary strategic importance for SARS.

The activities in the cooperation have been clearly divided from other donors or South African supports to SARS and no overlapping activities have been identified. The available support to SARS was clearly divided, so DFID and the Netherland catered for support to customs and different experts from other countries e.g. Australia, New Zealand were involved in particular activities (benchmark visits) without overlaps. The institutional cooperation was the only long-term cooperation within revenue collection.

What delayed the results of the cooperation is the high staff turnover (including internal rotations) in SARS and this was in particular seen in the cooperation on HRD, where continuity was impossibly due to 4 different HRD directors in the latest 4 years. Also many organisational rotations and changes made it difficult to establish continued professional relations between experts.

As stated earlier, the very demand driven approach sometimes had the effect that activities were implemented without considering their fitting into a strategic planning system as e.g. the implementation of the 5 SARAP IT systems.

7.5 Sustainability

The cooperation's results as stated in section 7.1 are all well sustained into SARS's organisation, work plans and strategy. This is a result of a cooperation where SARS was highly involved in the planning of all activities and took leadership and ownership of their implementations. All activities implemented were demanded by SARS and no activities have been implemented just because they were included in the cooperation's formal documents or work-plans.

The ownership was also secured by SARS's co-funding of the cooperation, which secured an in depth interest in the activities' relevance and their successful implementation.

This is e.g. seen by the use of SARAP which is now well sustained into SARS IT use and SARS pays licenses for approx. SEK 1 mill. yearly to WM Data.

Still more results of the cooperation can be expected later, when activities have been implemented further and data problems have been solved e.g. within HRD, where activities were carried out only in the last years of the cooperation and for the SARAP, Escort Risk Analysis of CIT, VAT Audit and VAT returns, where SARS is working to improve the quality of the data that e.g. are used by the SARAP systems.

8. Partner Driven Cooperation

Sweden has adapted a strategy for partner-driven cooperation in development assistance as an alternative to traditional grant based assistance. The intent is to strengthen the emergence of self-supporting relationships between Swedish organisations and partners in low and mid income countries on a temporary basis. Sida's role in such a cooperation arrangement is merely to act as a catalyst and provide limited, time bound support (seed money), while the main contribution to the cooperation should come from the involved partners themselves.

Examples of such cooperations could be twinning projects or interagency cooperations involving a Swedish government agency and similar government agencies in a mid and a low-income country.

In many ways the cooperation between STA and SARS is a role model for a partner-driven cooperation which could serve as the foundation for further twinning projects, possibly involving a third party country in the region or beyond. In particular the demand driven approach in the cooperation is of interest and how SARS in general demanded activities relevant to SARS overall strategic needs. What should be included further in a partner driven cooperation model could be formal procedures for approving activities to ensure their strategic relevance and the selection of some key indicators to monitor the cooperation's objectives through out the project. In the SARS-STA case this would have been fairly easy because relevant indicators are published in SARS's yearly report.

SARS is already attracting great attention from other African countries that want to benchmark themselves with African best practices. In this regard SARS has already started to provide assistance to other tax agencies on the African continent (Rwanda, Lesotho, Ghana, Sudan, Kenya, DRC, Botswana) and to a great extent this work can be seen as an extension of the cooperation with STA and a dissemination of the results and lessons learned from this project.

The evaluation team discussed the possibility of cooperation between SARS and STA along the guidelines of the partner-driven cooperation strategy. STA considers that the institutional cooperation with SARS should not be continued in the present form, but is willing to support SARS – and other (African) countries – within other modalities including in tri-lateral cooperation. During the conversation with the evaluation team SARS came up with two suggestions for further exploration.

8.1 Tri-lateral Cooperation in a Country in the Region

One option could be to establish a tri-lateral cooperation with a sister agency in another African country. In this case, SARS would want to choose a strategic partner, one that has a regional leadership role like South Africa itself and can disseminate good practices in the region at a later stage. Nigeria, Uganda and Kenya were mentioned as possible candidates and SARS role would be to deliver expertise on African best practices in revenue collection, while STA could deliver expertise on OECD best practices and possibly take on the overall project management role.

8.2 Follow up on the Pretoria Communiqué, August 2008

Another option could be for STA to support SARS in the follow up on the international conference on Taxation, State Building and Capacity Development in Africa and the launch of the African Tax Administration Forum (ATAF). In this respect, South Africa is currently leading the work on establishing a regional tax centre, which is expected to be launched by the end of 2009.

A secretariat will coordinate the future centre activities and be located in another leading African country, e.g. Ghana. The centre will serve as an engine for regional partnerships and provide a venue for training on tax governance, accountability, capacity development, taxation on natural resources, multinational companies etc. Core funding for the centre is likely to come from South Africa, ATAF, OECD, IMF and bilateral donors like Sida.

One option could be for STA and SARS to enter into a strategic partnership under the partner-driven cooperation strategy and provide technical assistance to the training centre, disseminating best practice training, develop curriculums etc.

9. Lessons Learned

There are five main lessons learned from the cooperation programme. They have been developed into a number of general recommendations for the future design of development assistance programmes.

9.1 Twinning Works

The institutional cooperation between SARS and STA is a good example on how twinning between likeminded institutions work and especially on a long-term basis. The cooperation has moved from benchmarking to implementation of international best practises in SA, and SARS had the advantage that systems had been tested in Sweden and other countries before the implementation in SA. During the project valuable knowledge on tax administration was transferred from experts to experts and managers to managers who also ensured that the best practises transferred were most relevant to SARS and modified adequately if needed.

Similar models for institutional cooperation should be encouraged and in particular for likeminded institutions and with countries where the necessary trust, cultural and long-term relations can be established.

9.2 Own Funding Stimulates the Partners in the Implementation of Relevant Activities

SARS has contributed with funding during the cooperation in particular for licenses for IT software, but also for travel costs and accommodation. This has stimulated the interest in the cooperation and assured a good ownership of the activities implemented, and their sustainability in SARS. This is not completely new learning, but designing of development assistance often pays too little attention to the importance of contributions from the partner institutions. The way the contribution was defined in the implementation of IT-software is a good example i.e. that Sida funded the IT programmes and their implementation and SARS the licenses for the programmes and assumed this right from the beginning to sustain the activity.

9.3 Programme Design can Encourage Synergies with the Private Sector

The cooperation also presents a good learning on how the private sector can be supported in development assistance in a natural way by giving it a clear role within its specific competence. By contracting WM-Data for delivering IT systems it was ensured that the best available programmes were delivered to SARS and this way the private company got a lasting relation with SARS. This resulted in a new contract to WM-Data from SARS customs and continuous income from the licenses for the IT programmes from revenues.

9.4 Flexibility Works in a Dynamic Institutional Cooperation with Good Strategic Leadership

It is evident that the institutional cooperation between SARS and STA would not have succeeded in a more rigid programme development design, with a strict log frame to adhere to. The dynamic development in SARS was simply too fast and quick adjustments were needed to implement the most relevant activities. This worked in the cooperation because the SARS leadership (supported by STA) has the ability to see the selection of activities within a strategic framework, i.e. selecting activities fitting into SARS's strategy.

Without this strategic leadership, the demand driven approach could easily have turned into an inefficient ad hoc approach without any strategic relevance and anchoring.

9.5 Cooperation with Middle Income Countries can have Regional Effects

The regional effect of the institutional cooperation was not anticipated in the planning and design. The lesson is that, because of SA's regional and middle-income status, it was possible for SARS to initiate cooperation with other tax administrations and lately even spearhead the establishment of the African Tax Administration Forum.

Other African countries are looking for African benchmarking opportunities and the very positive achievements of SARS – building on the STA-SARS cooperation – have created a high regional demand for learning from SARS, since it represents best African practises. Therefore, support to middle income countries may be a good and efficient way of providing development assistance, since their regional importance provides a platform for dissemination of (regionally adapted) best practises to other countries in the region. The strategy of partner-driven cooperation could be an ideal catalyst for such cooperation.

Annex A. Terms of Reference

Terms of reference for an evaluation of the Swedish support to the South African Revenue Service (SARS) through an institutional cooperation with the Swedish Tax Agency (STA)

1. Introduction

The Swedish support to the South African Revenue Service (SARS), through the Swedish Tax Agency (STA) commenced in 1998. That said, the interaction between Sweden and South Africa within this area started already when SARS was established in 1996. The Swedish National Tax Board, as it was then called, conducted studies on how Sweden could best assist SARS in their transformation process. These studies, including a number of work shops, resulted in a document outlining possible areas of assistance. Sweden also supported smaller projects, mainly in the area of IT. The support was then to be formalised in the institutional cooperation programme taking its formal start in 1998. The cooperation has gone through two phases with the current phase ending in December 2008. The total support amounts to 38.5 MSEK.

It should also be noted that SARS started to co-fund the programme in 2004. SARS and STA also started to explore various possibilities for tripartite cooperation in other African countries in 2005. SARS is, for example, currently looking into the possibilities of establishing an African regional tax centre.

A brief outline of the two phases follow below.

The first phase 1998–2002 (19 MSEK)

This first phase focused mainly on five areas;

1. Analyses of the tax base and capacity to analyse the on-going changes;
2. development of a strategy within the audit control area;
3. development of a service and information policy;
4. development of a strategy for the decentralisation of functions within SARS and;
5. general directions for development of work processes and IT systems in the area of audit, income tax, PAYE, VAT, service to the taxpayers.

As this first phase came to an end, the decision was taken to continue the support for a second phase. This decision was based on the perceived success of the first phase and the continued need for development and transformation of the South African tax administration.

The second phase 2003–2008 (19.5 MSEK)

The main purpose of this phase, which was initially until December 2006, is to give support within the areas of technology, operational planning, human resource development and compliance with the intent to help SARS meet their overall objectives. These overall objectives being to;

1. ensure proper revenues to the State budget;
2. take an active part to social equality guarantee and enable all economic sectors to develop;
3. expand the relations and cooperation in respect of taxation with international organisations and countries in the region and in the world.

The specific objectives of the second phase are as follows;

- improve capacity and routines by using Information Technology in the most cost-effective way in relation to SARS' overall objectives;

- introduce cost-effective routines in the business area ensuring an integrated front and back office environment;
- review old and out-dated operational routines in the core business divisions;
- provide additional training for auditors as well as using the risk- analysis system; and
- enhance the use of a management development system to support selection, training, succession and career planning in the area of human resources.

A late extension was subsequently made of the programme. As the request for extension was submitted late, much of 2007 focused on developing a joint work plan and programme activities were low during this time.

During 2004/2005 SARS developed the so called SARS 2010, the strategic planning for 2004–2010, a number of core objectives within the SARS 2010 guided the focus of what might be referred to as a third phase of the programme. As such, a number of projects were identified;

- Risk differentiation mechanism;
- single registration;
- small business programme; and
- human resources.

In line with the phasing out of conventional Swedish development cooperation in South Africa there is no intention from Sida to extend the programme in its present form. However, there are possibilities for continued collaboration within the framework of actor-driven and/or tripartite cooperation.

2. Purpose of the Evaluation

The institutional cooperation programme between SARS and STA has developed over more than 10 years. SARS has been successful in continually increasing the collected revenues and most of the years exceeded its targets set by the Government. The cooperation between SARS and STA has varied in focus and intensity over the years. It is also noted that the programme has not until now been evaluated during its course.

The overall purpose of this evaluation is broadly to identify and document lessons learned, as well as impact and results generated by the programme. The evaluation should provide a good insight to the various parts of the programme, outlining achievements and challenges of the programme as a whole.

It should also provide a valuable documentation of a long-lasting public sector/institutional cooperation programme that could be useful input for future cooperation within similar areas. Finally, it would also be useful as input for possible future collaboration with South Africa within the framework of actor-driven cooperation as well as tripartite/regional cooperation in Africa.

3. The Assignment (issues to be covered in the evaluation)

The assignment shall focus, but not be limited to, the following key issues:

1. a broad description and analysis of the overall impact of the programme including the contribution to SARS capacity to fulfil its mandate within the South African context;
2. identification and analysis of the obstacles and challenges in the project implementation of the two phases, and within which context these challenges occurred;
3. an assessment of the effectiveness of the overall management and structure of the programme, including both parties;

4. an assessment of the extent that more sustainable institutional links and collaborations have been established between the two cooperating institutions;
5. an assessment of any changes in the relationship between the South African state and its citizens, related to the way public revenues are raised as a consequence of this cooperation;
6. an assessment of the sustainability of the programme;
7. an assessment of if, and how, the programme has provided openings for possible future collaborations within the framework for actor-driven cooperation as well as tripartite/regional collaborations;
8. a concluding analysis of the main lessons learned;
9. general recommendations on possible forms of actor-driven cooperation as well as tripartite and/or regional cooperation's.

4. Evaluator, Methodology and Time Schedule

The evaluation team should consist of at least two consultants which will be selected by Sida after consultations with SARS. One of the consultant designated team leader. The consultants should have an understanding of Sweden's/South Africa's development work. They should have specific experience from the field of public sector cooperation/transformation. At least one of the consultants should have very good knowledge of revenue services. The other consultant should have good experience from management, institutional development and capacity development. At least one of the consultants must be able to read good Swedish as some of the documentation is only available in Swedish.

The evaluation shall cover the entire period i.e. 1998 until 2008.

The consultants shall;

- Study available documentation regarding agreements, programmes and projects prior to commencing the field work.
- Provide an inception report no later than two weeks after commencing the assignment, this should include undertaking field work.
- Interviews should be conducted in Sweden and South Africa with personnel from inter alia SARS, the South African National Treasury, at least one independent in South Africa (NGO, academic, researcher, media), IMF and/or WB representative in South Africa, Swedish Embassy in Pretoria, Sida/Stockholm and STA in Stockholm who have key knowledge of the programme, both past and present. This will include managers as well as short-term technical advisers and experts. It is recognised that it might be difficult to locate personnel active in the programme's earlier stages. Other stakeholders and donors, especially those engaged with SARS, should also be included.
- Field visits where necessary and decided in consultation with SARS.
- Hold a workshop with key stakeholders in South Africa to discuss the programme and the ongoing evaluation.
- Present its findings of the draft final report at Sida/Stockholm after presenting the preliminary findings at the Swedish Embassy in Pretoria.
- The assignment shall be carried out between December 2008 and February 2009.
- The total time for the work should not be more than 45 consultancy days, including reading the documentation, interviews, field visits and report writing.

5. Reporting

The team should present an inception report no later than two weeks after commencing the assignment, including field work. This inception report should review the key issues of the assignment assessing the possibility of achieving the set goals. The report should develop an operational methodology and work plan on the basis of the review. Sida, in consultation with SARS, should decide on any necessary changes to the terms of reference based on this inception report.

The consultants shall make a brief presentation of the preliminary findings to the Embassy at the end of the field work. The draft report shall be written in English and the outline of the report shall follow the guidelines in *Sida Evaluation Report – a Standardised Format* (Annex 1). The draft report shall be submitted to the Embassy in Pretoria, Sida/DESA and SARS electronically.

Within two weeks after receiving Sida's and SARS comments on the draft report, a final version shall be submitted to the Embassy, Sida/DESA and SARS again electronically. The evaluation report must be presented in a way that enables publication without further editing. Subject to decision by Sida, the report will be published in the *Sida Evaluations* series.

The evaluation assignment includes the completion of *Sida Evaluations Data Work Sheet* (Annex 2), including and *Evaluation Abstract* (final section G) as defined and required by DAC. The completed Data Worksheet shall be submitted to Sida along with the final version of the report.

Annex B. Methodology and Approach

The evaluation team followed an approach based on desk studies, analysis of relevant reports and documents and semi-structured interviews with stakeholders and involved people in South Africa and Sweden.

All activities was carried out in an objective and impartial manner and interviews was based on questionnaires to include all relevant questions.

The documentations studied and analysed included:

- Document with analysis and suggestions from Swedish National Tax Board
- Project and programme documents for the programme's two phases 1998 to 2002 and 2003–2008 (originally 2003–2006)
- Agreements between the institutional partners
- Agreements with Sida
- Progress reports and annual reports
- Other relevant material provided by Sida, SARS and the Swedish Tax Agency
- Other material identified during the desk work

See list of reference in annex E.

The evaluation had to overcome some challenges due to the sparse availability of project documentation and reviews. The log frames of the project proposals (1998–2000 and 2002–2004) have not been used actively to guide the project implementation. The progress reports are narrative in character based on self-assessments and without reference to the project log frame(s) or development of verifiable indicators. Perhaps most importantly, there seems to be no documented monitoring of risks and assumptions in the log frame. There was therefore a need for the evaluation team to assess the overall context the project and changes since 1998, that may have had an effect on the project outcomes.

In order for the evaluation team to assess project context and outcomes, it started by getting an understanding of the bigger picture of the SARS mandate and the development in its ability to fulfill this mandate since 1998.

The development in SARS ability to fulfill its mandate had to be understood in the broader institutional/governance context in South Africa. The evaluation team made a rapid assessment of the overall economic and political development in South Africa over the last ten years, which may have affected the project. This included relevant public sector reforms, which may have influenced the organisational development of SARS, as well as SARS inter-ministerial linkages and how autonomously the organisation is politically, financially and functionally (its political and administrative status).

The evaluation team also assessed the overall development of SARS internal capacity since 1998, e.g.

- changes in inputs (staff, funds, infrastructure, equipment etc)
- purpose and strategy
- leadership and management
- structures/procedures (including SARS decentralisation efforts) and
- incentives.

These capacity aspects have all being targeted by the project and it was important to try to assess the attribution/contribution of the project to these capacity changes. The risk that other (internal) development projects may have affected the efficiency and effectiveness of the project was also looked at during the evaluation.

An inception report was forwarded to Sida based on the desk study. This gave a detailed description of the methodology and work plan for the field work, review of key issues and the possibility of achieving all the objectives of the evaluation.

The interviews were carried out with relevant people from South Africa, Sweden and Denmark (WM Data). As far as possible interviews included people who participated in all phases of the project including the early years.

In South Africa the consultant team met with:

- SARS staff and programme managers
- South African National Treasury
- SAIPA, SAICA, SALGA
- University of Pretoria
- Swedish Embassy in Pretoria

Before the field visit to South Africa, the consultant team met with

- The Sida project management in Sweden and
- Managers, short term advisers and experts from the Swedish Tax Agency, STA
- WM Data, Denmark

By the end of the field mission to South Africa the consultants presented findings to SARS at a seminar.

The findings in this report will be presented to Sida in a meeting in Stockholm on 17 February 2009. Upon receiving comments from Sida, the consultant will present the final report including the Sida Evaluations Data Work Sheet and Evaluation Abstract.

Annex C Questionnaire

Below is the gross questionnaire that was used by the evaluation team. The questionnaire served as a general guideline and checklist for the evaluation interviews and as a basis for structuring interviews for the individual meetings.

1. Development in SARS mandate and results

- Has the SARS attention to the citizens been changed and do tax payers receive a better service?
- Are the South African taxpayers more satisfied with services provided?
- To which extent has the collection of revenues increased from 1998 to 2008?
- To what extent have more taxpayers been included in the registers from 1998 to 2007?
- Are taxpayers more willing to pay taxes?
- Has this affected men and women equally and have special groups benefitted especially?

2. Project context

- What are the most important general South African economic and political changes that have affected the mandate and operations of SARS over the last ten years?
- What are the most important policies, public sector reforms, framework for development cooperation and pressures on the public sector likely to have affected the mandate and operations of SARS over the last ten years?
- What are the most important development in SARS inter-organisational relations, task network and political, financial and functional autonomy likely to have affected the mandate and operations of SARS over the last ten years?

3. Development in SARS internal capacity

- How has the overall resource envelope of SARS changed over the last ten years (staff, funding, infrastructure, equipment etc.)
- Changes in purpose and strategy
- Changes in leadership and management
- Changes in structures and procedures, including decentralisation, regional revenue branches, establishment of tax payer services
- Changes in incentives and conditions
- Development in staff recruitment, staff overturn and private sector competition

4. Impact

- How has the Swedish experiences affected the working methodologies in SARS?
- Have any concrete Swedish experiences been implemented in SARS Africa – e.g. working methods, planning, procedures etc.?
- To which extent can SARS staff capacity improvements be attributed to the project
- How has the relation been between the South African and Swedish partner?
- Have females from both sides (STA and SARS) been involved in the project?
- Have agreements and obligations been fulfilled from both sides?
- Has STA and SARS management meet regularly to discuss the progress and development of the project (twice a year)?
- In which way has the partners evaluated the progress of the project (yearly)
- Have the persons assigned to the projects from Sweden and South Africa been stable during the projects implementation?
- Which major changes in persons assigned have taken place?

5. Relevance

- Have the activities by the project been relevant and in the need of SARS?
- Have the activities been aligned with overall SA policies and needs?
- Have activities been duplicated by other projects?
- If so which activities?
- Have all training activities carried out during the project been of relevance?

6. Effectiveness

- Have the project's activities affected the SARS so that its works more efficiently than it 1998?
- Has the project's objectives been reached?
- Have activities in the project been carried out as planned?
- Have other activities been implemented?
- Why were both phases of the project extended?
- What would have happened without the project activities?
- Could other more important activities have been included?

7. Efficiency

- Has time been used efficiently during the missions in South Africa of experts from STA?
- Has coordination with other projects been efficient and well organised (meetings etc.)?
- To what extent have South African counterparts been available during the Swedish experts' missions?
- Have key managers in SARS dedicated to the projects' activities and fulfilled their obligations?
- Has the frequency of missions been suitable and left enough time to prepare and sustain activities in South Africa?
- What could have been done differently to improve the working of the projects' activities?

7. Sustainability

- Have the new working methods introduced in the project been internalised and institutionalised in SARS?
- Are resources sufficient to maintain all new activities?
- Have SARS been sufficiently involved in approval of project working plans, planning of missions and implementation of the project's activities?
- Have specific activities been implemented to cope with possible corruption in the institutions?
- Does SARS have the capacity to take over all results?

8. Future activities

- Which plans does SARS have for future cooperation with other institutions and countries?
- Have any of the plans for regional cooperation materialised?

9. Lessons Learned

- Which particular lessons for future institutional cooperation or assistance can be drawn from the project?

10. Actor Driven cooperation

- From which side have ideas on activities mainly been proposed during the course of the projects?
- Have ideas from SARS been well accepted from STA and Sida?
- Would it be relevant to continue the cooperation and if so, which areas are most relevant?
- What could the sources be for a continued cooperation?
- How could the activities in the continuation be sustained (financially) in SARS

Annex D Development in Tax Revenue 1994/95–2007/08

Table 1.2.1: Tax revenue by main revenue source, 1994/95 – 2007/08

R million	Personal income tax (PIT)	Corporate income tax (CIT)	Secondary tax on companies (STC)	Value Added Tax (VAT)	Fuel levy	Customs	Specific excise duties	Other ¹	Total tax revenue
1994/95	44 972.8	11 961.3	1 303.6	29 288.4	8 351.5	5 606.4	5 431.3	6 859.3	113 774.6
1995/96	51 179.3	14 059.0	1 262.2	32 768.2	8 928.0	6 169.6	6 075.0	6 836.6	127 278.0
1996/97	59 519.8	16 985.0	1 337.9	35 902.9	10 391.6	7 200.5	5 912.4	10 082.3	147 932.3
1997/98	68 342.4	19 696.4	1 446.4	40 095.6	12 091.2	5 638.6	7 425.8	10 591.0	166 927.4
1998/99	77 733.9	20 388.0	1 930.8	43 985.4	13 640.0	6 052.5	8 052.8	13 060.2	184 848.8
1999/00	85 883.8	20 971.6	3 149.9	48 376.8	14 289.8	6 778.1	8 886.1	13 049.8	201 388.0
2000/01	86 478.0	29 491.8	4 031.3	54 455.2	14 456.3	8 226.6	9 126.6	14 029.3	229 394.2
2001/02	90 389.5	42 354.5	7 162.7	61 056.6	14 923.2	8 680.1	9 797.2	17 934.4	262 288.3
2002/03	94 336.7	55 745.1	6 325.6	70 149.9	15 333.8	9 619.8	10 422.6	20 276.3	282 208.7
2003/04	98 496.1	60 880.8	6 132.9	80 681.8	16 652.4	8 414.3	11 364.6	19 885.6	302 607.6
2004/05	110 981.9	70 781.9	7 487.1	98 157.9	19 190.4	13 285.7	13 066.7	22 028.8	364 880.3
2005/06	125 645.3	86 160.8	12 277.6	114 351.6	20 506.7	18 201.9	14 546.5	25 643.5	417 934.0
2006/07	140 578.3	118 998.6	15 291.4	134 462.6	21 844.6	24 002.2	16 369.4	23 968.0	486 516.1
2007/08	168 774.4	140 119.8	20 555.4	150 442.8	23 740.5	27 081.8	18 218.4	23 907.4	672 870.8
Percentage of total									
1994/95	39.5%	10.5%	1.1%	25.7%	7.3%	4.9%	4.8%	6.0%	100.0%
1995/96	40.2%	11.0%	1.0%	25.7%	7.0%	4.8%	4.8%	5.4%	100.0%
1996/97	40.4%	11.5%	0.9%	24.4%	7.1%	4.9%	4.0%	6.8%	100.0%
1997/98	41.3%	11.9%	0.9%	24.3%	7.3%	3.4%	4.5%	6.4%	100.0%
1998/99	42.1%	11.0%	1.0%	23.8%	7.4%	3.3%	4.4%	7.1%	100.0%
1999/00	42.6%	10.4%	1.6%	24.0%	7.1%	3.4%	4.4%	6.5%	100.0%
2000/01	39.2%	13.4%	1.8%	24.7%	6.6%	3.7%	4.1%	6.4%	100.0%
2001/02	35.8%	16.8%	2.8%	24.2%	5.9%	3.4%	3.9%	7.1%	100.0%
2002/03	33.4%	19.8%	2.2%	24.9%	5.4%	3.4%	3.7%	7.2%	100.0%
2003/04	32.6%	20.1%	2.0%	26.7%	5.5%	2.8%	3.8%	6.6%	100.0%
2004/05	31.3%	19.5%	2.1%	27.7%	5.4%	3.7%	3.7%	6.2%	100.0%
2005/06	30.1%	20.6%	2.9%	27.4%	4.9%	4.4%	3.5%	6.1%	100.0%
2006/07	28.4%	24.0%	3.1%	27.1%	4.4%	4.8%	3.3%	4.8%	100.0%
2007/08	29.5%	24.5%	3.6%	26.3%	4.1%	4.7%	3.2%	4.2%	100.0%
Nominal percentage increase from 2002/03 to 2007/08									
Cumulative	78.9%	151.4%	225.4%	114.5%	54.8%	181.5%	74.8%	17.9%	103.0%
Per year	12.3%	20.2%	26.6%	16.5%	9.1%	23.0%	11.8%	3.3%	16.2%

1. Includes transfer duties and unclassified securities tax.

Annex E References

Sida documents

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South African Revenue Service, Project Identification Report
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- SARS, NTB. Proposal for Swedish Assistance 2002-01-29
- Contract for Consultant Services 1998 to 2000 (SARS-STA)
- Contract Sida-STA 1998–2000
- Addendum to above

Programme documents and activities Phase 2. 2002 to 2008

- Proposal for Swedish Assistance 2002–2004
- Proposed HR Projects for the Swedish Support
- Contract SARS-STA 2002–2005
- ToR For the Swedish National Tax Board Services to the South African Revenue Service 2002–2004
- Proposed Activities During 2003 in the Co-operation Between SARS and NTB

Proposed Activities During 2004 in the Co-operation Between SARS and NTB
Proposal for Extended Co-operation between South African Revenue Service and
the Swedish Tax Agency (1/7 2005–31/12 2006)
Work-plan for Cooperation Between STA and SARS Jan 2007 to Dec. 2008
Agreement for Cooperation between SARS and STA (2007-02-10)
Agreement for Institutional Cooperation between SARS and STA 1/7 2005 (2005-10-03)

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Preliminary annual Progress Report 2003
SARS Preliminary Annual Progress Report for the Sida Sector Review 2002/2004
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Notes on Meeting 2004–2005 Annual Progress Report (STA-SARS)
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the STA-Sida for the period 2005 to 2006
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WM Data Project Completion Report March 2005

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Notes from Visit to South Africa and the SARS. Activity 1 Operations
Assistance for the Computer Ass Audits at SARS, South Africa
Report on HR Visit to Sweden – 29 September to 3 October 2008.
Programme for the visit of officials from the Swedish tax agency (STA) t
the South African revenue service (SARS) 8–12 December 2008.
Report of the Study Visit by SARS to the Swedish Tax Agency, 8 to 12 May 2006
Report of the Study Visit by SARS to the Swedish Tax Agency, 17 to 24 Juni 2006

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Economic Assessment of South Africa, 2008 OECD July 2008

The South African Tax Reform Experiences Since 1994, Minister of Finance Trevor A Manual, 2002

Tax Reform and Progressivity of Personal Income Tax in South Africa, Morekwa E. NYAmongo and Nicolass J. Schoeman

Pretoria Communique, International Conference on Taxation,
State Building and Capacity Development in Africa 28–29 August 2009

Annex F Work Plan and Persons Met

Date	Activity	Meet with
7 January 2009	Meeting/briefing, Sida, Sweden Interviews with STA, Sweden	Thomas Kjellson, Deputy Head Maria Selin (Actor Driven Cooperation) Ann Melin-Wenstrom, Programme Manager Gosta Wilhelm, Programme Manager Elisabeth Bjar, Chief Personnel Officer
14 January	Meeting Sida (Telephone) Meeting, WM Data, Copenhagen	Anne Ljung (former Programme Officer, Pretoria) Albert Menashe, CEO Krister Hagerås, Specialist
19 January	Meeting Sida, Pretoria Meeting SARS	Marianne Milligan, Programme Officer Dag Sundelin, Counsellor Emelda Behr, International Relations Lincoln Marais, International Relations
20 January	SARS, Compliance Team SARS, Operation SARS, Research Division SARS, Operation, Call Centres	Jonas Makwakwa, Group Executive, Enforcement, Desrae Lawrence, senior manager and 2 specialists Edward Kieswetter, Group Executive Aidan Keanly, Specialist Tinus Marx, Group Executive
21 January	SARS, Service Escalation SARS, Data, Strategy, prognostic (formerly Policy and Procedure) SRAS, Custom (formerly Operation, Performance Management) SARS, Call Centre	Christo Henning, Operation Manager Randall Carolissen, Group Executive Fabian Murray, Group Executive Prineven Moonsamy, Workforce Fareed Khan, Executive Omar Ganie, Planner Lema du Lolerg, contact
22 January	South Africa Local Governments Association SARS, Human Recourse Development SARS, Surveys and Service	Mayur Maganlal, Director Economic Development Nirala Ramlall, Senior Manager Logan Wort, Group Executive
23 January	University of Pretoria, Tax Department National Treasure South African Institute of Professional Accountants South African Institute of Chartered Accountants	Madeleine Stiglich, Professor Piet Nel, Researcher Cecil Morden, Director Tax Analysis Ettiene Retief, Chairman SAIPA Obekeng Mathibe Project Manager Ewald Mueller, Senior Executive Muneer Hassan, Project Director
27 January	SARS Seminar	SARS Staff
29 January	STA, IT systems (telephone)	Thomas Hansen, expert
17 February	Presentation of evaluation at Sida	Sida staff and STA

Annex G Log frame; Institutional Cooperation SARS and STA 1998 to 2008

In the annex the consultant has subtracted information from various documents (listed in annex E) to establish an overview (log frame) of the planned content of the cooperation throughout the first and the second phase of the cooperation. As stated in the report the actual implementation of the cooperation was to a high extent driven by the actual needs of SARS and SARS' ability to implement activities and not on the planning listed in this annex.

Over-all objectives

- The long-term objective of SARS is to ensure that taxes are paid according to the law at the correct time
- The major objective of the project between SARS and NTB is the improvement of the effectiveness and efficiency of SARS

1998–2002: Phase One

Long-term Objectives	Project objective	Activities	Input	Indicators	Means of verification	Factors
Optimisation of revenue yield compliance with the law high standards of customer service cost efficiency						
	An understanding of the tax base and capacity to analyse the on-going changes	1998: analysis of the existing data concerning the tax base	2 short-term consultants	Reduced tax gap Reduced collection gap	Increase in registration Increase in revenue collection Decrease in outstanding debts Decrease in taxpayer complaints Decrease in operational costs	Budget Accommodation Equipment Skilled resources
	Adopted strategy within the control and audit area and capacity to revise it	1998: development of strategy within the control and audit area. Analysis of the results of present audit activities. Development of capacity within the field auditing area	3 short-term consultants, one specializing in tax fraud 1 long-term consultant	Strategic plan	Document	In line with the corporate strategy
	Adopted strategy in the area of service and information to the taxpayers and capacity to revise it	1998: development of strategy in the area of service and information	2 short-term consultants	Strategic plan	Document	In line with the corporate strategy
	General directions for development of work processes in the area of audit, income tax, PAYE, VAT, service to the taxpayers	1998: Development of process maps for core processes and already decided changes to them, development of proposals for further changes	2 short-term consultants	Project initiation Project programme 1998: rough maps of existing processes, existing IT-support and on-going projects. Proposal for general strategy in terms of use of IT and change of work processes	Project plan Programme document 1998: process maps	Resources budget

Long-term Objectives	Project objective	Activities	Input	Indicators	Means of verification	Factors
An organisation that is dynamic, decentralised and performance and client oriented	Adopted strategy for the optimal decentralisation of functions	Develop a functional model for decentralisation	1 short-term consultant	Strategic plan	Document	
				Appropriate processes for allocation of resources in place. Identification of functions of regional offices	Establishment of functions of regional offices Processes in operation resources	Resources Decentralisation strategy
	To implement an improve performance measurement model	1998: develop a performance measurement system	2 short-term consultants	A performance measurement system	Report	
	To implement improve models for forecasting revenue yield as the basis for the regional and national budget	1998: Develop a forecasting model for revenue yield for regional and national budget	1 short-term consultant	A forecasting model for regional and national budget	A revenue budget document	
	To implement an improved expenditure budgeting model based on analysis of workloads	1998: Develop a expenditure budgeting model	1 short-term consultant	Expenditure budget model	An expenditure budget document	
An organisation that is empowered, accountable and supported by appropriate resources with proud, motivated and skilled staff who are representative and subject to equal opportunities	To implement an improved financial and accounting management system	1998: Develop a financial and accounting management system	1 short-term consultant	Financial and accounting management system	Financial reports	
				Affirmative action plan Recruitment plan Management system	Document	
	A management system implemented	1998: develop a preliminary management system	1 short-term consultant	A management system implemented	Result report of decentralised functions	Resources Recruitment plans Decentralisation policy Corporate strategy

Long-term Objectives	Project objective	Activities	Input	Indicators	Means of verification	Factors
	Manager supply system with focus on management training and representativity needs	1998: develop a preliminary manager supply system with focus on management training and representativity needs	1 short-term consultant	Manager supply	Training programme Trained managers Remuneration systems	Resources Budget
	An information and communication system	1998: develop a preliminary Internal Information and Communication System	1 short-term consultant	Policy document	Policy document	Resources Network
	To implement a competence development plan	1998: Develop a preliminary competence development plan for short and long-term	1 short-term consultant	A competence development plan	Document	Training centers Resources Budget Training programme Corporate strategy
	To implement a training exchange programme	1998: develop a plan for a training exchange programme	1 short-term consultant	Exchange programme implemented	Number of officers engaged	Funding
Capacity and routines to use IT in most cost-effective ways in relation to SARS' overall objectives				Appropriate routines and increased capacity in place	IT supports business strategy	Budgeting Corporate strategy
	To ensure a stable and reliable services from the hardware and network infrastructure	1998: services to users are stable and available from the hardware and network infrastructure		Different indicators of service level 1998: services to users are stable Mainframe application systems are stable and in operation	1998: service through network to users are 99,8% available Breakdown times on mainframe is less than 0,1%	Budget
	To implement effective routines and standards for management and control of IT-related activities	1998: Routines for management and control of IT-related activities are in operation		1998: a high standard of services developed and quality control process implemented	Services agreements	Business system standards
	To implement an IT-strategy based on business process development plans	1998: IT-operational plans support the business process development plans		IT-strategy 1998: business process plans drive IT operational activities	Joint macro project plans	Budget Corporate strategy

2002–2005: Phase Two

Objectives	Indicators	Means of verification	Factors
Capacity and routines to use IT in the most cost-effective way in relation to SARS' overall objectives	Appropriate routines and increase capacity in place	IT supports business strategy	Budgeting strategy
Cost-effective routines in the business area ensure an integrated front and back office environment	Appropriate routines in place	Business area strategy	Budgeting strategy
Reviewing old and outdated operational routines in the core business divisions	Updated routines in place	Core business strategy	Budgeting strategy
Additional training for auditors as well as using the risk analysis system	New auditors trained. Risk analysis fully implemented	Audit strategy, audit plan and audit programme	Budgeting strategy
Use of management development system to support selection, training, succession, and career planning in the area of human resources	Management development system in place	HR strategy, audit plan and audit programme	Budgeting strategy

Area of activities	Planned outputs	Specific activities in 2003	Specific activities in 2004	Indicators	Means of verification	Critical factors
Technology	Single registration including TIN		Main focus	Consistent registration system	Programmed document	External sources of information
	Single account for tax-paying entity			Accounting system	Report	New laws
	Electronic document management solution			Re-development of all SARS applications	Report	Legal changes, new tools
	New business development methodology			New development environment running tools	Acquiring business process mapping	New testing, tools, modeling tools
	E-business strategy			Comprehensive e-business strategy	Strategy	Budgeting
Operational Policy	Enterprise resource system (ERP)			ERP consolidated with core systems	Strategy	Budgeting
	Operational and administrative policies				Report	
Human Resource	Auditor training – computer based training		Training models	Training and support programme for auditors	Audit strategy	External service providers
	Decentralisation of HR management		Change management and staff competence	Decentralisation strategy and implementation plan	Report	
	Relation employer-Unions	Areas of co-operation is decided		Agreement on a distraction between matters for consultation and matters of negotiation	Study visit to Sweden	
	Remuneration strategy/policy			Development of a new strategy/policy	Report	Personnel resources
Compliance	Risk profiling and analysis systems	A comparative analysis of tax systems in a number of selected countries with the aim to continue the analysis of a migration path for SARS from the present structure of routines and systems for the different tax types	The risk analysis system for VAT is planned to go into production in Sep.2004	Comprehensive system i.e. SARAP and SESAM across Personal income tax, VAT, and PAYE	National roll out	Personnel resources
	Audit manual	SARAP VAT will be handed over to SARS SARAP PAYE will start		Comprehensive audit Manual	Report	

Phase 3 2005-2008, Extension of Phase 2

Areas of activities	Planned outputs
Technology	Single registration including TIN Single account for taxpaying entity Electronic document management solution New business development methodology E-business strategy Enterprise resource system (ERP) System security – new Electronic Border Gate Control - new
Operational policy	Conduct a process of documenting, reviewing and redrafting operational policies
Human Resource	Training Auditor training – computer based training Management development
Compliance	Risk profiling Roll out SARAP and SESAM across personnel income tax, VAT and PAYE Audit technique training Compilation of comprehensive audit manual Develop a segmented approach to auditing the tax base

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THE SWEDISH SUPPORT TO THE SOUTH AFRICAN REVENUE SERVICE THROUGH AN INSTITUTIONAL COOPERATION WITH THE SWEDISH TAX AGENCY, 1998–2008

The institutional cooperation between the South African Revenue Service and the Swedish Tax Agency between 1998 and 2008 have created long lasting relations between the two institutions and individuals. The capacity of SARS has increased significantly during the 10 years, which has resulted in the tripling of revenues collected for the national budget in South Africa. As a part of GDP, the revenue has increased from 25% in 1998 to 33% in 2007. The cooperation has been effective and the overall objective of SARS "To ensure that taxes are paid according to the law at the correct time" has been reached. The cooperation between the two partners has also been efficient, and one of the most important reasons is the flexibility and the demand driven approach.

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