

**CORRUPTION IN THE DEVELOPING WORLD: THE CASE OF SEMI-
AUTONOMOUS REVENUE AUTHORITIES WITH SPECIAL
REFERENCE TO PAKISTAN**

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DEDICATION

*This thesis is dedicated to the memories of my late father Ch. Dilshad Ahmed Khatana and my
late supervisor Professor. Rob Ball*

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ABSTRACT

SARAs have been established to achieve dual objectives of improving efficiency and controlling corruption in tax administrations. Key question for this research include: why some SARAs have failed to effectively control opportunities for corruption and what should be done about it? To explore these questions, this thesis has set out an Anti-Corruption SARA Framework. The novel contribution of this thesis lies in developing the new lens (analytical framework) which causes us to see the topic of SARAs against corruption quite differently (due to differentiating between motivations and opportunities for corruption). In order to analyze the validity of the framework, a two-staged analysis of SARAs, labelled as the macro and micro analysis, was conducted for SARAs and Federal Board of Revenue (FBR) in Pakistan. In the macro level of analysis (through secondary literature analysis), it was found that SARAs made partial progress to control corruption by focusing more on controlling motivations for corruption (through personnel autonomy) and lesser focus on controlling opportunities for corruption (through effective accountability). In the micro analysis (through semi-structured interviews and secondary literature), it was found that FBR remained ineffective in controlling both motivations and opportunities for corruption despite focusing more on controlling motivations for corruption (through personnel autonomy) and lesser focus on controlling opportunities for corruption (through effective accountability). In both macro and micro analyses, continued interference from Ministries of Finance (MoF) was found to undermine not only effective accountability for SARAs and FBR, but also undermining control of opportunities for corruption. Findings of both macro and micro level of analysis resulted in three main recommendations. These findings pointed towards a recommendation of reforming SARAs into an organizational form which is far more disaggregated from the parent ministry, such that SARAs have no accountability link with MoFs in the presence of other effective oversight bodies. It is recommended that SARA countries should develop this understanding about importance of balancing both autonomy and accountability mechanisms to be fully effective against corruption for controlling both motivations and opportunities for corruption. Thirdly, research findings point towards a case of converting FBR into a SARA in the form of Pakistan Revenue Authority, such that it is free from any direct oversight by the MoF, and in contrast should be subjected to effective oversight by other oversight bodies, such as already existing Cabinet Committee for Federal Revenue.

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LIST OF ACRONYMS

CBR	Central Board of Revenue
DFID	Department for International Development
DMG	District Management Group
FBR	Federal Board of Revenue
FPSC	Federal Public Service Commission
FTO	Federal Tax Ombudsman
GoP	Government of Pakistan
HRM	Human Resource Management
IIMU	Internal Investigation and Monitoring Unit
IMF	International Monetary Fund
IRS	Inland Revenue Service
KRA	Kenyan Revenue Authority
MABs	More Autonomous Bodies
MoFs	Ministries of Finance
NAB	National Accountability Bureau
NADRA	National Database and Registration Authority
NPM	New Public Management
NRS	National Revenue Secretariat Ghana
NTN	National Tax Numbers
PAC	Public Accounts Committee
QUANGOS	Quasi-Autonomous Non-Governmental Organizations
Rs.	Rupees (Pakistan Currency).
SARAs	Semi-Autonomous Revenue Authorities
SARS	South African Revenue Service

SAT	Mexican Tax Administration Service
SAT	Superintendencia de Administración Tributaria Guatemala
SENIAT	National Integrated Tax Administration Service
SIN	National Intelligence Service Peru
SRO	Statutory Rules and Orders
SUNAT	Superintendencia Nacional de Administración Tributaria Peru
TARP	Tax Administration Reform Project
TRA	Tanzania Revenue Authority
URA	Uganda Revenue Authority
WJP	World Justice Project

CHAPTER ONE

INTRODUCTION TO THE THESIS

1.0 INTRODUCTION

In recent years, there has been an increasing adoption of Semi-Autonomous Revenue Authority (SARA) reform model in developing countries to achieve dual objectives of improving efficiency and controlling corruption in tax administrations (McCourt, 2002; Fjeldstad, 2003, 2005a, 2005b; Kidd & Crandall, 2006; Mann, 2004; Martinez-Vazquez *et al.*, 2004; McCarten, 2006; Taliencio, 2004; Zuleta, 2007). The focus of this research is in analysing how well SARA reform has fared in achieving one of its objectives of corruption control in tax administration. Research showed how SARA reform idea, conceptually designed to curb corruption, has not fared well when empirically dealing with corruption in tax administrations in developing countries, where improved levels of remuneration and increased managerial autonomy co-existed with simultaneous high levels of corruption (Fjeldstad, 2003). Literature has highlighted failure of SARA reform to successfully reform tax administrations in some developing countries with a strong custom of political patronage, where in practice the uptake of SARA reform made problem of political patronage worse than in the pre-reform state (Fjeldstad, 2005a). The literature highlighted many SARA countries engaged in 'tug-of-war' with parent Ministries of Finance (MoFs) over control and autonomy. This pointed that SARA reform translated into loss of considerable autonomy and diminished patronage benefits for some parent MoFs, which in turn encouraged strong resistance against successful implementation of SARA reform. Several other researches highlighted deficiencies of the SARA reform model to achieve corruption control, and have argued against consideration of SARA reform as a universal remedy for reforming tax administrations in developing countries (Martinez-Vazquez *et al.*, 2004; Fjeldstad, 2003, 2005a; Kidd & Crandall, 2006; Mann, 2004; McCarten, 2006).

Although the review of these studies succeeded in improving our understanding of the reform model at a conceptual level, they also point towards a theory-practice paradox. These studies highlight that experience of SARAs against corruption has not always been as expected or explained by conceptual models' consequences. This observation pointed to a need to closely analyse the theory behind SARA reform, and try to find out why the literature is suggesting that practice deviates from theory. In order to achieve this objective, this thesis will analyze prominent SARA conceptual models and strategies to control corruption in tax administrations, not only to throw some light on theories behind SARA reform idea, but to look for answers to the theory-practice paradox. These SARA frameworks will be analysed to explain why experiences of SARA adoption in developing countries deviates from conceptual prescriptions, and to identify potential weaknesses and paradoxes in existing literature. The over-arching objective of this exercise is to further discussion on how to better control opportunities for corruption in SARAs in developing countries by analyzing prominent conceptual frameworks in the field.

In addition to aiming to analyse SARAs' progress in developing countries against corruption, this thesis also aims to analyse in detail the current state of tax administration reforms and potential and suitability of SARA reform for Pakistan. Pakistan, which gained its independence and emerged on world's map in 1947, is the sixth most populous country in the world, with an approximate population of 180 million (World Bank, 2013). Presently, less than 1% of the 180 million people pay income tax (Financial Times, 2011; Rana, 2013a). The tax machinery in Pakistan has been characterized as inefficient and corrupt for a long time. As a consequence, Pakistan has one of lowest tax-to-GDP ratios in the world of just above 10% in 2012, which is lower than many poorer African countries. Recent estimates of Pakistan's informal economy stands at 91.4% of GDP (Kemal, 2013). The tax gap, which is the difference between sum of tax due minus amount of tax paid on voluntary basis and in time, stood at 79% of the actual tax

collections in Pakistan, as quoted by one of former chairman of FBR in front of the Supreme Court of Pakistan (Jamal, 2011). This is in comparison to the tax gap of about 9% in UK and 22% in USA. As per World Bank (2009) the total tax evaded in Pakistan for the year 2007/08 was around Rs. 796 billion against a total collection of Rs. 1.1 trillion.

A country of more than 180 million people only has 1.2 million registered users who file income tax returns. In 2011, almost 3 million Pakistanis held National Tax Numbers (NTN), but less than half (1.4 million) filed income tax returns (Khan, 2012a; Kemal, 2013). Only 118,000 entities were registered with the sales tax system, and out of this meagre number, only about 15,000 actually paid any tax (IMF, 2013). The FBR could identify only 768,000 people who paid income tax in year 2011. Out of this number, only 270,000 consistently paid tax in the last three years (The Economist, 2012). As per Federal Tax Ombudsman (FTO), Pakistan should have an average of at least 4 million income tax returns, in comparison to Indian population, where almost 25 million returns were filed (The News, 2013a). As per Pakistan's National Database and Registration Authority (NADRA) there were 2.38 millionaires in 2011 and 3.2 millionaires in 2012 in the country who owned palatial houses in affluent areas, held luxury cars, frequently travelled abroad, possessed arms, held multiple bank accounts, paid large utility bills, and sent children abroad to study; but were not registered taxpayers, did not had NTN, and did not pay any income tax (Khan, 2012a). These dismal figures reflect the long-lasting failure of Pakistan's central tax collection agency, the FBR, to efficiently collect taxes, and the incapability of prior reform efforts to enhance tax collection.

1.1 AIMS AND OBJECTIVES

The discussions highlighted above helped to identify two main questions of this research:

- Why some SARAs failed to effectively control opportunities for corruption?
- Why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan?

This study is aimed at analysing corruption in tax administrations in developing countries especially Pakistan. It maps existing SARAs to illustrate why tax administration reform failed to effectively control opportunities for corruption. In addition, it conducts a case study to illustrate why tax administration reform failed to control opportunities for corruption in Pakistan.

To explore these questions, this thesis will set out an Anti-Corruption SARA framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. The analytical framework will be developed by answering questions such as: which SARA design components contribute towards reducing corruption? what are the processes by which this outcome is achieved? and are certain SARA design components better suited to curb corruption than others? This analytical framework will be developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004). The development of this framework is aimed to contribute towards explaining how existing SARA model can be improved not only to effectively control corruption in tax administrations in developing countries, but also to improve revenue performance as a consequence. In order to analyze the validity of the framework through

analysis of SARA cases, a two-staged analysis of SARA cases will be conducted, where the analytical framework will be tested and revised for SARA country cases. The development of analytical framework resulted in two research hypotheses:

Research hypothesis 1: By preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption.

Research hypothesis 2: SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF

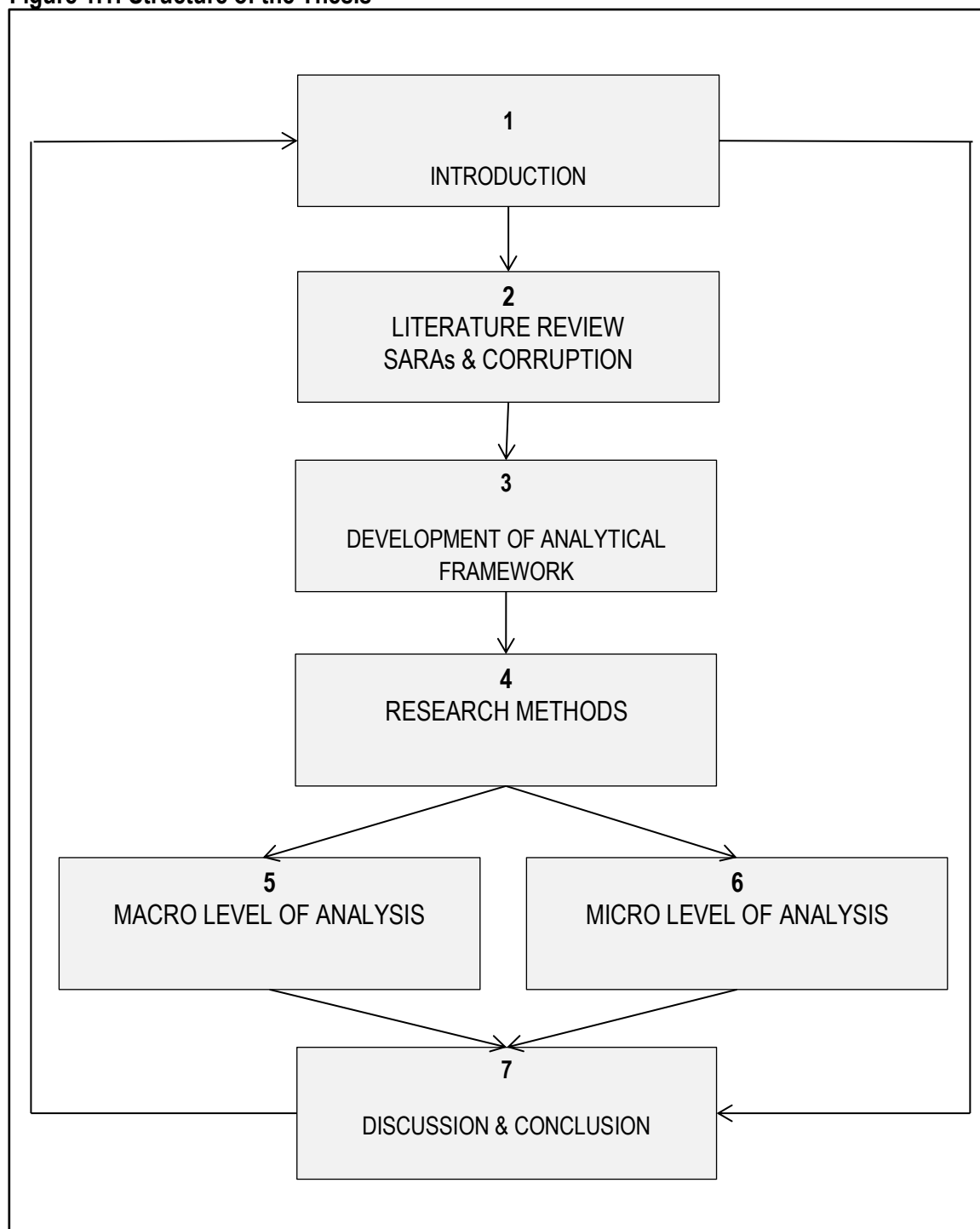
1.2 SIGNIFICANCE OF THE RESEARCH

In spite of spread of SARAs in developing countries, there has been limited comparative analytical work on their implementation against corruption. As a result there is dearth of agreement and evidence on best practice in organizational design of SARAs. Also, the researcher has not come across any significant research on the practical side of designing and implementing SARA reform against controlling corruption. It is this gap that this research aims to contribute towards filling by doing a practical work of designing an Anti-Corruption SARA framework (Chapter 3) and applying it to SARAs (chapter 5) and Pakistan (Chapter 6). This analysis aims to explain why certain SARA design components are more effective against corruption than others, and will offer specific recommendations to improve SARAs' capability against corruption. The significance of this thesis lies in developing the new lens (analytical framework) which causes us to see the topic of SARAs against corruption quite differently (due to differentiating between motivations and opportunities for corruption).

1.3 STRUCTURE OF THE THESIS

The thesis is divided into seven main chapters including introductory chapter of the thesis, literature reviews, analytical framework, research methods, analyses, and discussion and conclusion. The structure of the thesis is illustrated in figure 1.1 below.

Figure 1.1: Structure of the Thesis



The purpose of chapter 2 is to locate the thesis within existing knowledge about SARAs' adoption in developing countries for specifically controlling corruption in tax administrations. It is further divided into five major sections. Section one aims to answer questions such as what are SARAs, how they originated, what were the motivations behind their adoption. Section two aims to provide an overview of what is corruption? This section comprises of literature on types of corruption, costs of corruption in revenue administration and measurement of corruption, where several survey as well as non-survey based approaches to measure corruption are discussed. In section three, several factors affecting motivations and opportunities for corruption in revenue administration are identified and then approaches to combat motivations and opportunities for corruption in revenue administration are discussed. Section four elaborates in detail discussion about theoretical underpinnings of SARAs. It highlights how present literature depicts contrasting views about underlying theoretical assumptions for SARAs. Section five highlights a theory-practice paradox in SARAs and discusses how to better control opportunities for corruption in SARAs in developing countries by analysing prominent conceptual frameworks in this field. Section six concludes the chapter with a general summary and discussion.

Drawing onto discussions in chapter two lead to development of analytical framework and two research hypotheses in chapter 3. Both research hypotheses are formulated to lend answer to question why some SARAs have failed to effectively control opportunities for corruption.

Research hypothesis 1 proposes in section 3.1.5 that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. Also research hypothesis 2 proposes in section 3.1.6 that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. Section 3.2 concludes the chapter with a general summary and discussion.

Chapter 4 discusses research methods by explaining why multiple methods are employed to undertake macro and micro level of analysis and sequence and timing of data collection. Section 4.2 details how systematic review is conducting for macro level of SARA analysis. Section 4.3 explains how both interview data and documentary sources are combined for conducting micro level of analysis for Pakistan. Section 4.4 concludes the chapter.

To explore why some SARAs have failed to effectively control opportunities for corruption, a two-staged analysis of SARAs is proposed to be conducted in chapters five and six of the thesis.

To inquire this question, a detailed case study of tax administration reforms in Pakistan will be conducted as per analytical framework developed in this study. Two main sources of data will be employed for the case study at the micro level of analysis: document analysis (secondary literature) and semi-structured interviews. A detailed mapping of SARA cases is undertaken in chapter 5 for conceptually testing the Anti-Corruption SARA framework. Chapter 5 contains macro level of SARA analysis, where individual sub-hypotheses will be analyzed for selected SARA countries as per analytical framework. Section 5.3 will summarize the key findings arising out of macro level of SARA analysis and concludes. This section will also integrate the findings of all sub-hypotheses for the two research hypotheses of this study.

Building onto the discussions raised in chapter five, chapter six aims to conceptually test the Anti-Corruption SARA framework for FBR, by conducting a detailed case study of tax administration reforms in Pakistan. In spite of increasing proliferation of SARAs in developing countries for controlling corruption in tax administrations, the researcher has not come across any significant research on the practical side of designing and implementing SARA reform against controlling corruption. It is this gap that this research aims to contribute towards filling by doing a practical

work of designing an Anti-Corruption SARA framework (chapter 3) and applying it to Pakistan in chapter six.

The final chapter seven of the thesis concludes the thesis by reviewing and discussing the evidence provided in previous chapters. It also discusses the theoretical and empirical contributions made by the research, in addition to putting forward three main recommendations.

This chapter was aimed at providing the introduction to the thesis. The next chapter two aims to review literature in the field of SARAs' adoption in developing countries for specifically controlling corruption in tax administrations.

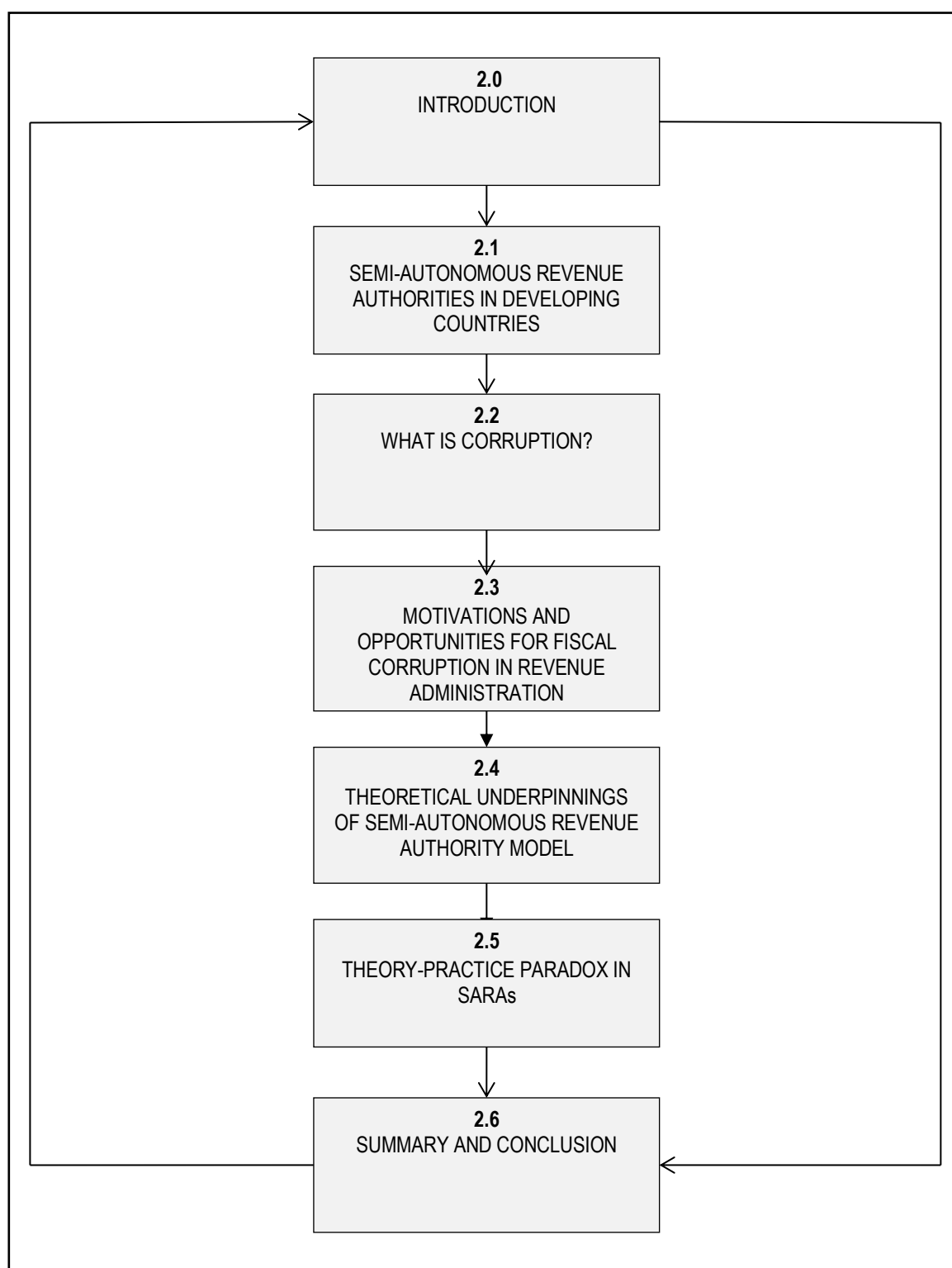
CHAPTER TWO

LITERATURE REVIEW: SARAs AND CORRUPTION

2.0 INTRODUCTION

The purpose of this chapter is to locate the thesis within existing knowledge about SARAs' adoption in developing countries for specifically controlling corruption in tax administrations. It is further divided into five major sections. Section one aims to answer questions such as what are SARAs, how they originated, what were the motivations behind their adoption. Section two aims to provide an overview of what is corruption? This section comprises of literature on types of corruption, costs of corruption in revenue administration and measurement of corruption, where several survey as well as non-survey based approaches to measure corruption are discussed. In section three, several factors affecting motivations and opportunities for corruption in revenue administration are identified and then approaches to combat motivations and opportunities for corruption in revenue administration are discussed. Section four elaborates in detail discussion about theoretical underpinnings of SARAs. It highlights how present literature depicts contrasting views about underlying theoretical assumptions for SARAs. Section five highlights a theory-practice paradox in SARAs and discusses how to better control opportunities for corruption in SARAs in developing countries by analysing prominent conceptual frameworks in this field. Section six concludes the chapter with a general summary and discussion.

The structure of Chapter 2 is as set out in Figure 2.1 below:

Figure 2.1 Structure of Chapter 2

2.1 SEMI-AUTONOMOUS REVENUE AUTHORITIES IN DEVELOPING COUNTRIES

The focus of this study is on adoption of revenue authorities experimented in several developing countries. At least 25 developing countries can be highlighted that have embarked upon tax administration reform in which the traditional tax departments are granted autonomy and converted into (semi) autonomous revenue authorities (Taliercio, 2004a). The revenue authority reform model, starting off in developing countries of Bolivia and Ghana in the late 1980s, proved to be a success due to improvements in revenue collections, service delivery and tax policy reforms. This initial success of revenue authority reform in some developing countries encouraged worldwide replication of same autonomous organizational design to reform existing revenue departments in many other developing countries. In Africa, Latin America, South and Southeast Asia, and Europe, many developing countries converted their traditional customs and income tax departments into unified and corporatized revenue authorities at a national scale. Following the initial success and in part due to support by international donor agencies, the countries joining the Semi-Autonomous Revenue Authority Reform bandwagon, rather speedily, included (In Africa) Ghana in 1985, Uganda in 1991, Zambia in 1993, Kenya in 1995, Tanzania in 1996, South Africa in 1997, Rwanda in 1998, and Malawi in 2000. In Latin America, Bolivia in 1987, Argentina in 1988, Peru in 1988, Colombia in 1991, Venezuela in 1994, Mexico in 1997, Guatemala in 1999, and Guyana in 1999. In Southeast Asia, Singapore in 1992, and Malaysia in 1994. In Europe, Spain in 1991. (Jenkins, 1994, 1995; Jenkins & Khadka 2000; Polidano, 2001; McCourt, 2002; Silvani & Baer 1997; Taliercio, 2004; Martinez-Vazquez *et al.* 2004).

2.1.1 What is Semi- Autonomous Revenue Authority Model?

In general, the Semi-Autonomous Revenue Authority (SARA) Model, as suggested by the term 'Autonomous' in its title, has been primarily adopted to provide more autonomy to pre-reform revenue departments under control of Ministry of Finance (MoF), by employing autonomy-

boosting elements of self-funding arrangements, adoption of board of directors model with representation of public as well as private sector, and supportive human resource management systems. Interestingly, although many developing countries are involved, nonetheless, one can highlight a similar pattern in reform of tax administration, since many countries have adopted similar organizational forms. Specifically, in majority of reforming developing countries the long-established tax departments were taken out of the ambit of Ministry of Finance, granted financial, managerial and personnel autonomy and hence converted into an autonomous revenue authority. 'Semi-autonomous revenue authorities have been defined as tax administrations that have greater than usual autonomy along several organizational design dimensions, including: legal character, corporate governance, financing and budgeting, personnel policy, procurement policy, and accountability relationships' (Taliercio, 2004). The reformed revenue authorities in developing countries has generally been referred to as semi-autonomous revenue authorities (such as in Taliercio, 2004, 2004a) with the term 'semi' often attached to the Autonomous Revenue Authority Model, since they are not created with the objective of being as autonomous as public sector organizations such as central banks, but also not as un-autonomous and reliant as are line departments on parent ministries, hence nicknamed 'semi-autonomous' (World Bank, 2002). Nevertheless, revenue authorities are distinguishable from pre-reform tax departments on accounts of greater managerial, personnel and financial autonomy granted by the central government. Regardless of the abundance of many SARA reform cases in many developing countries, literature does not point out towards agreement on one best organizational design suitable for revenue authority reform. World Bank (2002) has defined the semi-autonomous revenue authority model in terms of its key design features including 1) legal character, 2) governance structure, 3) financing mechanism, 4) personnel system, and 5) accountability relationships. Taliercio (2004) has also identified certain suitable and practical organizational design features for future autonomous revenue authority reforms in developing countries, dealing

with different dimensions of autonomy including legal foundations, corporate governance mechanisms, funding mechanisms, personnel management systems, procurement and expenditure management systems, and accountability arrangements.

2.1.2 Origin of Semi-Autonomous Revenue Authorities in Developing Countries

Literature points out that past three decades have seen many developing countries adopting reform options to improve the functioning of their tax departments (Taliercio, 2004a). These reform ideas have generally been based on two objectives of (1) reforming tax systems towards collection of more efficient taxes and (2) adoption of those tax types that not only improve revenue performance but are also possible administratively (Jenkins, 1994). In general, majority of these developing countries have followed either of the two reform paths, where one reform idea, majorly adopted by those countries where tax administrations were not performing too poorly pre-reform (such as Singapore, Chile), was characterized by adoption of gradualist or incremental approach to civil service reform, which entails adoption of a tax reform strategy based upon a number of modest modernization techniques and generally carried out over long term (Taliercio, 2004). These tax modernization techniques, especially suggested for developing countries, included unified functional organization, human resource development, computerization, taxpayer education program, self-contained tax law, effective penal system, and efficient systems of appeal. (Jenkins & Khadka, 2000)

On the other hand, many countries with highly inefficient tax administrations preferred to uptake more sweeping reform option of SARA model, based on the belief that it was far more easier and faster to completely overhaul the preceding inefficient tax department, and replace it with a reformed autonomous tax organization, such that the tax administration was taken out of the control of the general civil service and reformed into an autonomous revenue authority, vested

with administrative autonomy but accountable to ministry of finance (Jenkins & Khadka, 2000). The inception/or evolution of SARA reform model specifically in developing countries triggered due to researchers (such as Jenkins, 1994) looking for answers to questions such as how governments can convert corrupt tax administration into reformed professional organizations staffed with employees working to earn competitive wages only. It has been argued that, if properly designed and implemented, the SARA reform model can serve the purpose of rapidly and comprehensively reforming tax administrations in developing countries (Taliencio, 2004). In case of developing countries, drastically reforming tax administrations entrenched with inefficiency and corruption was shown to be more plausible and easier if the organization was made more autonomous (Silvani & Baer, 1997) and authors encouraged uptake of SARA reform in case of developing countries (Jenkins, 1994). It was believed that the creation of a tax administration that was perceived to be more receptive to the needs of the private sector could be reformed faster by adopting SARA model, rather than adopting gradualistic or incremental approach to reform traditional civil services (Jenkins & Khadka, 2000).

Major reform of tax departments into semi-autonomous revenue authorities in developing countries was triggered due to presence of large tax gaps (defined as the difference between potential tax that should be collected as per tax statutes and the actual tax that is being collected) in such countries, such that Silvani and Baer (1997) suggested that the larger the tax gap in a given country, the more sweeping reform options were needed to reform tax administration in that country. In this study, the researchers divided the countries into four major groups based upon the level of effectiveness (in other words the level of taxpayers' non-compliance) at tax administration, where effectiveness in tax administration is often measured by the level of tax gap. In order to reform a developing country's tax administration with a tax gap of more than 40% (notably majority of developing countries contemplating SARA reform fall in this category), the

appropriate tax strategy entailed completely revamping the current inefficient tax administration to improve tax compliance by taxpayers. This argument rested on the logic that a tax gap of more than 40% was sufficient enough to indicate the entrenchment of inefficiencies system-wide and any efforts to only partially reform some areas of tax organization would be insufficient to successfully reform tax administration. Silvani and Baer (1997) also pointed out that the problems faced by tax administrations in developing countries with a tax gap of more than 40% included lack of financial and material resources, poorly qualified and trained staff, extremely ineffective procedures, failure to implement measures that will reduce non-compliance, the absence of effective taxpayer services, a high turnover of technical staff and management and corrupt practices. Owing to these problems, the solution in the form of reform lied in completely overhauling the old system of tax administration, by replacing outdated tax administration procedures and practices with new ones, based on existing best practices. By analyzing the experience of several developing countries, Silvani and Baer (1997) identified numerous guiding principles to highlight the basis for successful tax administration reforms, such as political commitment to and the sustainability of the reform; simplification of the tax system to facilitate administration and reducing compliance costs; encouraging voluntary compliance; formulation of a clear strategy; identifying the tax and accounting laws that require change; taking an integrated approach to the tax collection process; differentiating the treatment of taxpayers by size; ensuring the effective management of the reform process; setting priorities and establishing a timetable and beginning fundamental reform with pilot projects. Reformers have also been cautioned that detection of bottlenecks in following areas, which deter smooth functioning of tax administration, is very important when designing an appropriate tax reform strategy. These areas include taxpayer registration, returns and payment processing, computer operations, detection of stop-filers, delinquent taxpayers, audit, sanctions and the penalty system, taxpayer services and publicity, management and organization and personnel (Silvani and Baer, 1997).

2.1.3 Motivation for Semi-Autonomous Revenue Authorities in Developing Countries

Literature points out that SARA countries exhibit differences in motivations behind take up of revenue authority reform. The major underlying objective behind revenue authority reform in developing countries has been the obvious one i.e., improvement in revenue performance. In addition, tax administration reform has also been taken up to achieve other objectives such as combating corruption. Some countries (Kenya, South Africa, Uganda, Bolivia, Mexico, Peru and Venezuela) have primarily adopted these reforms to improve bureaucratic performance while the motivation behind revenue authority reform in other developing countries (Ghana,) was to fight prevalent endemic corruption in tax departments.

2.1.3.1 Pursuit of Efficiency

In majority of developing countries, pre-reform tax administrations remained inefficient on account of service-wide applicable budgetary and personnel rules and regulations. The typical profile of developing countries undertaking SARA reforms has generally been characterized by pervasiveness of rigid civil service rules and regulations encompassing recruitment, performance appraisal and compensation etc. As a result of personnel and budgetary constraints, tax departments were unsuccessful in providing market-based competitive compensation to their employees, thus, failing to retain the competitive and skillful ones. In addition, tax departments found it difficult to get rid of corrupt employees; and faced immense inflexibility in deciding how to spend the allocated budget. The justification behind creation of semi-autonomous revenue authorities was that corporatizing the existing tax administration was meant to free the traditional tax department from the clutches of inefficient public sector rules and regulations, particularly targeting funding and personnel issues. Majority developing countries (Kenya, South Africa, Uganda, Bolivia, Mexico, Peru and Venezuela) have adopted these reforms to improve bureaucratic performance in less efficient public sector by using autonomy as a tool to achieve

this objective under public management perspective, arguing that the cost benefit analysis suggests that adopting autonomy is more beneficial in terms of improved organizational performance (Taliencio, 2004).

2.1.3.2 Combating Corruption

In addition, tax administration reform has also been taken up to achieve another important objective of controlling corruption and as a reason the motivation behind revenue authority reform in many developing countries was to fight prevalent endemic corruption in tax departments. In case of creation of revenue authorities in many developing countries, the objective behind corporatization or agencification of civil service departments was not only attaining greater efficiency, declining costs, and improvement in quality of service delivery (Minogue, 1998) but also controlling corruption. Independent Revenue Authority Model aims to not only increase tax revenue collections, but also reducing corruption (McCourt, 2002). The perception of prevalent corruption in tax departments of developing countries undertaking revenue authority reform remained very high, resulting in widespread perception of norm of negotiation of tax liability between taxpayer and tax collector (Jenkins and Khadka, 2000). Before revenue authority reform, these tax departments faced very low voluntary tax compliance arising out of perceived unfairness in enforcement of tax laws (Jenkins, 1994). System-wide inefficiency and entrenched corruption in pre-reform tax departments in developing countries served as major stimulus for supporters of revenue authority reform to go ahead with the implementation of SARA reform agenda. Developing countries have been suggested by Transparency International to rigorously adopt anti-corruption reforms and starting point should be in priority area of revenue collection and law enforcement organizations, since they are more prone to corruption by staff. These organizations are to be converted into autonomous independent agencies with the objective of increasing integrity and accountability in these important service delivery areas. (Pope, 1995).

For example, in case of Ghana, one of the main objectives behind creation of revenue service was fight against corruption and that is the very reason why corrupt employees in the old revenue service were not taken up after corporatization. This also enabled higher wages for remaining few staff members to motivate them not to indulge in corrupt behaviors. (Chand & Moene 1999; de Merode & Thomas 1994).

The reform of revenue authorities in developing countries has affected taxpayers' perception about prevalent corruption. In Peru, Kenya and South Africa, the reform resulted in perception of significant reduction in corruption in the revenue authority by taxpayers, in comparison to pre-reform corruption levels. On the other hand, taxpayers perceived still high levels of corruption in Venezuela, Mexico and Uganda even after revenue authority reform (Taliencio, 2004). In Venezuela, the perceived high levels of corruption by taxpayers even after reform pointed to the relapse of the reformed revenue authority to the old ways; whereas in case of Mexico, the high perception of existing corruption resulted due to insignificant and inconsequential effects of the reform process on revenue authority. Although taxpayers also perceived high levels of corruption in Uganda's revenue authority after reform, but, nonetheless, some notable progress against corruption was observed due to higher salaries for employees and strict punishments.

2.1.3.3 Improvement in Taxpayer Services

The motivation behind revenue authority reform in some developing countries went beyond straight forward efficiency gains and reduction in corruption. These countries also do not exhibit typical characteristics of countries undertaking SARA reform such as presence of large tax gap and rigid civil service rules and regulations. The motivation behind revenue authority reform in these countries is characterized by a need to focus on improving the quality of the taxpayers' services and general business environment in the revenue authority. The argument is that these

cases initially focused on attainment of basic results of increased efficiency and reduction in corruption and succeeded in achieving these objectives. Afterwards the focus shifted from emphasis on quantity to emphasis on quality. For example, Singapore undertook SARA reform in 1992, although the pre-reform tax administration was considered as efficient and its tax gap was less than 10%. Similarly, Malaysia embarked on revenue authority reform in 1994, although its civil service was considered highly efficient even pre-reform.

2.2 WHAT IS CORRUPTION?

Although literature points out towards several definitions of 'corruption', both from academic or research and policy- related stand points, but the most widely used definition of corruption specifically pertaining to the public sector is *"The abuse of public office for private gain"*.

Comprehensively, according to World Bank (1997) *"Public office is abused for private gain when an official accepts, solicits, or exhorts a bribe. It is also abused when private agents actively offer bribes to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal benefit even if no bribery occurs, through patronage and nepotism, the theft of state assets, or the diversion of state revenues"*. As the focus of this research is on corruption as pertaining to revenue authority reform, so specifically this study will be dealing with fiscal dimension of corruption, or in other words fiscal corruption. As the term fiscal is related to all topics encompassing taxation, public resources and spending policies, so fiscal corruption includes all forms of corruption as related to tax administration including evasion of taxes, corruption in tax administration and fraud in customs etc. Literature related to tax administration differentiates between tax evasion and fiscal corruption on the basis of agent involvement, where although tax evasion (Alm, 1998 and Andreoni, Erard and Feinstein, 1998) might result in payment of bribes to tax officials but principally tax evasion is committed by private

sector agents or taxpayers; while public officials are directly involved in and responsible for fiscal corruption.

2.2.1 Types of Corruption

There is general agreement in literature regarding detrimental effects of all types and forms of corruption, although to varying degrees, on the governmental efforts to providing secure and established economic structure, advancement in economic growth and improvement in general wellbeing of citizens. Corruption exhibits itself in the shape of many types or forms and such differentiation in corruption could be based upon several distinctions, such as unilateral or multiparty corruption. In its most basic form, unilateral corruption in tax administration is carried out by a single tax official by stealing revenue collections belonging to the treasury. Multiparty corruption, on the other hand, includes formation of colluding alliances either between tax officials and taxpayers, or between groups of tax officials partaking in corrupt practices. In case of multiparty corruption in tax administration, Tanzi (1998) presented a very valuable list of multiparty corruption including *“(1) provision of certificates of exemption from tax to persons who would not otherwise qualify; (2) deletion or removal of a tax payer’s records from the tax administration’s registration, filling and accounting systems; (3) provision of confidential tax return information to a taxpayer’s business competitors; (4) creation of multiple false taxpayers identifications to facilitate tax fraud; (5) write-off of a tax debt without justifications; (6) closure of a tax audit without any adjustment being made or penalties being imposed for an evaded liability; (7) and manipulation of audit selection.”*

Other differentiations in different forms of corruption could be based upon involvement of different agents such as high or low level agents or private agents; the magnitude of the corruption such as grand corruption or petty corruption; and the type of motivator behind corruption such as

insufficient incentives or institutional windows of opportunity to indulge in corruption. In addition, government officials engage in corrupt acts for not only corruption involving direct monetary payments, but also for other forms of corruption including understated benefits of political support etc. In case of tax and customs administrations, corruption can take many forms and could come up from variety of processes, including corruption entailing policy decisions such as provision of tax incentives or the use of foreign trade taxes (Tanzi, 1998). In case of corruption, tax administrators might not only ask for bribes to do something which they are not supposed to do, like ignoring misrepresentation of tax liability by taxpayer, in exchange for bribe; but also demanding “Speed or grease” money to do what they are supposed to do, anyways (Bardhan, 1997). Regardless of the fact that “speed money” type of corruption is not only morally wrong, unlawful and pervasive in developing countries, literature points out towards perception of its being less harmful to an economy, in comparison to other forms of corruption which involve payment of bribes for agreeing to undertake illegal activities by tax administrators. Literature points out towards disagreement among researchers about the negative effects exerted by speed money type of corruption; with some researches (Leff, 1964; Huntington, 1968; Mauro, 1995, Mookherjee, 1997; Bardhan, 1997; and Fjeldstad and Tungodden, 2003) even pointing out towards positive effects of this type of corruption such as “greasing the wheels of economy” and creating incentives for tax officials to work harder in order to get more and more of speed money. On the other hand, such an argument about the probable positive effect of “speed money” type of corruption has been criticized by several researchers (Kaufmann, 1997; Doig and Theobald, 2000) with existing agreement that any form of corruption is generally distorting and unproductive.

2.2.2 Costs of Corruption in Revenue Administration

Corruption, in all of its types and forms, imposes numerous significant costs particularly on developing countries, and these various costs do not easily lend themselves to measurement. The World Bank (2004b) has estimated that the total burden of bribes every year is equal to 1 trillion US\$ worldwide. In majority of developing countries revenue departments are typically ranked amongst the most corrupt public sector departments and costs of corruption in relation to corruption in tax administration are numerous. The costs of corruption in revenue and customs administration are not only relating to efficiency but also equity. Corruption represents one of the main factors responsible for revenue leakage (Martinez-Vazquez *et al.*, 2004). Corruption is also responsible for presence and expansion of shadow or informal economy in countries where corruption is high, which is representative of weak and depleted tax base, resulting in severe revenues losses (Schneider and Enste 2000; Schneider, 2003; Johnson, Kaufmann, and Zoido-Lobaton, 1998; Friedman *et al.*, 2000; World Bank, 1997; Johnson *et al.*, 1999; and Giles and Caragata, 1999). Moreover, corruption in tax administration aggravates inequitable treatment of honest taxpayers by corrupt tax officials and damages their competitiveness, and in doing so corruption pushes businesses out of the formal sector and excluded from formal economy (Minh Le, 2007). Literature also points out towards relative magnitude of the effect of corruption on different types of taxes, with corruption exerting stronger negative impact on direct taxes in comparison to indirect taxes (Tanzi and Davoodi, 2000). Corruption results in imbalances in revenue collections from direct as well as indirect taxes, as it results in decline in revenue collections from a group of taxpayers willing to indulge in corrupt practices and able to bribe tax officials, and consequently increasing the relative tax liability of honest and less well-to-do taxpayers. In case of customs administration, corruption can also result in very dangerous outcome of threat to national security by becoming a channel for passage of drugs and arms (Minh Le, 2007).

Considering the impact of corruption on tax administration in economic terms, literature points out that increase in corruption levels affect revenues negatively with each one unit increase in level of corruption having an economic impact of decrease in tax-to-GDP ratio by -1 to -2.9% (Ghura and Katz, 1998) and -0.1 to -4.5% (Tanzi and Davoodi, 2000) with study encompassing 15 different types of government taxes. One area which is definitely paying very high cost for presence of fiscal corruption is delivery of public services. One direct consequence of fiscal corruption is reduction in availability of funds to finance public goods and services, due to embezzlement of resources by high level politicians (Transparency International, 2004). Secondly fiscal corruption as relating to public procurement can elevate the price of procured items and thus increasing the cost of the public service, by 30 to 50 % (Wade, 1982; Manzetti and Drake, 1996; Langseth, Stapenhurst and Pope, 1997). Another cost of fiscal corruption can take the form of additional user fee paid by the user in the form of bribe to actually receive the public service, in addition to the taxes paid to sustain provision of those public services (Transparency International, 1997). Additionally, fiscal corruption can result in reduction in quality of public services available to users (Gould and Amaro-Reyes, 1983). Fiscal corruption can also result in alteration in provision of public resources for health and education, with corruption resulting in decreased ratio of health and education spending to GDP (Mauro, 1998), while increasing ratio of military spending to GDP (Gupta, de Mello and Sharan, 2001).

2.2.3 Measuring Corruption

Given the recent emphasis on importance for developing countries (particularly corrupt ones) to employ resources to measure existing levels of corruption, the obvious question is *why corruption should be measured?* The answer lies in the fact that one needs to be aware of the problem before trying to put in efforts to solve it. If governments are unclear about the extent of corruption

in the country and particularly corrupt sectors, then how can it devise an effective and targeted anti-corruption strategy? Regardless of the fact that it is difficult to measure corruption particularly in developing countries, governments need to invest resources to gauge actual extent of corruption in different sectors of economy, since such measures of corruption will not only help to gauge the effectiveness of anti-corruption policies and reforms, but will also serve to highlight key corruption-struck areas, in order to devise anti-corruption strategies particularly targeted to those areas.

Despite the fact that countries are increasingly realizing the importance of investing in efforts to measure corruption, it is still very challenging to answer the question of *How to measure corruption?* The biggest hurdle in the way of accurate measurement of corruption is imposed by the unlawful or illegitimate nature of the corruption act itself. All parties including perpetrator of fiscal corruption (tax official), partner in crime (evading taxpayer) and prey of corruption (taxpayer facing extortion by tax official) have incentives to conceal the occurrence of corrupt act, either for obvious reasons of not getting caught for misappropriating tax liability for bribes and tax evasion by taxpayers or to avoid vengeance of powerful tax officials by victims of corruption. Fiscal corruption is particularly difficult to measure because of involvement of tax officials having varying degree of state power.

Fiscal corruption is particularly challenging and difficult to measure given the existence of many units of measurement to gauge fiscal corruption alone in tax administration. Since fiscal corruption is defined as “misuse of public power for private benefit”, literature points out to variety of units of measurement gauging different dimensions of fiscal corruption including the number of corrupt acts by different agents, the monetary cost of bribes received by the taxpayer, the worth of resources misappropriated, the decrease in economic growth due to corruption, or increase in

inefficiency caused by rising level of corruption (Martinez-Vazquez *et al.*, 2004). In order to measure corruption comprehensively, efforts should be made to gauge all of these dimensions of fiscal corruption, as all these units of measuring fiscal corruption are appropriate and significant and when measured advance the present information about corruption in any given country.

2.2.4 Approaches to Corruption Measurement

Literature points out towards several measures devised to gauge corruption levels in countries and broadly all of these measurement methods could be divided into survey-based or non-survey based techniques to measure corruption.

2.2.4.1 Non-Survey-based Measures of Corruption

Non-survey-based measurement techniques to measure corruption include (1) prosecution records, (2) economic indicators depicting corruption, and (3) evaluation of informal economy (Martinez-Vazquez *et al.*, 2004). In case of utilization of prosecution records to measure level of corruption, data on number of court trials of corrupt cases and resulting convictions is analyzed over a specific period of time. Literature also points out towards usage of certain economic variables to measure levels of corruption with assumption that pattern of relationship between certain noticeable and measurable economic variables can be utilized to estimate the extent of out of sight and unknown levels of corruption. Some researchers have quantitatively measured fiscal corruption by analyzing the ratio of potential tax yield to actual tax collections across number of countries, with the assumption of evident relationship exhibited between tax revenues, tax evasion, and corruption (Chand & Moene, 1997). Similarly, Huang and Wei (2003) have conceptualized corruption as fraction measuring the percentage of governmental tax revenue which “leaks” to corruption. Another economic alternative to measure corruption includes assessment of the non-compliant economic behavior by estimating the size of informal or shadow

economy in any country (including unofficial household economy, unofficial productive activities, and crime etc.) (Schneider, 2003).

2.2.4.2 Survey-based Measures of Corruption

Given the present worldwide focus of research community and international donors on governance indicators including control of corruption, many researchers and institutions (such as Transparency international) across the globe have developed diverse indicators of corruption which has resulted in rapid growth of survey data sources within few years. Some researchers have employed survey methodology to measure incidence of corruption directly by using anonymous surveys to bring out self-disclosure of corruption by perpetrators, having obvious disadvantage of considerable underreporting of corruption done. Another survey technique, proving to be very popular and used extensively, does not try to directly measure occurrence of corruption but rather surveys the *perception* of prevalent corruption within the country. Two most extensive perception-based survey data sources for majority of countries across globe include *Corruption Perception Index (CPI)* by Transparency International and *Kaufmann's Corruption Index*. The CPI by Transparency International represents the most widely used and referenced index of corruption worldwide with perception surveys from businessmen, academics and risk analysts are conducted to measure corruption levels in different countries on yearly basis. The other widely used corruption perception index is Kaufmann's "Control of Corruption" index with survey data available for more than 200 hundred countries for several years (Kaufmann *et al.*, 2003).

2.3 MOTIVATIONS AND OPPORTUNITIES FOR FISCAL CORRUPTION IN REVENUE ADMINISTRATION

All countries are faced with, though to varying extent, the problem of fiscal corruption and more and more literature points out that controlling fiscal corruption is possible and it is not a problem which cannot be solved. In order to devise an effective and targeted anti-corruption strategy, it is essential to recognize the precise nature and distinct and individual patterns of corruption in different countries and regions. Any successful anti-corruption strategy, as part of broader institutional reform, includes a comprehensive approach to fighting corruption encompassing all relevant areas, sustained effort and highest level of political support (Martinez-Vazquez *et al.*, 2004). Relevant literature on the incidence, extent and mechanisms of corruption in tax administrations points out towards differences between two types of contributing factors to corruption. The first set of factors influences the motivation or incentives for agents to indulge in corruption, while the second set of factors contributes towards creation of 'windows of opportunity' for agents to indulge in corruption (World Bank, 1999; Martinez-Vazquez *et al.*, 2004; Klitgaard, 1988, 1997; World Bank, 1999). The motivating factors to corruption influences the motivation of tax officials to indulge in corruption given that an opportunity for corruption arises and answer the question of what factors affect the decision by some tax officials to engage in corruption when facing an opportunity for corruption? In addition to inclination or motivations of tax officials to engage in corruption, the factors affecting the 'ability' of tax officials to indulge in corruption represents the 'windows of opportunity' for corruption. A tax official might be willing and perceive incentives and motivations to engage in corruption, but in order to engage in corruption it is vital that an opportunity for corruption also arises. Although the clear-cut distinction between factors creating either motivation or opportunities for corruption might not appear very compelling owing to the significant interactions between dimensions affecting motivation and

opportunities in corruption decision. Such distinction is aimed at simplification of the intricate system of interactions between two sets of factors affecting corruption.

In tax administrations, tax officials are faced with strong motivations and abundant opportunities for corruption. The tax official makes an assessment of the prospective gains from corruption in comparison to the estimated cost of getting caught and subsequent penalties, and only engages in corruption if the expected gains are greater than the cost (Huther and Shah, 2000; Zuleta *et al.*, 2007). In turn, the potential gains and costs of corruption are determined by the governance environment in which the tax administration functions. In order to deal with the menace of corruption, conceptually an anti-corruption strategy could be devised focusing either on opportunities or motivations for corruption (Zuleta *et al.*, 2007). If a corruption control strategy is largely focused towards controlling only opportunities for corruption, with weak control mechanisms for motivations to corruption, then the success of this anti-corruption strategy will be threatened by a large number of tax officials motivated to shatter the system of control on corruption. On the other hand, an anti-corruption strategy with strong control mechanisms for motivations or incentives for corruption, but weak focus on controlling opportunities of corruption might prove inadequate since the plentiful and trouble-free opportunities for corruption might even tempt those tax officials, who otherwise had no motivation or incentives to engage in corruption. So although anti-corruption strategies focusing insistently on controlling either motivations or opportunities might reduce existing levels of corruption, but only in the short run. A comprehensive anti-corruption strategy for tax administrations targets not only motivations but also opportunities paving the way for corruption, thus creating an institutional framework within which tax officials as well as politicians make decisions about corruption (Martinez-Vazquez *et al.*, 2004; Pope, 1995; Rose-Ackerman, 1999). Institutionalizing anti-corruption strategy is important as although individuals might be responsible for perpetrating corruption, but it occurs in

an institutional framework. Nonetheless, individuals not institutions indulge in corruption (Kpundeh, 1997).

2.3.1 Factors affecting Motivations and Opportunities for Corruption in Revenue

Administration

The motivating factors to corruption influences the motivation of tax officials to indulge in corruption given that an opportunity for corruption arises and answer the question of what factors affect the decision by some tax officials to engage in corruption when facing an opportunity for corruption? Probably, the biggest motivator for tax officials to engage in corruption is represented by personal financial gain, but Martinez-Vazquez *et al.* (2004) have also identified following motivating factors (both fiscal and non-fiscal) to engage in corruption:

- i.* Lack of moral and ethical behavior by tax officials;
- ii.* Low probabilities of detection;
- iii.* Weak penalization and prosecution;
- iv.* Inadequate wages and incentive compatible compensation;
- v.* The size of the window of opportunity (for instance, through pressure from taxpayers seeking to evade taxes).

In addition to inclination or motivations of tax officials to engage in corruption, the factors affecting the 'ability' of tax officials to indulge in corruption represents the 'windows of opportunity' for corruption. A tax official might be willing and perceive incentives and motivations to engage in corruption, but in order to engage in corruption it is vital that an opportunity for corruption also arises. Martinez-Vazquez *et al.* (2004) theorized that as the number of opportunities to engage in corruption increase in an institutional context of tax administration, the level of corruption also

increases in direct proportion and identified following factors creating opportunities for fiscal corruption in revenue administration:

- i.* Absence of basic oversight and control of tax administration;
- ii.* Complexity of the tax and custom systems;
- iii.* Discretionary power of tax and customs officials;
- iv.* Politicization of civil servants.

2.3.1.1 Approaches to Combating Fiscal Corruption in Revenue Administration

A successful, sustainable, targeted and comprehensive anti-corruption strategy targets not only the motivations for corruption, but also the opportunities paving the way for corruption, thus creating an institutional framework within which tax officials as well as politicians make decisions about corruption (Martinez-Vazquez *et al.*, 2004). Given below are different preventive strategies and enforcement mechanisms specifically aimed at controlling motivations and opportunities for fiscal corruption.

Reducing Motivations for Corruption in Revenue Administration

Governments in developing countries faced with corruption problem can adopt different preventive strategies aimed at influencing factors that motivate revenue officials to engage in corrupt practices in tax administration. Given below are preventive strategies to control motivations for corruption in tax administrations (identified by Martinez-Vazquez *et al.*, 2004):

- i.* Instilling ethics in tax officials;
- ii.* Increases in the probability of detection;
- iii.* Increases in and stricter enforcement of penalties for corruption;
- iv.* Increases in wages in the public sector and the establishment of incentive compatible compensation mechanisms;

- v. Decreases in the overall tax burden on taxpayers

Reducing Opportunities for Corruption in Revenue Administration

In addition to the adoption of preventive strategies targeted to control the motivation for corruption in tax administration, a sustainable and comprehensive control over fiscal corruption requires creation of some enforcement mechanisms as well aimed at limiting the opportunities for tax officials to indulge in corruption. These enforcement mechanisms include following strategies:

- i.* Introduction of oversight mechanisms;
- ii.* Simplification of the tax system;
- iii.* Reduction of discretionary powers of revenue officials;
- iv.* De-politicization of civil servants.

2.4 THEORETICAL UNDERPINNINGS OF SEMI-AUTONOMOUS REVENUE AUTHORITY MODEL

In academic literature, differing statements concerning the underlying theoretical foundations of SARA reform model can be identified. On one hand, public management researchers continue to place SARA reform cases under discussions of agencification; and on the other hand public policy researchers present the argument that this reform model was originally based on the central banks model. Therefore, it seems appropriate that the present debate about the theoretical background of SARAs should be subjected to more analysis.

2.4.1 Which theory: Agencification or Central bank Model?

Based upon discussions raised in chapter above, it became clear that reform of revenue authorities in many developing countries was primarily aimed at improving efficiency and reducing prevalent levels of corruption (Fjeldstad 2005; Kidd and Crandall, 2006; McCourt, 2002).

But review of relevant literature also pointed out towards continuing debate within organizational theory and evident stark disagreement in current literature, whereby differing statements concerning the underlying theoretical foundations of SARA reform model can be identified. On one hand, public management researchers continue to place SARA reform cases under discussions of agencification, where one can find prominent coverage of revenue authority reform cases in literature encompassing implementation of element of agencification in the backdrop of developing country context, with many researchers highlighting revenue authority reform cases as success stories of agencification in developing countries (Minogue, 2001; McCourt, 2001a; Polidano *et al.*, 1998). While on the other hand, contrastingly, the analysis of another stream of literature (mostly practitioner 's literature) relating to revenue authority reform in developing countries, focused primarily on studying autonomy and its effect on performance and corruption, and did not considered revenue authority reform model being based on agencification. In these studies, researchers primarily focusing on public policy, considered SARAs to be based originally and theoretically on central banks model (Jenkins, 1994; Jenkins and Khadka, 2000) and not agencification.

Moreover, in addition to disagreements regarding theoretical foundation of SARA reform model, present literature also seems unsettled on the topic of when this reform idea originated in developing countries. According to the argument which considers SARAs as executive agencies, the executive agency model originated in mid-1980s, when public sector reforms in developed countries, such as 'Next Steps' initiative undertaken in UK in 1988 and the enclave SARA reform model undertaken in developing countries of Bolivia and Ghana in the late 1980s, was utilized particularly for efficiency gains (McCourt, 2002). On the other hand, Taliercio (2004) did not considered SARA to be same as executive agencies, and also differentiated between the origins of SARA reform model which he postulated originated in developing countries, while executive

agency reforms originated in developed countries such as UK and US. According to the researcher the initiation of SARA reform and reform of executive agencies overlapped in 1980s, with reform of revenue authorities in developing countries predating launch of executive agencies reform in developed countries by few years. In addition to the above mentioned differentiation in present literature on the timing of origins of both reform ideas of executive agencies and Semi-Autonomous Revenue Authority model, and despite that reform of revenue authorities in developing countries has been covered prominently in research literature encompassing agencification, some researchers (Taliencio, 2004; Martinez-Vazquez *et al.*, 2004; Jenkins, 1994; Jenkins and Khadka, 2000) disagree with the idea of considering enclave Semi-Autonomous Revenue Authority Reform Model as part of agencification reforms adopted in developing countries.

In the wake of these highlighted issues and disagreement in present literature regarding theoretical foundation of SARA reform model, it seems appropriate that the present debate about the theoretical background of SARAs should be subjected to more discussion. This could be done by analyzing the agency concept in detail, in order to arrive at the conclusion, if possible, of placing SARA reform idea under true organization type. So discussion in this section is undertaken with an objective of analyzing the theoretical foundations underlining SARA model to identify if and to what extent this model is based upon agencification or Central Bank ideas? So one important contribution of this research is to make effort towards contributing in discussion towards resolving current disagreement in research literature about these two important reform ideas. In order to achieve this objective, this section aims to analyze existing literature regarding theoretical foundations of SARAs to identify the nature of theoretical linkages between SARA reform model, agencification and Central Banks. Specifically in the current section of this chapter

generic organizational theory is contributed to by proposing that the current debates about SARAs, Agencification and Central Banks seems to be in struggle in present literature.

2.4.2 Interdisciplinary or Lack of Research?

As highlighted above, one does find out reform of semi-autonomous revenue authorities covered under the topic of agencification (Minogue, 2001; McCourt, 2001a; Polidano *et al.*, 1998), but some literature also points out towards contrasting differentiation such that the enclave SARA Model and Executive Agency Model, whereby both models considered to be part of agencification, have been differentiated on grounds of policy origins, where though both models were described to be structurally similar, but having different policy origins (McCourt, 2008). According to this argument Executive Agencies originated as a result of policy prescription for efficiency only; whereas SARA reforms originated as a result of policy prescription for efficiency as well as corruption control in tax administrations in developing countries. So taking into account literature on SARAs in developing countries where one can find reform cases discussed prominently in literatures in public management and public policy alike with theoretical linkages to various theories of agencification and Central Banks. Does occurrence of research studies on SARAs in both subject fields points out to the interdisciplinary nature of this reform idea? or is literature in the area of theoretical linkages of SARAs with contending theories still unsettled on the issue of placing these organizational forms definitively in research fields which has enabled one group of researchers to specifically place SARAs in literature on agencification, while still another group keep highlighting these cases strictly under public policy and influenced by central banks. It can be argued that since literature may still be unsettled and divided on the topic of theoretical linkage of SARAs with contending theories, this has enabled researchers working in different subject areas to analyze SARA cases solely through their respective subject lenses, as literature seems unclear on the issue of attributing the organizational form of SARAs to a

particular management field. Conversely more discussion in this area might as well highlight SARAs to be interdisciplinary by taking theoretical inspirations for the reform model from various theories under different subject areas. So this highlighted observation of occurrence of SARAs in varied subject areas can be attributed to either lack of research on theoretical background of SARAs or their interdisciplinary nature, or maybe both, and in turn highlights the need for and significance of more research on the theoretical underpinnings/background of SARAs with an aim to identifying and placing SARAs under theoretical boundaries. In other words, does occurrence of SARAs across various subject areas points to its cross-cutting, inter-disciplinary nature or is it simply lack of theoretical research in the area of placing these organizational forms definitively in research fields enabling occurrence of SARAs in various subject fields?

In order to answer the research questions highlighted above, following sections aim to analyze the agency concept in detail with separate sections on executive agencies and central bank type agencies.

2.4.3 Arguments for SARAs as Executive Agencies

The developments in the field of public management mainly in developed countries gave way to the attractiveness of the autonomy concept in current literature. These developments have been attributed to particular theoretical ideas which expect some effects when some tasks are put further out from government control. NPM with fundamental elements of agencification, autonomization and corporatisation of mostly executive tasks has been described quite extensively by researchers (Bouckaert and Verhoest, 1999; Greve *et al.*, 1999; OECD, 2002; Pollitt *et al.*, 2001; van Thiel, 2000). NPM finds its theoretical underpinnings in economic neo-institutionalism, like agency theory (Jensen and Meckling, 1976; Moe, 1984; Pratt and Zeckhauser, 1991). These theories conceptualize the autonomy concept as a sort of

specialization capable of resulting in benefits of better performance, with improvements in economy, efficiency and effectiveness, with a condition of presence of incentives motivating agencies to continue to improve performance.

According to the literature which considers SARAs as executive agencies, executive agencies have been defined as organizational forms which 'act within the executive', are designed to work at arms-length from parent ministries, are entrusted with the task of policy implementation only, and are granted greater levels of managerial, financial and organizational autonomy to achieve efficiency in service delivery (World Bank, 2000). A practitioner's ideal type of agency is a tripod model of functionally disaggregated, managerially autonomized, and performance oriented organization (Talbot, 2004). As defined by Pollitt *et al.*, (2004) agencies are supposed to be only semi-autonomous and hence not fully independent of ministerial control which means that parent ministry remains in charge of agencies and, if needed, can change operational objectives and/or budgets of agencies without the need of introducing new legislation. So agencies do enjoy more autonomy (along varying dimensions) but remain under ministerial control. Literature has pointed out towards several prominent cases of agencification including UK Next Steps program, Latin American Social Fund bodies, and Revenue Authorities in developing countries etc.

Both SARAs and executive agencies, as defined in existing literature, display many design similarities. Similar to the agency concept, 'SARAs have been defined as tax administrations that have greater than usual autonomy along several organizational design dimensions, including legal character, corporate governance, financing and budgeting, personnel policy, procurement policy, and accountability relationships' (Talierto, 2004). This definition of SARA depicts the adoption of characteristic feature of autonomization for SARAs, similar to agencies highlighted above. The reformed revenue authorities in developing countries has generally been referred to

as semi-autonomous revenue authorities (such as in Taliercio, 2004, 2004a) with the term 'semi' often attached to the autonomous revenue authority model, since they are not created with the objective of being as autonomous as public sector organizations such as central banks, but also not as un-autonomous and reliant as are line departments on parent ministries, hence nicknamed 'semi-autonomous' (World Bank, 2002). Nevertheless, revenue authorities are distinguishable from pre-reform tax departments on accounts of greater managerial, personnel and financial autonomy granted by the central government. So based upon above definitions SARAs are defined be similar to executives agencies. Due to the semi-autonomous status SARAs, same as agencies, are assigned with autonomy features which are not available to departments still working under parent ministries but are not fully independent of/and are subjected to ministerial control.

2.4.4 Arguments for SARAs as More Autonomous Bodies (MABs)

There is a major chunk in reviewed literature according to which first of the series of SARAs in developing countries have long considered to be originally based upon central banks model and not agencification. According to Jenkins (1994) revenue authorities have been established in many countries by plucking them out of the ambit of Ministry of Finance, and bestowing them with similar type of autonomy as given to central banks, such as exemption from government-wide civil service regulations and compensation etc. It has been argued that by design SARAs can work just like central banks and Jenkins (1994) even proposed the reform of restructuring of a revenue authority, taken up in any given developing country, by centering the model on the organizational form of a central bank, such that the reformed revenue authority may be granted financial autonomy (with features of budget formulation autonomy and automatic retention of already approved percentage of funds), administrative autonomy (with independence to devise its own administrative policies), and resulting out of these two dimensions of autonomy personnel

autonomy (in areas of recruitment, compensation, training, and code of conduct). Taking the form of an autonomous organization, central banks not only implement monetary policy but also help governments devise monetary policy in the first place. In the same vein, Jenkins and Khadka (2000) argued that taking cues from the functioning of central banks, officials at SARAs have been entrusted not only with a task of implementing tax policy by tax administration, but also aid in development of tax policy by developing tax policy proposals. Such emphasis on taking inspiration from central banks model even led to recruitment of managers of central banks in newly reformed revenue authorities in many developing countries to manage and implement tax administration reform (Silvani & Baer, 1997). In case of Peru, the main reform team responsible for successfully taking off the SARA reform did not included any experts on tax administration but was fully backed by the Central Bank (World Bank, 2001).

Based upon above mentioned discussion which considered SARAs to be originally based upon central banks model, these studies theoretically placed SARAs as part of autonomization under the category of 'More Autonomous Bodies' or as put by Pollitt *et al.*, (2004) MABs or 'type 2 agencies' or even 'non-agencies'. As depicted by the variety of titles or names given to this organizational form, there is no explicit agreement in reviewed literature on the consensus of uniformly naming this organizational form and the main difference between agencies and MABs (such as central banks) is the level of autonomy which is granted by parent ministries to both organizational forms with agencies granted with far lesser autonomy and operating under more ministerial control then MABs. Contrary to agency concept, non-agency category of MABs enjoy statutory independence and hence fully independent of ministerial control which means that parent ministries are no longer in charge of MABs and cannot change operational objectives and/or budgets of MABs without the need of introducing new legislation The basic difference between agencies and MABs is the high level of independence which is accorded to MABs,

leaving very small or no scope for ministries to change their operational objectives and/or budgets. In other words independence accorded to non-agency category of MABs is too great to consider them same as agencies. Also as perceived by World Bank (2000) MABs or as they call them 'Type 2 Agencies' 'act to restrain the executive' and are designed mainly to protect organizational functions which are prone to short term orientations of the politicians (such as long term policy making, quasi-judicial/regulatory functions etc.) and resulting capture by governments, by bestowing these organizational forms with high levels of autonomy resulting in statutory independence. Prominent types of MABs include statutory commissions or autonomous regulators such as independent central banks (in-charge of monetary policy) and supreme audit institutions such as anti-corruption commissions etc.

Theoretically SARAs in developing countries have been explained to be based upon the insulation argument in public administration as for central banks. As per insulation argument economic development could be aided by insulating public administration from politics (Evans, 1995; Grindle, 1996) and this argument finds its very popular practical applicability in creation of independent central banks (Cukierman, Webb, & Neyapti, 1992). Taking cues from arguments for central banks, SARAs have been designed to insulate public administration from politics to varying extent, by making use of different dimensions of autonomy delegated to public managers to give them choice and independence to manage internal organizational arrangements without tight political control. MABs or 'type 2 agencies' such as central banks follow the idea of handing-over of regulatory capabilities to organizational forms which are shielded from political control and are not democratically accountable, and this central institutional feature has been described as a prominent one for the developing regulatory state (Gilardi, 2002), and can be found prominently in domain of monetary policy for central banks. At the theoretical level the basic premise behind the insulation or separation argument for organizations such as central banks is described by the

problem faced by policy makers of temporal inconsistency of policies and resulting need of governments to extend credible commitments to actors affected by these policies to gain trust for policy implementation. In case of central banks, by sufficiently insulating them from political control due to independence accorded, the governments try to signal out credible commitments to central bank reform and the resulting diminished, if not eliminated, influence of politicians in the working of the central banks. Shifting decision-making competencies towards institutions which are not democratically accountable is expected to improve the credibility of government policies (Tatcher and Sweet, 2002).

Literature points out to studies which have utilized similar arguments including insulation from political control, temporal inconsistency of policies and credible commitments to reform, utilized above to theoretically explain central bank reform, to theoretically describe reform of SARAs in developing countries as well. Taliencio (2004a) studied why politicians in diverse developing countries have been lending support to creation of SARAs by granting them autonomy? The study showed that SARAs are instruments employed by politicians in developing countries to endorse credible political commitment to reforms. The motive for politicians to support SARA creation lies in the possible increased tax compliance by taxpayers due to positive perceptions about tax reform, resulting in increased tax revenues available to politicians. Researcher argued that politicians support creation of SARAs to indicate credible commitment to taxpayers from their side, maintaining that such newly created SARAs will result in more competent, effective and fair tax administration. The level of autonomy granted to SARAs enables the politicians to make his/her commitment credible in the perception of taxpayers, with the prospect of resulting greater tax compliance by taxpayers and thus increased level of tax revenues available to politicians.

In summary, all literature on SARAs explaining these revenue authorities to be based upon central banks (such as Jenkins, 1994, Jenkins and Khadka, 2000) and considering them as

instruments used by politicians to show credible commitments towards SARA reform (such as Taliercio, 2004, 2004a) consider them to fall under the category of MABs under autonomization and not executive agencies.

2.4.5 Arguments for SARAs as Executive Agencies not MABs

As highlighted by the discussion in previous section and as per Pollitt *et al.*, (2004) the basic difference between agencies and (further out from ministries) MABs is the level of autonomy granted by parent ministries to both organizational forms with agencies enjoying more autonomy but still under ministerial control, while MABs enjoying far more autonomy from ministerial control and having far more independence than agencies. Since SARAs designed as being semi-autonomous revenue authorities are indeed granted with more levels of autonomy along several dimensions in comparison to autonomy accorded to departments still working under ministerial control, but nonetheless SARAs are supposed to be only semi-autonomous and hence not fully independent of ministerial control which means that parent Ministries of Finance remain in charge of SARAs. In spite of formal disaggregation from government hierarchy, parent Ministries of Finance remain capable of changing operational objectives and/or budgets of SARAs without the need of introducing new legislation. So as per this argument independence or autonomy accorded to non-agency category of MABs is too great, resulting in very small or no scope for parent ministries to change their operational objectives and/or budgets, and to consider them same as SARAs and hence as per argument of intensity of ministerial control SARAs seems more as agencies than MABs.

Also agencification model is about granting semi-autonomous status to agencies created under it, since these executive agencies are not created to be as autonomous as MABs such as central banks etc., and do not perform policy making functions, but are only policy implementation

bodies. So agencies created are supposed to be only semi-autonomous and not fully autonomous and executive agencies, working as arms-length instruments of the parent ministries, have increased level of autonomy but not as much as for MABs. Also in literature SARAs in developing countries has generally been referred to as semi-autonomous revenue authorities since they were not created with the objective of being fully autonomous as some other public sector organizations. Taliercio (2004) also highlighted that the extent and nature of autonomy granted to SARAs is much different from the kind of the autonomy given to Central Banks. So in this case, in terms of level of autonomy granted, it is seen that SARAs are more related to executive agencies due to semi-autonomous status than MABs.

Also as highlighted by the discussion World Bank (2000) postulated that the basic objective behind creation of executive agencies is to 'act within the executive' with greater levels of managerial, financial and organizational autonomy to achieve efficiency in service delivery, while the objective behind creation of MABs is to 'act to restrain the executive' with protection from short term orientations of the politicians resulting due to statutory independence. As clearly evident from the already highlighted discussion, SARAs clearly fall into the former organizational category of executive agencies since these have been created in developing countries particularly to remain acting within the executive with greater levels of managerial, financial and organizational autonomy to achieve efficiency in service delivery. So again as per this argument of 'to continue to act within executive' SARAs seems more as agencies than MABs.

Also a practitioner's ideal type of agency is a tripod model of functionally disaggregated, managerially autonomized, performance oriented agencies with three component dimensions including disaggregation, autonomization and contractualization (Talbot, 2004). According to this model, the ideal type of agency is an organization which has certainly been detached from the

parent ministry (disaggregation); where it has some level of independence over internal organizational arrangements, relating to managerial, personnel, financial domains etc.

(autonomization); and where it is obligated to enter into some sort of contractual or quasi-contractual association, also with requirement of performance reporting (contractualization).

When SARAs are analyzed through the lens of this model of agencification, then they seem to fulfill all three defining doctrinal components of agencification. SARAs as adopted in developing countries are clearly detached from the parent Ministries of Finance (fulfilling disaggregation dimension); where SARAs (as per Taliercio, 2004) have been granted with greater levels of autonomy along several organizational design dimensions of legal character, corporate governance, financing and budgeting, personnel policy, procurement policy, and accountability relationships (fulfilling autonomization dimension); and SARAs have also been designed to enter into contractual arrangements with parent Ministries of Finance with agreed output of a certain annual revenue target to be achieved, along with requirement of performance reporting (fulfilling contractualization dimension). As per this application of SARAs to the tripod model of agencification with fulfillment of all three defining criteria of this model, SARAs seem more related to executive agencies due to disaggregation, autonomization and contractualization then MABs.

All of the above mentioned discussion served to highlight that as per analysis of prominent definitions and classifications of the agencification concept in current literature (World Bank, 2000; Pollitt *et al.*, 2004; Talbot, 2004) and subsequent application to the SARA concept, the balance is more tilted toward SARAs being more like executive agencies then their resemblance to MABs. In summary, since SARAs are entrusted with only semi-autonomous status, since they 'act within executive' by operating under ministerial control and display all three dimensions of disaggregation, autonomization and contractualization; and since all these characteristics are the

hallmark of the agencification concept, so theoretically SARAs have been conceived to work like agencies and are unlike MABs.

2.4.6 Lack of Research on Theoretical Underpinnings

Also returning to the question inquiring does occurrence of research studies on SARAs across various subjects fields points out to its cross-cutting, inter-disciplinary nature or is it simply lack of theoretical research in the area of placing these organizational forms definitively in research fields which has enabled occurrence of SARAs across varies subject fields? Continuing with the discussion highlighted above, it follows that reviewed literature on SARAs highlighted lack of research on the theoretical underpinnings of SARAs. This in turn enabled researchers to either focus more on SARAs as MABs and hence contributed specifically to literature on public policy; while other researchers focused more on examining SARAs as executive agencies and hence their contribution to literature was more in the field of public management. It can be argued that since literature still seems unsettled and divided on the topic of linkage of SARAs with contending theories, this has enabled researchers working in different subject areas to analyze SARAs solely through their respective subject lenses, and thus resulting in literature on SARAs across varying subjects. One of the contributions of this discussion is to advance theory in the field of SARAs and to highlight the agency nature of SARA model with a prospect of finding their more definitive place in existing literature.

2.5 THEORY-PRACTICE PARADOX IN SARAs

SARAs have been established to achieve dual objectives of improving efficiency and controlling corruption in tax administrations (McCourt, 2002; Fjeldstad, 2003, 2005a, 2005b; Kidd & Crandall, 2006; Mann, 2004; Martinez-Vazquez *et al.*, 2004; McCarten, 2006; Taliercio, 2004; Zuleta, 2007). The focus of this research is in analysing how well SARA reform has fared in

achieving one of its objectives of corruption control in tax administration. So, the literature review highlights numerous studies which sought to understand this aspect of the reform model. For example, specifically in relation to dealing with corruption, Fjeldstad (2003) showed how this reform idea, conceptually designed to curb corruption, has not fared well when empirically dealing with corruption in SARA in Tanzania. He showed that even after SARA adoption, improved levels of remuneration and increased managerial autonomy co-existed with simultaneous high levels of corruption. Also the effect of SARA reform on controlling corruption in developing countries including Peru, Guatemala and Tanzania highlighted how this reform model has been unable to sustainability control corruption in tax administrations (Mann, 2004). Although SARA reform initially resulted in reducing some corruption, it got worse over time and continued to rise in some cases. In the same vein, several other researches have also highlighted deficiencies of the SARA reform model to achieve corruption control, and have argued against consideration of SARA reform as a universal remedy for reforming tax administrations in developing countries (Martinez-Vazquez *et al.*, 2004; Fjeldstad, 2005a; Kidd & Crandall, 2006; McCarten, 2006).

Although the review of these studies succeeded in improving our understanding of the reform model at a conceptual level, they also point towards a theory-practice paradox. These studies highlight that experience of SARAs against corruption has not always been as expected or explained by conceptual models' consequences. This observation points to a need to closely analyse the theory behind SARA reform and try to find out why the literature is suggesting that practice deviates from theory. In order to achieve this objective, the following sections of this chapter aim to analyse some prominent SARA conceptual models developed in literature, not only to throw some light on theories behind SARA reform idea, but to look for answers to the theory-practice paradox. These SARA frameworks will be analysed to explain why experiences of

SARA adoption in developing countries deviates from conceptual prescriptions, and to identify potential weaknesses and paradoxes in existing literature.

2.5.1 Semi-Autonomous or Autonomous Revenue Authorities?

Literature has highlighted the failure of SARA reform to successfully reform tax administrations in some developing countries with a strong custom of political patronage, where in practice the uptake of SARA reform has made the problem of political patronage worse than in the pre-reform state (Fjeldstad, 2005a). The literature highlighted many SARA countries engaged in 'tug-of-war' with parent MoFs over control and autonomy. This pointed out that SARA reform translated into loss of considerable autonomy and diminished patronage benefits for some parent MoFs, which in turn encouraged strong resistance against successful implementation of SARA reform. In many instances centralized MoFs were even able to over-turn the reform process and win back autonomy and patronage benefits, as has happened in case of Tanzania and Uganda (Clark & Wood, 2001). The above mentioned observation highlights a probable weakness of SARA reform in achieving one of its intended objectives of controlling corruption. This weakness is proposed to arise due to widespread political patronage pressures in tax administrations in developing countries, when the revenue authority is disaggregated and placed further away from direct span of political control. This has even urged some researchers to argue against take-up of SARA reform to control widespread political patronage problems (Jenkins & Khadka, 2000). These studies have argued that adoption of SARA reform in the wake of existing political patronage traditions might make the situation worse and the inability of SARA reform to effectively fend off political patronage pressures lies in its semi-autonomous status. The proposed solution of granting even more autonomy to revenue authorities to resist political patronage is similar to the one granted to central banks to enable them to function autonomously without political meddling (Jenkins & Khadka, 2000).

This discussion raises a very interesting scenario. The literature suggests that one of the reasons why SARAs have not performed well against its intended objective of controlling corruption is due to its inability to effectively deal with patronage pressures. This might be due to its 'Semi-Autonomous' status resulting in insufficient autonomy. Also, the proposed solution lies in making revenue authorities more autonomous, similar to central banks. On the other hand, as discussed in previous section, SARAs have been conceptualized to be based upon the organizational form of executive agencies, which in contrast to More Autonomous Bodies (MABs) or central banks, are semi-autonomous. So, despite consensus reached in this study and in literature (Polidano *et al.*, 1999a; McCourt, 2001a; Minogue, 2001; Polidano, 2001) that by design SARAs have been conceptualized more like executive agencies than MABs, with only semi-autonomy, the failure of SARA reform in literature, especially against or leading to corruption, has urged some researchers to question the suitable organizational form of SARAs to control corruption. They have questioned the appropriate levels of autonomy granted to SARAs, and to analyse if the solution to SARAs implementation problem against corruption and patronage lies in changing the autonomy levels of SARAs.

This observation it is argued can be tackled in either of the two ways described below. Either the solution to SARAs performing poorly against corruption in tax administrations in developing countries lies in reforming them into MABs by increasing autonomy and disaggregating further away from parent MoFs, or conversely, it is more suitable to keep SARAs semi-autonomous on the lines of executive agencies.

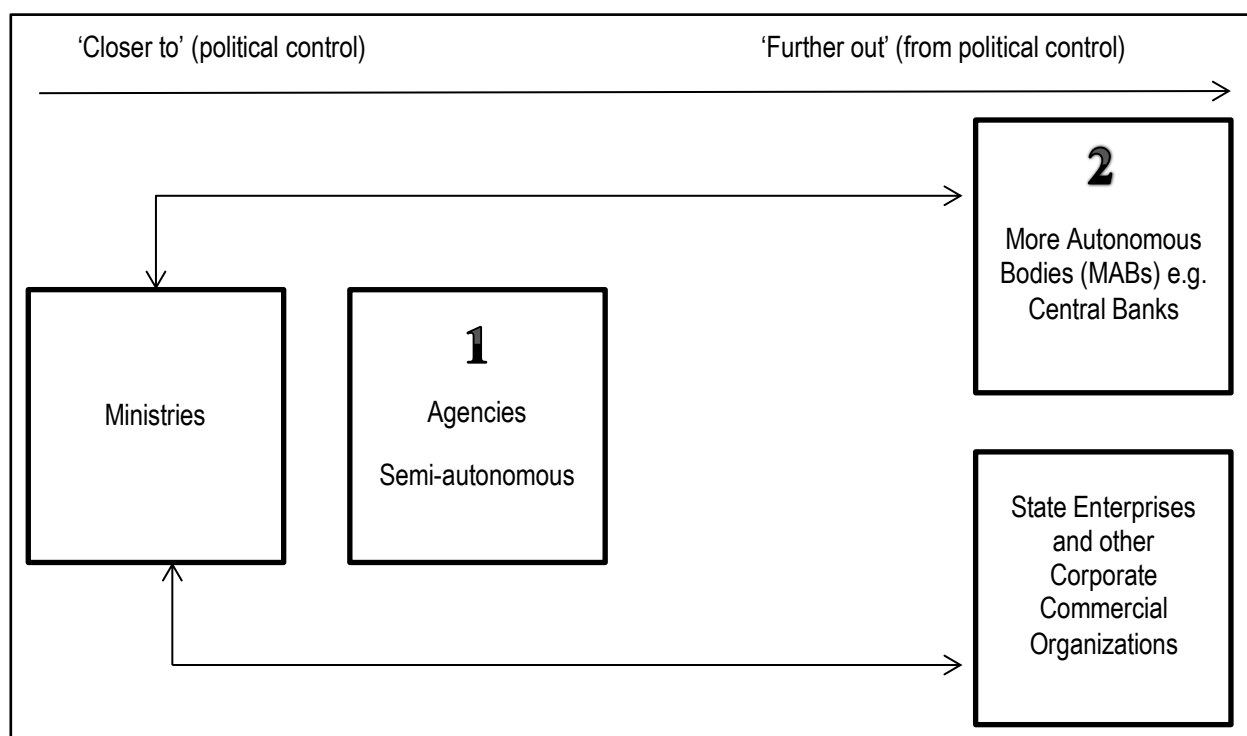
The review of mostly practitioner's literature on modern agencies highlighted a tripod of doctrines for agencification with three component dimensions including disaggregation, autonomization and

contractualization (Talbot, 2004). Due to the collective mechanics of all three doctrinal components, theoretically, agency is controllable enough arising due to contractual mechanisms in place (contractualization), yet independent enough to manage itself for efficient service delivery (autonomization), and also devolved enough to pay attention towards attainment of main tasks (disaggregation). It is argued here, that it might be the improper or incomplete implementation of the agencification elements that has led to failure of SARA reform in some developing countries, especially when dealing with patronage pressures. A lot of literature exists in case of agencification in developing countries, where reform ideas appearing very good on paper and theory, fail at the implementation stage of reform (Pollitt & Talbot, 2004). This failure has been attributed to several factors including different contextual factors undermining uniform reform implementation patterns for developing countries (Dunleavy & Hood, 1994; Polidano, 2001; Pollitt, 1995; Shah, 2007). This is in line with McCourt (2001c) who highlights the need for uptake of a 'contingency approach' when it comes to choice of appropriate reform model for SARAs in developing countries. He highlighted varied experiences with enclave 'revenue authority model' in experimented countries, where corruption reduced in one country, but almost identical model failed to do so in another country. So same SARA model, when applied in different contexts, can lead to varied even surprising consequences.

Also, the experience with agencification has highlighted that in practice the tripod model of doctrines of agencification has on many occasions failed to adopt all three concepts of disaggregation, autonomization and contractualization in prescribed proportions, with either or more of the elements not implemented properly, leading to failure in successfully and completely implementing agencification (Pollitt *et al.*, 2004). Continuing with this argument, it can be postulated that the reason behind SARAs not performing well against corruption in developing countries, which is blamed to insufficient autonomy, might be attributed to failure of proper

adoption of autonomization dimension of the tripod model of agencification. This is proposed to have resulted in absence of adoption of even prescribed levels of 'semi-autonomy'. This in turn is proposed to have resulted in false perception of autonomy levels of SARAs being insufficient for controlling corruption, although the case being autonomy (though only semi) not being implemented properly. Also, calls for even higher levels of autonomy for SARAs have been considered unsuitable and even dangerous for developing countries. This is because highly autonomous SARAs become hub of specialist knowledge, and may lead to the seizure of the government or parent ministry, where the SARA starts to direct and manage the ministry (Pollitt *et al.*, 2004).

So based upon discussion highlighted above, SARAs might have been suitably designed as similar to executive agencies with only 'semi-autonomous' status. There might be nothing wrong with the semi-autonomous status of SARAs, and its patchy implementation record could be blamed to less than desired motivation and poor adaptability of SARA reform to their peculiar contexts by developing countries. In such a case, the appropriate position of SARAs on the autonomy continuum would be with agencies at box 1 as illustrated in Figure 2.2 below. This figure illustrates that the basic difference between agencies and (further out from ministries) MABs is the level of autonomy granted by parent ministries to both organizational forms. This figure illustrates that agencies enjoy more autonomy, in comparison to departments working under ministerial control, hence the gap between ministry and agency in box 1. But in comparison to MABs, agencies remain under ministerial control and hence are put closer to ministerial control on the autonomy continuum in box 1, then MABs in box 2.

Figure 2.2 Nomenclature

Source: (Adapted from Pollitt *et al.*, 2004)

On the other hand, a contrasting position to theory-practice paradox might lie in asserting that semi-autonomous status and resulting insufficient levels of autonomy for SARAs are the problem which renders them ineffective against corruption. So, the solution for SARAs to deal with patronage and corruption problems lies in improving its autonomy on the lines of MABs and placing them further away from span of ministerial control. In such a case, the appropriate position of SARAs on the autonomy continuum would be with MABs at box 2 as illustrated in Figure 2.2 above. This figure shows that MABs enjoy complete autonomy from ministerial control and have far more independence than agencies. In terms of level of autonomy granted, MABs are put further away from ministerial control, then agencies, on the autonomy continuum in box 2.

2.5.2 How much Disaggregation for SARAs?

The previous section questioned appropriate levels of two doctrinal components of agencification including autonomization and disaggregation of SARAs to effectively control corruption. While this section specifically focuses on analysing appropriate level of disaggregation of SARAs from parent MoFs, which might enable them to effectively control corruption in tax administrations. It is stressed here that development of both these sections takes discussion about appropriate level of disaggregation of SARAs from parent MoFs further, with previous section questioning if SARAs might be more effective against corruption if they have more disaggregation from parent MoFs. While this section takes this discussion forward by proposing if effectiveness of SARAs against corruption might be improved by completely disaggregating them from any accountability link with parent MoFs.

It is questioned in this section whether not-enough disaggregation from MoFs' span of control may lead to ineffectiveness of SARAs in controlling corruption in tax administrations in developing countries? In order to achieve this objective, this section of the thesis aims to analyse SARA conceptual model proposed by Taliercio (2004a), not only to throw some light on theories behind the SARA reform idea, but to look for answers to the question set out above. This model represents one of the most prominent conceptual models developed in literature to improve our understanding of the SARA reform model in developing countries. Specifically, Taliercio's SARA framework will be analysed to identify potential weaknesses and paradoxes against controlling corruption.

2.5.2.1 SARAs for Credible Commitments

Taliercio (2004a) studied why politicians in diverse developing countries have been lending support to creation of SARAs by granting them autonomy? He argued in his theoretical

framework that the instrument of SARAs, as adopted in many developing countries, is aimed to extend credible commitments to reform targeted towards taxpayers by politicians. The motive for politicians to make credible commitments to support SARA creation lies in possible increased tax compliance by taxpayers, arising due to positive perceptions about tax reform, eventually resulting in increased tax revenues available to politicians. Taliercio argue that politicians support the creation of SARAs to indicate credible commitment to taxpayers from their side, maintaining that such newly created SARAs will result in more competent, effective and fair tax administrations. The level of autonomy granted to SARAs enables the politicians to make his/her commitment credible in the minds of taxpayers, with the prospect of greater tax compliance by taxpayers and thus increased tax revenues available to politicians. Taliercio also highlighted that the politicians needed to make his/her commitment credible in the minds of taxpayers, owing to problem of time consistency. Time consistency problem can lead to certain policies being perceived as inconsistent by those affected by the policies, believing that politicians have too much discretion and will have motivations in the future to back off from policy intentions stated in the past. Taliercio (2004a) further proposed a solution for politicians which they can utilize to change taxpayers' perception about time consistency problem and to make politicians' commitments credible, arising primarily due to taxpayers existing perception of too much discretion accorded to politicians. He proposed that politicians supporting the creation of SARAs can make use of concept of 'commitment technology' by adopting three such technologies of (1) formation of corporate bodies, (2) delegation of authority to third parties, and (3) reputation (Persson & Tabellini, 1994).

Also, while further elaborating these commitment technologies for use by politicians, Taliercio (2004a, p. 216) states:

"By delegating authority to bureaucrats and giving taxpayers an oversight role, the effect of the SARA reform is to insulate, to some extent, tax administration from politicians".

As per Taliercio the objective of insulation from politicians is built into the institutional design of newly created SARAs, firstly by delegating authority (previously held by politicians) to suitable third parties. These third parties are expected to be autonomous professional bureaucrats working for earning competitive wages and rewards for better performance. Secondly politicians influence in SARAs working is insulated by giving taxpayers an oversight role through adoption of instrument of Revenue Boards.

2.5.2.2 Delegation of Authority to Third Parties: Autonomous Bureaucrats

Taliercio (2004a) proposed the first commitment technology which can be employed by politicians to make credible commitment to SARA reform is related to delegation of authority to third parties, such as bureaucrats, delegated with the responsibility of making tax administration more efficient, effective, and fair. Taking the form of managerial autonomy, power is delegated to bureaucrats, to send a signal to taxpayers of diminished influence of politicians in SARAs' operations. This leads to taxpayers developing perceptions that these empowered bureaucrats are professionals and have incentives to make fair choices for SARAs, thus improving taxpayers perceived fairness levels of SARAs. Literature points out to several developing countries, such as Zambia, Kenya, Bolivia, Argentina and Ghana, where managerial autonomy has been employed to convince taxpayers of professional functioning of tax administrations (Jenkins, 1994). Taliercio (2004a) further highlights that the success of the third-party delegation solution depends upon important pre-conditions of suitable selection of third party, such as selection of credible professional managers, and providing them with incentives to continually improve performance. By utilizing the instrument of delegation, politicians try to signal to taxpayers that SARAs have been insulated from political interference and resulting politicization of civil servants.

But what if taxpayers don't believe that SARAs have been insulated from political interference and resulting politicization of civil servants, due to not-enough disaggregation from previous political principals in MoFs, with politicians in MoFs still retaining accountability responsibility? Taliercio (2004) proposes a hierarchical multi-layered accountability relationship between SARAs and several oversight bodies including Ministries of Finance, in addition to Revenue Boards, the Comptroller/Auditor General, and Parliament. What if taxpayers don't believe in the credibility and suitable selection of bureaucrats, who are chosen to be empowered under the third party delegation solution, arising due to persistent accountability link with previous political principals in MoFs? What if taxpayers believe that bureaucrats who are given autonomy might still potentially be hand-picked by previous political principals in MoFs, because politicians might have transferred their autonomy to bureaucrats, but continue to retain accountability authority? It is proposed here that as politicians in MoFs, whose influence was supposed to diminish due to transfer of authority to bureaucrats, remain part of accountability equation of SARAs, this may hinder development of taxpayers' perception of meaningful insulation from political interference.

The basic concern here is why retain some oversight because this might counteract development of perception of reduced influence of politicians in SARAs. This is particularly applicable when SARAs are employed to reduce corruption in tax administrations which is occurring due to politicization of tax officials by politicians. If the objective behind SARA reform is specifically to control corruption, in addition to improvement in revenue collection, and this is sought by delegating more authority to bureaucrats to diminish political interference, then why continue with same past accountability relationship with parent MoFs which gave rise to politicization in the first place? It is proposed that in such cases efforts to break corrupt alliance between two parties by only taking away and delegating authority from politicians to bureaucrats might be perceived as insufficient by taxpayers, especially if politicians continue to hold accountability authority.

The central criticism to Taliercio framework is that if MoFs continues to be part of the accountability equation of SARAs, even after transferring autonomy to bureaucrats, how can taxpayers develop perceptions that politicians in MoFs do not have any incentives to turn to their old ways of doing things? How can taxpayers perceive that politicians will not use their oversight power negatively for political gains, by trying to politicize tax officials to make them do what pleases their accounting masters? It is argued here that this dichotomy by politicians of trying to signal diminished influence in SARAs' operations by giving away some of their autonomy, but continuing to retain accountability, might lead to taxpayers questioning even any meaningful autonomy transferred to tax officials. This is because tax officials might be conceptually more autonomous than pre-reform, but this increased autonomy is kept under check by the same politicians who transferred this autonomy, thus creating a potential avenue for misuse by politicians. Also taxpayers might perceive that granting more autonomy to bureaucrats, while they continue to be held accountable by previous political masters is undeserved, resulting in no ownership and even resistance to reform by taxpayers, thus affecting tax compliance.

Taliercio (2004a) also highlighted that the success of third-party delegation depends upon important pre-conditions of suitable selection of third party, such as selection of credible professional managers, and providing them with incentives to continually improve performance. In order to increase taxpayers' compliance, they need to be convinced about professional and fair reputation of the bureaucracy involved, resulting in decreased perceptions of corrupt practices undertaken by bureaucrats, even in the face of increased autonomy. Referring to the argument of how not-enough disaggregation from MoFs might undermine any meaningful transfer of authority to bureaucrats in the minds of taxpayers. It is proposed here that not-enough disaggregation from politicians in MoFs might undermine any meaningful transfer of authority to bureaucrats by affecting the pre-condition of suitable selection of third parties as proposed by Taliercio (2004a).

In this case not-enough disaggregation from MoFs, with politicians continuing to retain accountability authority, might lead to taxpayers questioning the credibility of suitable selection of third parties i.e., bureaucrats, who are selected to be empowered by transferring authority from politicians. This is particularly possible when politicians can make use of their accountability authority to influence which tax officials get selected to be empowered under third party delegation solution. The existence of colluding networks between politicians and bureaucrats are not uncommon in developing countries with widespread perception of only extremely politically aligned bureaucrats getting plum postings due to politicians support. This is the basic criticism to theoretical arguments of Taliencio (2004a). It is postulated that the 'delegation of authority to third party' solution might conceptually be insufficient to convince taxpayers of suitability and credibility of bureaucrats as third parties, due to persistent accountability link with previous political principals in former parent MoFs.

After highlighting a potential weakness in theoretical model by Taliencio (2004a), the next question is how to improve adoption of 'third-party delegation solution' by improving taxpayers' perceptions of de-politicization, suitable selection, and capability of bureaucrats to act as genuine third parties. Drawing on the discussion above leads to the following potential solution. It is proposed, why can't politicians distance themselves further away from SARAs' operations by not only giving away autonomy to suitable third parties, but also transferring their accountability authority to other suitable oversight bodies? It is proposed that SARAs might be completely disaggregated from MoFs, such that previous political principals do not retain any accountability authority. It is argued that complete disaggregation of SARAs from MoFs might result in stronger taxpayers' perception of insulation of SARAs from political influence.

2.5.2.3 Formation of Corporate Bodies: Accountability by Taxpayers in Revenue Boards

Taliercio (2004a) proposed that the second 'commitment technology' which could be utilized by politicians to create credible commitment for SARA reform is related to formation of corporate bodies i.e., Revenue Boards. He proposed that transfer of accountability functions to taxpayers in the form of Revenue Boards, can also aid towards development of taxpayers perception of diminished politicians influence in SARAs operations, hence leading to increasing insulation from politics. By utilizing the instrument of Revenue Boards, politicians also try to signal increased involvement of taxpayers in policy making process as stakeholders (via taxpayers representatives sitting in Revenue Boards), thus utilizing Revenue Boards as institutions of joint decision making. Taliercio proposed that time consistency problem of SARA reform (as described above) can be solved by giving power to taxpayers to take part in joint decision-making, by adoption of instrument of Revenue Boards, with representatives of private sector on board. Such 'corporate body' solution have been witnessed in numerous developing countries, such as Zambia, Kenya, Malaysia, Uganda and Singapore, whereby Revenue Boards comprise of several members belonging to top private sector organizations, such as representatives from Chambers of Commerce and Industry and Institution of Chartered Accountants etc. (Hall & Jenkins, 1995).

The instrument of 'formation of corporate bodies' works in the same manner as 'delegation of authority to third parties', by signalling to taxpayers insulation of SARAs operations from political influence. This is signalled by forming Revenue Boards by transferring accountability functions, previously held by politicians in centralized MoFs, to taxpayers sitting as board members in Revenue Boards. The adoption of Revenue Boards to signal to taxpayers SARAs' insulation from political influence, rests on the logic that taxpayers hold past perceptions about ineffectiveness of pre-SARA accountability arrangements, failing to control corruption due to existence of colluding corruption networks between politicians and bureaucrats. As per this argument if instrument of

Revenue Boards is to be effective for insulating SARAs from politics, then taxpayers should perceive a break in pre-SARA accountability arrangements. This is proposed to lead to taxpayers' perception of meaningful transfer of accountability functions from politicians to taxpayers sitting in Revenue Boards. But what if taxpayers don't perceive a break in pre-SARA accountability arrangements, due to not-enough disaggregation of SARAs from previous political principals in MoFs, with politicians still retaining accountability responsibility?

As noted above, Taliencio (2004) proposed hierarchical multi-layered accountability relationships between SARAs and several oversight bodies including Ministries of Finance, in addition to Revenue Boards, the Comptroller/Auditor General, and Parliament. It is proposed here, that as politicians in MoFs, whose influence was supposed to diminish due to transfer of accountability authority to taxpayers in Revenue Boards, remain part of accountability equation of SARAs, this may hinder development of taxpayers' perception of meaningful insulation from political interference.

How to improve adoption of 'Revenue Boards' by improving taxpayers' perceptions about meaningful transfer of accountability functions from politicians to taxpayers and insulation from politics. It is proposed that if Revenue Boards are to be employed specifically for control corruption then they should replace, rather than augment, past accountability relationship of SARAs with MoFs. In other words, establishment of a visible accountability link between SARAs' bureaucrats and taxpayers in Revenue Boards, as opposed to previous accountability link between pre-SARA bureaucrats and politicians in MoFs, is conceptualized to aid taxpayers' perception of insulation of SARAs from politics. Also, if SARAs are continued to be held accountable by MoFs, in addition to Revenue Boards, then taxpayers might question the capability and value added by creation of Revenue Boards.

While discussing appropriate levels of disaggregation of SARAs from MoFs in the light of SARA reform framework proposed by Taliercio, this section critiqued his framework. This critique rested on the ground that Taliercio's framework might be effective in achieving one of the objectives behind SARA reform adoption of improvement in revenue performance, but displays a weakness when applied to achieve control of corruption, by failing to convince taxpayers about insulation of SARAs from politics, due to persistent accountability link with politicians in MoFs. It was proposed that politicians in MoFs needed to completely disaggregate themselves from SARAs' operations to enable taxpayers to perceive meaningful insulation from politics. It is stressed that the proposed solution to identified weakness in Taliercio's framework is conceptualized to improve SARA reform's robustness against corruption, in addition to revenue improvement.

2.5.3 Balancing Autonomy with Accountability for Controlling Corruption

Section 2.5.1 specifically focused on analyzing appropriate level of autonomization of SARAs to effectively control corruption; whilst, section 2.5.2 specifically focused on analyzing appropriate level of disaggregation of SARAs from parent MoFs, which might enable them to effectively control corruption in tax administrations in developing countries. This section aims to further develop this line of argument by analyzing balance between increased level of autonomy with increased level of effective accountability, to enable SARAs to control opportunities for corruption, by reducing taxpayers' perceptions about discretionary and monopoly powers available to tax officials. In addition, this section also proposes that if there is not enough disaggregation of SARAs from MoFs, then it is conceptualized to hinder balance between increased autonomy with increased effective accountability to occur to control opportunities for corruption after SARA reforms.

It is questioned in this section if and how failure to balance increased level of autonomy with increased level of effective accountability might lead to ineffectiveness of SARAs in controlling opportunities for corruption in tax administrations in developing countries? This question points to a need to closely analyze theories employing autonomy and accountability concepts to control opportunities for corruption. In order to achieve this objective, this section of the thesis aims to analyze corruption analytical framework by Klitgaard (1988, 1997), not only to throw some light on theories behind controlling corruption, but to look for answers to the question highlighted above. This framework represents one of the most prominent conceptual models developed in literature to improve our understanding of how autonomy and accountability concepts might be utilized to control corruption. Specifically, Klitgaard's framework will be analyzed to understand how autonomy and accountability concepts might be employed for SARA reform to control opportunities for corruption. It questions whether the solution to SARAs performing poorly against corruption in tax administrations in developing countries lies in ensuring balance between increased level of autonomy with increased level of effective accountability? This is to enable SARAs to control opportunities for corruption by reducing taxpayers' perceptions about discretionary and monopoly powers available to tax officials.

2.5.3.1 Corruption equals Monopoly plus Discretion minus Accountability

There is a very important conceptual difference between the concepts of *discretionary and monopoly powers* available to tax officials under a centralized tax administration system; and *autonomy* granted to tax officials under decentralized SARA reforms. Discretionary and monopoly powers imply a sort of unofficial autonomy exploited by tax officials in the face of a complex tax system which is not sufficiently understood by taxpayers. This increases the monopoly power of tax officials to make discretionary decisions, leading to increases in opportunities for corruption. These discretionary powers are generally exploited by tax officials pre-SARA reform where they

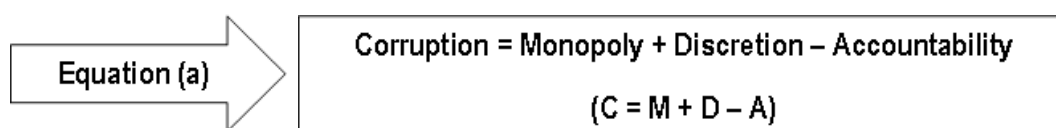
are governed by ineffective centralized accountability mechanisms (Klitgaard, 1988, 1997).

These discretionary powers of tax officials with propensity to increase opportunities for corruption can also be thought of as an un-checked form of autonomy, which is not sufficiently checked due to ineffective accountability mechanisms. On the other hand, the autonomy granted to tax officials after SARA reforms should not be confused with the discretionary and monopoly powers available to tax officials before SARA reforms. This assertion rests on ground that increased level of official autonomy, granted to tax officials after SARA reform, is conceptualized to be kept under check by increased level of effective accountability mechanisms. As Schick (1998) pointed out, the underlying principle behind the creation of agencies is a combination of '*letting managers manage*' and '*making managers manage*', which in essence is about granting increased autonomy in operations in exchange for greater accountability for results.

The conceptual difference between '*discretionary and monopoly powers*' and '*autonomy*' of tax officials has an important bearing for SARA reforms for having propensity to increase opportunities for corruption. It is proposed that when SARA reforms have been implemented improperly with more focus on ensuring autonomy without balancing with effective accountability. This can lead to conversion of and relapse of autonomy concept under SARA reforms back into discretionary and monopoly powers available to tax officials pre-SARA reform. This proposition rests on the argument that monopoly and discretionary powers exploited by tax officials are conceptualized as that form of unofficial autonomy which arises in the face of ineffective accountability mechanisms. Rather this unchecked autonomy, becoming available to tax officials due to improper implementation of SARA reforms, could be considered more dangerous than monopoly and discretionary powers available to tax officials pre-SARA reforms. Because after adoption of SARA reforms tax officials are entrusted with more autonomy than was previously available to them. In the wake of ineffective accountability mechanisms, the increased level of un-

checked but official autonomy is conceptually and comparatively more capable of increasing opportunities for corruption for tax officials, than were possible pre-SARA reform. This can be further elaborated by analysing the corruption framework proposed by Klitgaard (1988, 1997).

Klitgaard (1988, 1997) presented a simple and functional analytical framework modelling corruption, by focusing on corrupt systems rather than corrupt individuals. He highlighted three broad factors affecting opportunities for corruption, including: *Monopoly powers of public officials over clients* (M), *Discretionary control over provision of services* (D), and *Accountability levels for public officials* (A). According to this framework, the probability of incidence of corruption is represented by the following simple equation (a):



The diagram consists of a large right-pointing arrow on the left. Inside the arrow's shaft is the text "Equation (a)". The arrow points to a rectangular box on the right. Inside this box, the text reads: "Corruption = Monopoly + Discretion – Accountability" followed by the algebraic expression "(C = M + D – A)" on a new line.

This equation suggests the greater the degree of monopoly and discretionary powers accorded to public officials, the greater will be the size and number of opportunities to engage in corruption, minus the level of accountability mechanisms in place (Fjelstad, 2005b; Purohit, 2007). In order to reduce opportunities for corruption available to public officials, an anti-corruption strategy based on this framework needs to focus on reducing monopoly and discretionary powers available to public officials, while simultaneously enhancing the accountability mechanisms in place (Rose-Ackerman, 1999; Purohit, 2007). It is highlighted here that the above equation represents a simplified abstract tool and is not a true representation of reality.

At first glance this framework of corruption along with its explanation by Klitgaard (1988, 1997) seems to suggest that if the objective of reform is to reduce corruption, then autonomy granted to tax officials (which in this definition is a combination of monopoly plus discretionary powers

accorded to tax officials) needs to be reduced, while simultaneously enhancing accountability of tax officials. But isn't this proposal at odds with the basic principle of SARA reforms propagating both increased levels of autonomy as well as accountability? Why is this framework of corruption propagating a decrease in the level of autonomy granted to tax officials in order to control opportunities for corruption? Is this framework also pointing out that since agencification under NPM propagates increased level of both autonomy and accountability, and as Klitgaard's corruption framework propagates decreased level of autonomy while simultaneously increased level of accountability for tax officials to control corruption. This leads to the proposition that agencification in NPM has propensity to increase opportunities of corruption since it entails increased level of autonomy accorded to tax officials? Is this observation lending support to literature (Kernaghan, 1992; Doig, 1997; Dunleavy & Hood, 1994; Greenaway, 1995; Haque, 2000; Peters, 1996; Theobald, 1997) which highlights that agencification in NPM has propensity to increase opportunities for corruption arising due to decentralization?

There are a number of possible explanations to the questions raised above. Although, at first glance, it does seem that this corruption framework is suggesting a decrease in the level of autonomy along with simultaneous increase in accountability in order to control corruption. But this corruption framework can be analyzed differently in the following way. It is proposed that Klitgaard's corruption framework is mainly developed for and targeted towards centralized tax administrations, where generally tax officials are entrusted with limited autonomy along with tight centralized accountability mechanisms. In these cases opportunities for corruption arise when centralized tax administrations fail to control tax officials from exercising unofficial autonomy due to ineffective accountability mechanisms. In these cases, Klitgaard's corruption framework suggests, as highlighted in equation (a) above, decreasing the unofficial autonomy exercised by tax officials, in addition to simultaneously taking steps to tighten accountability. This corruption

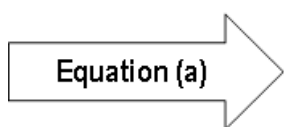
framework suggests reducing the 'un-official' form of autonomy, which is exploited by tax officials and was never entrusted to them, and only arisen due to ineffective accountability mechanisms. So, Klitgaard's corruption framework does not propagate reducing autonomy of tax officials in order to control opportunities for corruption. Rather this framework posits reducing discretionary and monopoly powers of tax officials, which in this study are conceptualized as different from autonomy concept, and represents that instance of un-official autonomy not governed by effective accountability. Literature also highlighted that it is very much possible that individuals and organizations are capable of exercising great levels of freedom and autonomy, although there has been no disaggregation from formal hierarchy. In other words, there is increase in autonomization without any formal disaggregation of the organization from formal hierarchy. This observation becomes particularly evident when analyzing public bureaucracies in developing countries, where ever-increasing regulatory pressures ironically result in even greater opportunities for exercising unofficial discretion and informal autonomy, many times associated with corrupt activities (de Soto, 2000).

2.5.3.2 Corruption equals Autonomy minus Accountability for SARAs

The previous section aided in highlighting how Klitgaard's corruption framework is better suited to shed light on how to control opportunities for corruption in centralized tax administrations by decreasing unofficial autonomy, in addition to simultaneously taking steps to tighten accountability. This section aims to adapt Klitgaard's corruption framework to also make it suitable to analyze control of corruption in SARA reforms by analyzing it through a different lens. It is proposed that Klitgaard's corruption framework can be adapted as follows to also make it suitable to analyze how to control opportunities for corruption in decentralized tax administrations after SARA reforms. By combining both monopoly and discretionary powers into total autonomy entrusted to tax officials, and converting the following framework as described below, Klitgaard's

corruption framework can also be utilized to analyze how to control opportunities for corruption in decentralized tax administrations after SARA reforms.

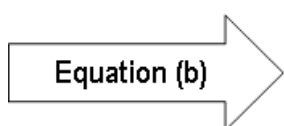
Klitgaard's analytical framework for corruption control proposed in equation (a):



Equation (a)

Corruption = Monopoly + Discretion – Accountability
 $(C = M + D - A)$

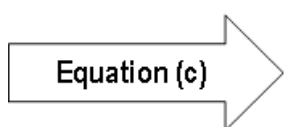
The concepts of monopoly and discretionary powers represent the total unofficial autonomy exploited by tax officials. If we amend the above equation (a) by combining both monopoly and discretionary powers into total unofficial autonomy available to tax officials, it would be presented as follows in equation (b):



Equation (b)

Autonomy = Monopoly + Discretion
 $(A = M + D)$

Now integrating this amended autonomy concept from equation (b) back into equation (a) by replacing **(Monopoly + Discretion)** in equation (a) with **(Autonomy)** from equation (b), or by replacing **(M + D)** in equation (a) with **(A)** from equation (b), leads to conversion of equation (a) into equation (c) as follows:

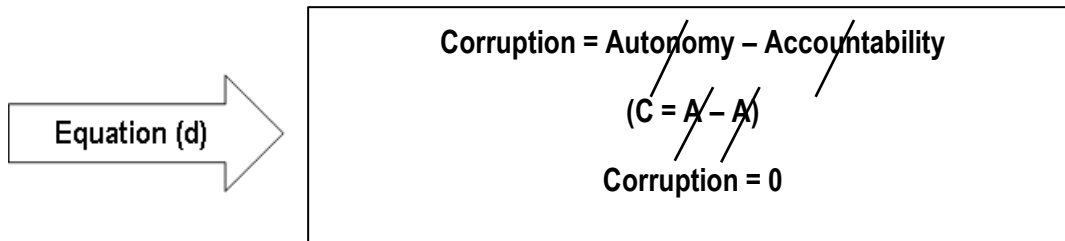


Equation (c)

Corruption = Autonomy – Accountability
 $(C = A - A)$

As per equation (c) it is further proposed here that as long as SARAs' level of autonomy (no matter how much higher than before) is balanced (or nullified) by equal level of effective

accountability, then hypothetically corruption can be reduced to zero. In other words, corruption can be controlled by balancing equal level of autonomy with proportionate effective accountability as shown below in equation (d):



Equation (d)

$$\text{Corruption} = \text{Autonomy} - \text{Accountability}$$

$$(C = A - A)$$

$$\text{Corruption} = 0$$

There are two caveats here. First, equation (d) is not proposing that by balancing equal level of autonomy with proportionate effective accountability, corruption level can be brought down to zero in real terms. As review of literature highlighted that from an economic stand-point it is impossible to bring corruption level equal to zero. Rather zero in equation (d) signifies that by balancing equal level of autonomy with equivalent effective accountability, corruption can be reduced to an acceptable level. Second, by proposing in equation (d) that if equal level of autonomy is balanced with equivalent effective accountability then both nullify the effect of each other, is not meant to propose that effect of both concepts is cancelled or nullified by each other. Rather it is to suggest that there is no un-accountable part of autonomy concept which is not checked by accountability concept. Also as both autonomy and accountability concepts are balanced with each other, there is no un-accountable autonomy left, which prevents opportunities for corruption from being controlled.

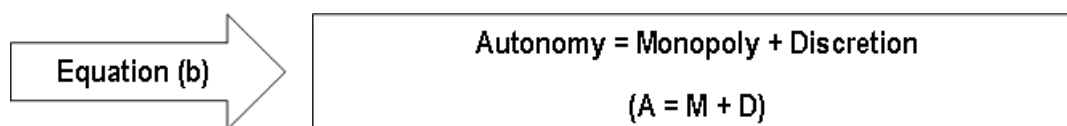
The previous section highlighted how Klitgaard's corruption framework can be adapted to make it suitable to examine control of corruption under decentralized SARA reforms, although Klitgaard's corruption framework was originally developed to examine control of corruption under centralized tax administrations. Importantly the arguments highlighted above can be utilized to explain why

some developing countries have not been able to effectively control opportunities for corruption even after SARA reforms. Leading from arguments above, it is proposed that those SARA cases which have not been effective against controlling opportunities for corruption, they might be represented by a case where increased level of autonomy has not been balanced with increased level of effective accountability mechanisms. Rather autonomy levels granted to tax officials were greater than as could be effectively controlled with available accountability. This occurrence is proposed to lead to conversion of increased autonomy under SARA reform into a form of unofficial autonomy (i.e., discretionary and monopoly powers) available to tax officials in the face of ineffective accountability mechanisms, which is proposed to lead to increases in opportunities for corruption.

The above case highlighting imbalance between both autonomy and accountability concepts under SARA reforms, leading to failure in controlling increasing opportunities for corruption, and bringing corruption hypothetically equal to zero, can be illustrated in equations below. If under SARA reforms there is more focus on ensuring increased autonomy for tax officials than also balancing it with proportionate accountability. In this case it is proposed that level of autonomy is higher than as could be safeguarded with effective accountability mechanisms to control opportunities for corruption. In other words increased level of autonomy is greater than existing level of accountability as illustrated in equation (e) below:

Equation (e)	Corruption = Autonomy > Accountability (C = A > A)
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Also since equation (b) has already proposed above that both concepts of monopoly and discretionary powers represent the total unofficial autonomy exploited by tax officials as reproduced below:

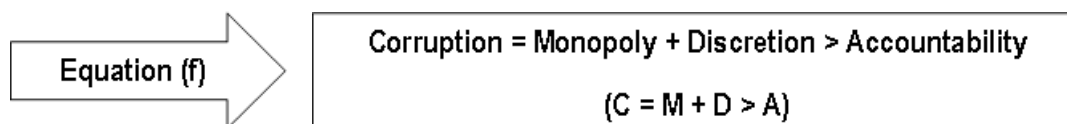


Equation (b)

$$\text{Autonomy} = \text{Monopoly} + \text{Discretion}$$

$$(A = M + D)$$

Now integrating this amended autonomy concept from equation (b) back into equation (e) by replacing **(Autonomy)** in equation (e) with **(Monopoly + Discretion)** from equation (b), or by replacing **(A)** in equation (e) with **(M + D)** from equation (b), leads to conversion of equation (e) into equation (f) as follows:



Equation (f)

$$\text{Corruption} = \text{Monopoly} + \text{Discretion} > \text{Accountability}$$

$$(C = M + D > A)$$

As per equation (f) since both monopoly and discretionary powers available to tax officials are greater than as could be effectively controlled by accountability mechanisms. This leads to ineffectiveness of SARA reform to effectively control opportunities for corruption and bringing corruption level hypothetically equal to zero as follows in equation (g):



Equation (g)

$$\text{Corruption} \neq 0$$

It is important to note that in case of improper implementation of SARA reforms where increased autonomy is not balanced with proportionate effective accountability {as shown above in equation (e)}, it is proposed to lead to not only increases in opportunities for corruption {as shown above in equation (g)}. But also proposed to lead to conversion of autonomy concept, as employed after SARA reforms, into same monopolistic and discretionary powers exploited by tax officials under

centralized tax administrations pre-SARA reforms {as shown above in equation (b)}. This discussion rested on the ground that the differentiating property of autonomy concept, as employed after SARA reforms, from the unofficial autonomy available under centralization, is that although autonomy after SARA reforms is at a higher level than was entrusted to tax officials under centralization, but is conceptually balanced with proportionate effective accountability {as shown above in equation (d)}. So, those SARA reform countries which have not been able to effectively control increasing opportunities for corruption could be represented by a case where autonomy levels granted to tax officials after reforms are greater than as could be effectively controlled by existing accountability levels. In this case, this un-checked autonomy concept is conceptualized to transform into a combination of monopoly plus discretionary powers available to tax officials, as not controlled by effective accountability mechanisms. Consequently corruption in this case becomes equal to monopoly plus discretionary powers exercised by tax officials, which are greater than effective accountability mechanisms in place {as shown above in equation (f)}.

From the above discussion, it can also be deduced that if SARAs are not completely disaggregated from any accountability link with parent MoFs, such that presence of MoFs in SARAs' accountability equation continues to undermine both autonomy (by undermining delegation of authority to third parties) and accountability (by undermining oversight by Revenue Boards) of SARAs. Consequently, this is proposed to lead to failure to balance increased level of autonomy with increased level of effective accountability mechanisms, with imbalance arising due to persistent accountability link of SARAs with MoFs. This is proposed to lead to ineffectiveness of accountability mechanisms of SARAs to control opportunities for corruption, by failing to reduce taxpayers' perceptions about discretionary and monopoly powers available to tax officials even after reforms.

This section not only highlights the 'Why' and 'How' questions of conversion of unofficial autonomy concept into monopoly and discretionary powers available to tax officials before SARA reforms. But this section also took this argument further and applied and adapted the similar argument to 'Why' and 'How' increased level of official autonomy after SARA reforms, in the face of ineffective accountability mechanisms, was proposed to transform into similar monopolistic and discretionary powers available to tax officials before reforms.

2.6 SUMMARY AND CONCLUSION

This chapter has explored various themes about adoption of SARAs in developing countries with particular focus on controlling corruption. The five major areas covered included introduction to SARAs, introduction to corruption, motivations and opportunities for corruption in revenue administration, discussion about theoretical underpinnings of SARAs and how to better control opportunities for corruption in SARAs by analysing prominent conceptual frameworks in this field. The specific contribution of chapter two to the overall thesis argument lies in locating the thesis within existing knowledge about SARAs in developing countries for controlling corruption

The discussions raised in this chapter will be utilized in next chapter to develop an Anti-Corruption SARA Framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. This analytical framework will be developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004). The development of analytical framework will result in formulation of two research hypotheses in the next chapter.

CHAPTER THREE

DEVELOPMENT OF ANALYTICAL FRAMEWORK FOR CONTROLLING CORRUPTION IN SARAs

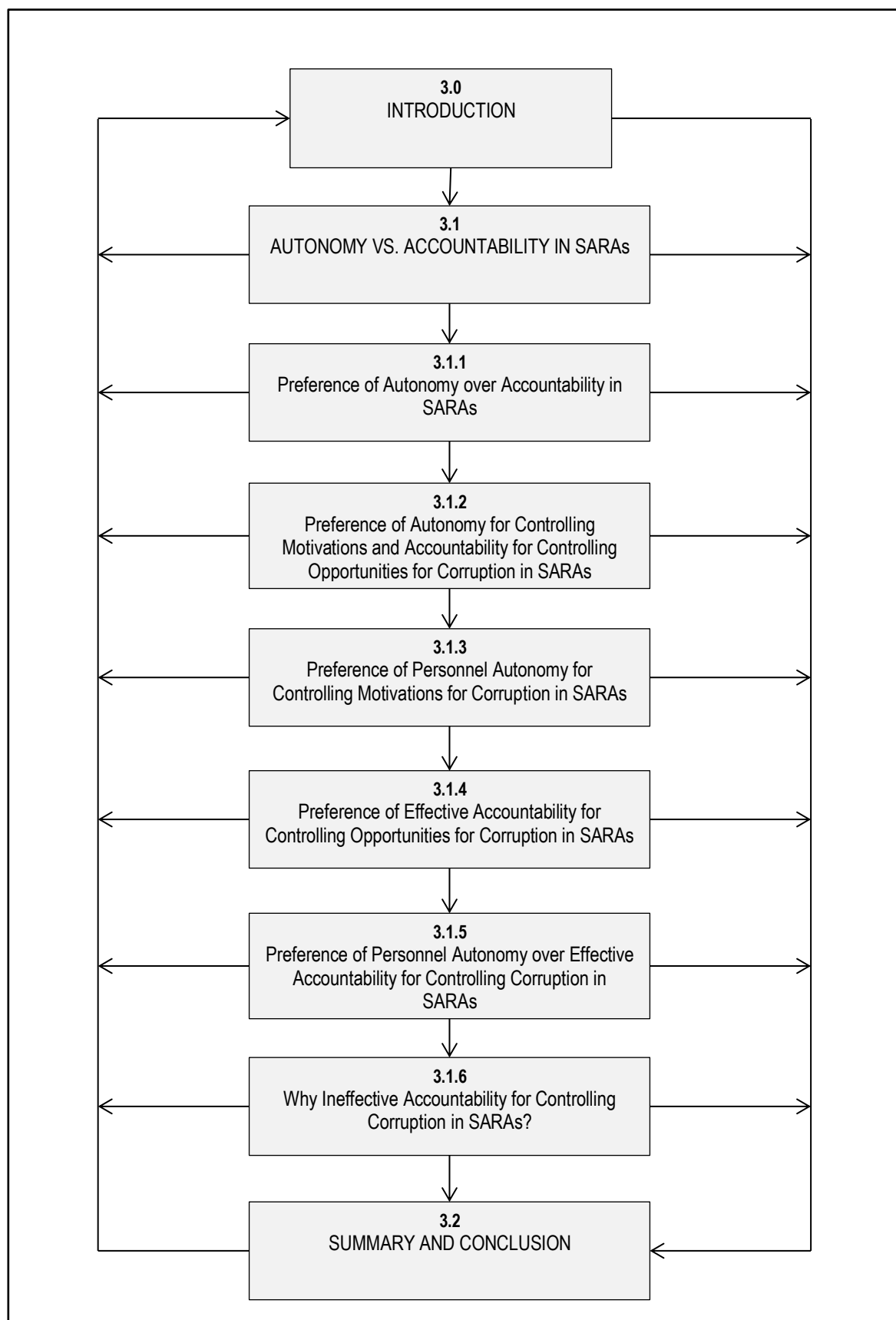
3.0 INTRODUCTION

Chapter two analysed prominent SARA conceptual models in literature, which not only threw light on theories behind SARA reforms, but also looked for answers to the theory-practice paradox. SARA frameworks were analysed to explain why experiences of SARA reforms in developing countries deviated from conceptual prescriptions. It was specifically questioned why some SARAs have failed to effectively control opportunities for corruption.

Drawing from discussions raised in chapter two, this chapter seeks to develop an analytical framework for SARAs by incorporating potential solutions to identified problems, which came to light while critically analysing SARA models. The analytical framework will be developed by answering questions such as: which SARA design components contribute towards reducing corruption?; what are the processes by which this outcome is achieved?; and are certain SARA design components better suited to curb corruption than others? The development of this framework is aimed to contribute towards explaining how existing SARA model can be improved not only to effectively control corruption in tax administrations in developing countries, but also to improve revenue performance as a consequence. The analytical framework developed in this chapter will be used for conducting two-staged analysis of SARAs in chapters 5 and 6 of the thesis, where the analytical framework will be tested and revised for SARA country cases.

The rest of this chapter is organized as follows. Drawing onto discussions in chapter two lead to development of analytical framework and two research hypotheses set out in section 3.1. Both research hypotheses are formulated to lend answer to question why some SARAs have failed to effectively control opportunities for corruption. Research hypothesis 1 proposes in section 3.1.5 that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. Also research hypothesis 2 proposes in section 3.1.6 that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. Section 3.2 concludes the chapter with a general summary and discussion. The structure of Chapter 3 is shown in Figure 3.1.

Figure 3.1 Structure of Chapter 3



3.1 AUTONOMY VS. ACCOUNTABILITY IN SARAs

Keeping in mind the discussions presented in theory-practice paradox section in chapter two, this section aims at developing an Anti-Corruption SARA Framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. This analytical framework is developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004).

What follows in this section is a logical flow of discussion towards development of research hypotheses, which not only aids further development of the thesis argument in the form of analytical framework, but also lending clarity to the sequence of arguments. It is stressed here that the development of research hypotheses is an iterative process and not linear development. The following sections explain process of development of research hypotheses through iterative reasoning.

3.1.1 Preference of Autonomy over Accountability in SARAs

As highlighted in chapter two before, SARA reform has been adopted by developing countries for not only efficiency improvement but also specifically for controlling corruption in tax administrations (McCourt, 2002; Fjeldstad, 2003, 2005a, 2005b; Kidd & Crandall, 2006; Mann, 2004; Martinez-Vazquez *et al.*, 2004; McCarten, 2006; Taliercio, 2004; Zuleta, 2007). Although control of corruption is one of the objectives behind SARA reform adoption, the literature points to poor empirical record of SARAs against sustainably controlling corruption in tax administrations (Fjeldstad, 2003, 2005a, 2005b; Mann, 2004). This has resulted in researchers arguing against consideration of SARA reform as a universal remedy for reforming tax administrations in developing countries (Martinez-Vazquez *et al.*, 2004; Fjeldstad, 2005a; Kidd & Crandall, 2006;

McCarten, 2006). It is questioned here if the poor record of SARAs against corruption can be attributed to its failure to balance increased autonomy with proportionate accountability, leading to increase in opportunities for corruption in tax administration in developing countries. In other words, has SARA reforms resulted in preference for adopting autonomy-enhancing design components but ineffective in ensuring proportionate accountability-enhancing design components for corruption control?

After highlighting the above question, the following sections aim to look for answers and deducing research hypotheses. Before moving onto next sections to formulate research hypotheses, first the following section aims to briefly draw attention to the definitions of SARA reform and how it has utilized its design components to enhance autonomy and accountability to control corruption.

The discussion above highlighted the need to examine the balance between autonomy and accountability- enhancing design components in the SARA reform model. This is to examine which design component has compromised its ability to effectively control corruption. It is justified to assume that SARA model is constituted of separate design components with some enabling more autonomy in the model, while others employed to tighten the accountability of the reformed revenue authority, ensuring the balance between autonomy and accountability. According to Taliercio (2004, page 46) "Semi-Autonomous Revenue Authorities have been defined as tax administrations that have greater than usual autonomy along several organizational design dimensions, including: legal character, corporate governance, financing and budgeting, personnel policy, procurement policy, and accountability relationships". As per this definition, SARA design components such as legal character, financing and budgeting mechanisms, procurement policy mechanisms and personnel policy mechanisms are incorporated in the reform design to extend more autonomy to the reformed SARAs. While SARA design components such as corporate

governance mechanisms and accountability relationships with oversight bodies are instituted in the reform design to extend more accountability of the reformed SARAs.

Since the on-going discussion is primarily aimed towards highlighting how SARAs utilize autonomy and accountability-enhancing design components to control corruption. It is worthwhile to highlight here that in order to understand the incidence, extent and mechanisms of corruption in tax administrations, the literature points to numerous studies which have differentiated between two distinct types of contributing factors to corruption, separately affecting either motivations or opportunities for corruption (World Bank, 1999, Martinez-Vazquez *et al.*, 2004). A detailed discussion of these factors has already been done in chapter two, section 2.3. A brief summary of these factors is reproduced here with an aim of placing the development of research hypotheses in context.

The motivating factors to corruption influences the motivation of tax officials to indulge in corruption given that an opportunity for corruption arises and answers the question of what factors affect the decision by some tax officials to engage in corruption when facing an opportunity for corruption? Also, Martinez-Vazquez *et al.* (2004) identified numerous preventive strategies to control motivations for corruption in tax administrations including: instilling ethics in tax officials; increases in the probability of detection; increases in and stricter enforcement of penalties for corruption; and increases in wages in the public sector and the establishment of incentive compatible compensation mechanisms.

In addition to motivations of tax officials to engage in corruption, the factors affecting the 'ability' of tax officials to indulge in corruption represents the 'windows of opportunity' for corruption. A tax official might be willing and perceive incentives and motivations to engage in corruption, but in

order to engage in corruption, it is vital that an opportunity for corruption also arises. The preventive strategies aimed at limiting the opportunities for tax officials to indulge in corruption include: introduction of oversight mechanisms; reduction of discretionary powers of tax officials; and de-politicization of tax officials (Martinez-Vazquez *et al.*, 2004).

3.1.2 Preference of Autonomy for Controlling Motivations and Accountability for

Controlling Opportunities for Corruption in SARAs

This section is aimed to elaborate how SARA reform conceptually uses its autonomy and accountability-enhancing design components to control corruption in tax administration. It is proposed that both autonomy and accountability-enhancing design components of SARA reform model are capable of checking corruption in tax administrations by specifically affecting either motivations or opportunities of corruption or both. Taking this argument further for specifically controlling motivations for corruption in tax administrations, it is conceptualized that autonomy-enhancing design components of SARA reform model (such as funding mechanisms and personnel management) are better equipped to control motivations for corruption in tax administrations. These design components are better equipped to control corruption by specifically affecting implementation of preventive mechanisms for controlling motivations for corruption (as identified by Martinez-Vazquez *et al.*, 2004) of: (1) increases in wages and rewards; (2) increases in the probability of detection; (3) increases in and stricter enforcement of penalties for corruption; and (4) instilling ethics in tax officials. This proposition rests on the logic that by utilizing the autonomy-enhancing design components of personnel and financial autonomy to, for example, increase wages and rewards of tax officials, their motivations for corruption coming from lack of competitive compensation can be controlled. In order to control motivations for corruption, both personnel autonomy and financial autonomy are autonomy-enhancing design components of SARA reform playing their part. This is to ensure that SARA

reform is capable of controlling motivations for corruption by increases in wages and rewards because it is governed by a personnel system which is free from general civil service regulations (coming from personnel autonomy). Also, it has secure source of funding available to make such increases in wages and rewards a reality for SARA employees (coming from financial autonomy). In this case, both personnel autonomy and financial autonomy are autonomy-enhancing design components of SARAs, incorporated in the reform model not only to extend autonomy, but this increased level of autonomy, on these identified dimensions, also serves to control motivations for corruption. This consideration of personnel and financial autonomy to control motivations for corruption is in line with Martinez-Vazquez *et al.*, (2004) who argue that an effective preventive mechanism for controlling motivations for corruption for tax officials includes increasing in wages and rewards for tax officials. The series of arguments highlighted above helped to establish that the autonomy-enhancing design components of SARA reform are conceptualized to control motivations for corruption.

Taking this argument further for specifically controlling opportunities for corruption in tax administrations, it is conceptualized that accountability-enhancing design components of SARA reform model are better equipped to control opportunities for corruption. The accountability-enhancing design components referred here are defining SARA components such as corporate governance mechanisms and effective 'accountability relationships with oversight bodies' as highlighted in SARA definitions above. These design components are better equipped to control corruption by specifically affecting implementation of preventive mechanisms for controlling opportunities for corruption (as identified by Martinez-Vazquez *et al.*, 2004) of (1) introduction of oversight mechanisms; (2) de-politicization of tax officials, and (3) reduction of discretionary powers of tax officials. This proposition rests on the logic that by utilizing accountability-enhancing SARA design components of corporate governance mechanisms and effective

'accountability relationships with oversight bodies' to, for example, introduce improved oversight mechanisms for SARAs, the opportunities for corruption arising out of weak oversight mechanisms can be controlled. Note that in order to control opportunities for corruption both corporate governance mechanisms and effective 'accountability relationships with oversight bodies' are accountability-enhancing SARA design components playing their part. This is to ensure that SARA reform is capable of controlling opportunities for corruption by introduction of effective oversight mechanisms because it is not only supervised by and accountable to a Revenue Board (coming from corporate governance mechanism), but it is also accountable to several other supervising bodies including MoF and Parliament etc. (coming from effective 'accountability relationships with oversight bodies'). So, in this case both corporate governance mechanisms and effective 'accountability relationships with oversight bodies' are accountability-enhancing SARA design components that are incorporated in the SARA reform model not only to extend accountability. But it is also proposed that this increased level of accountability on these different identified dimensions also serves to control increasing opportunities for corruption. This consideration of corporate governance mechanisms and effective 'accountability relationships with oversight bodies' to control opportunities for corruption is in line with Martinez-Vazquez *et al.*, (2004) who argue that an effective preventive mechanism for controlling opportunities for corruption for tax officials includes introduction of effective oversight mechanisms. The series of arguments highlighted above helped to establish that the accountability-enhancing design components of SARA reform are conceptualized to control opportunities for corruption.

3.1.3 Preference of Personnel Autonomy for Controlling Motivations for Corruption in SARAs

The previous section discussed that some SARA design components are included in the model to extend autonomy (such as personnel management and funding mechanisms), whilst other

design components are included to extend accountability (such as corporate governance mechanisms and effective 'accountability relationships with oversight bodies'). It was also proposed that autonomy-enhancing design components are conceptualized to control motivations for corruption; while accountability-enhancing design components are conceptualized to control opportunities for corruption in tax administrations.

This section now aims to discuss that out of all autonomy-enhancing design components of SARA reform; conceptually which component has the most intense impact on controlling motivations for corruption in tax administrations. Similarly, next section will highlight that out of all accountability-enhancing design components of SARA reform; conceptually which component has the most intense impact on controlling opportunities for corruption in tax administrations. In doing so, this discussion serve to highlight that all distinctive defining features of SARA reform, with some enabling more autonomy while others improving accountability, do not affect motivations and opportunities of corruption in the same way. That is to say that though many design components of SARA reform are included in the reform model to improve autonomy, not all of them affect motivations for corruption in the same way. Similarly for accountability, it is to highlight that although multiple design components of SARA reform are included in the reform model to improve accountability, but not all of them affect opportunities for corruption in the same way.

It is proposed that out of all autonomy-enhancing SARA design components (including legal autonomy, personnel autonomy and financial autonomy), personnel autonomy has the most notable and strong impact towards controlling motivations for corruption in tax administrations. This is owing to reason that personnel autonomy is the single autonomy-enhancing SARA design component, in comparison to other components, which has the most pronounced and visible

effect on implementing each preventive strategy to control motivations for corruption in tax administrations. (The preventive strategies in question here are as proposed by Martinez-Vazquez *et al.*, (2004) and were already highlighted above in the earlier section 3.1.1). In other words, personnel autonomy is proposed to exert most pronounced and direct effect towards controlling motivations for corruption in tax administrations because all identified preventive strategies to control motivations for corruption can be implemented by increasing personnel autonomy. This importance accorded to personnel autonomy in relation to other autonomy-enhancing SARA design components is in line with the findings obtained in relevant other studies on SARA reforms in developing countries. In particular, Taliercio (2004) concluded that the effect of personnel autonomy towards improvement in SARAs' performance, in comparison to other components of autonomy, was most intense. Similarly, it is proposed here that the impact of personnel autonomy on controlling motivations for corruption in tax administrations is proposed to be most intense due to its most noticeable effect on implementing all preventive strategies to control motivations for corruption in tax administrations. The series of arguments highlighted above helped to establish that SARA reform, out of all its design components, is conceptualized to utilize personnel autonomy most intensely to control motivations for corruption.

Next it is discussed how personnel autonomy contributes towards controlling motivations for corruption by directly affecting implementation of different preventive strategies to control corruption in tax administrations. Personnel autonomy is proposed to control for motivations for corruption in tax administrations by affecting implementation of preventive strategy of increases in wages and rewards (with the indicators being increases in wages for tax officials and utilization of performance-linked bonuses). Also, by increases in the probability of detection (with the indicators being increases in the quality and frequency of internal audits and probes by establishing internal audit and anti-corruption divisions; increases in the number of supervisory

personnel assigned to internal audit and anti-corruption divisions; and statutory condition of declaration of assets by all employees). Moreover, by increases in and stricter enforcement of penalties for corruption (with the indicators being increases in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences); and lastly by instilling ethics in tax officials (with the indicators being increases in ethics training and adoption of code of conduct). The series of arguments highlighted above helped to propose that SARA design component of personnel autonomy is conceptualized to control motivations for corruption by 1) increases in wages and rewards; 2) increases in the probability of detection; 3) increases in and stricter enforcement of penalties for corruption; and 4) instilling ethics in tax officials.

3.1.4 Preference of Effective Accountability for Controlling Opportunities for Corruption in SARAs

The discussion in the previous section highlighted both why and how personnel autonomy is proposed to control motivations for corruption in tax administrations. This section aims to highlight similar line of argument discussing why and how effective accountability is proposed to control opportunities for corruption in tax administrations.

It is proposed that out of all accountability-enhancing SARA design components (including corporate governance mechanisms and ‘accountability relationships with oversight bodies’), effective accountability has the most notable impact on controlling opportunities for corruption in tax administrations. This is because effective accountability is the single accountability-enhancing SARA design component, in comparison to other components, which has the most pronounced and visible effect on implementing each preventive strategy to control opportunities for corruption in tax administrations. (The preventive strategies in question here are as proposed by Martinez-Vazquez *et al.*, (2004) and were already highlighted above in the earlier section 3.1.1) In other

words, effective accountability is proposed to exert most pronounced and direct effect towards controlling opportunities for corruption in tax administrations because all identified preventive strategies to control opportunities for corruption can be implemented by improving accountability. This importance accorded to effective accountability in relation to other accountability-enhancing SARA design components is in line with the findings obtained in relevant other studies on SARA reform in developing countries. In particular, Taliercio (2004) concluded that the impact of effective accountability towards improvement in SARA performance was very intense. Similarly, it is proposed here that the impact of effective accountability on controlling opportunities for corruption in tax administrations is proposed to be most intense due to its most noticeable effect on implementing all preventive strategies to control opportunities for corruption in tax administrations. The series of arguments highlighted above helped to establish that SARA reform, out of all its design components, is conceptualized to utilize effective accountability most intensely to control opportunities for corruption.

Next it is discussed how effective accountability contributes towards controlling opportunities for corruption in tax administrations by directly affecting implementation of different preventive strategies to control corruption in tax administrations. Effective accountability is proposed to control for opportunities for corruption in tax administrations by affecting implementation of preventive strategy of introduction of oversight mechanisms (with the indicators being effective accountability relationships with all supervising bodies including MoF, Revenue Boards/Superintendents (whichever applicable), and Parliament etc.). Also, by de-politicization of tax officials (with the indicators being effective accountability relationships with all supervising bodies *especially* Revenue Boards/Superintendents (whichever applicable), and Parliament etc., in addition to MoF). And, lastly by reduction of discretionary powers of tax officials (with the indicators being *balancing* effective accountability relationships between all supervising bodies

especially between MoF and other supervising bodies including Revenue Boards/Superintendents (whichever applicable) and Parliament etc.). The series of arguments highlighted above helped to propose that SARA design component of effective accountability is conceptualized to control opportunities for corruption by 1) introduction of oversight mechanisms; 2) de-politicization of tax officials; and 3) reduction of discretionary powers of tax officials.

3.1.5 Preference of Personnel Autonomy over Effective Accountability for Controlling Corruption in SARAs

Section 3.1.1 questioned if SARA reforms resulted in preference for adopting autonomy-enhancing design components but ineffective in ensuring proportionate accountability-enhancing design components for corruption control? The previous two sections have already discussed that SARA reform, out of all its design components, is conceptualized to utilize personnel autonomy most intensely to control motivations for corruption. Also, SARA reform, out of all its design components, is conceptualized to utilize effective accountability most intensely to control opportunities for corruption. Based on these two discussion points, the previous question can be updated into proposing that SARA reforms has resulted in preference for adoption of personnel autonomy but ineffective in ensuring proportionate accountability for corruption control.

Taking this discussion further, as personnel autonomy is conceptualized to control motivations for corruption (section 3.1.3), and effective accountability is conceptualized to control opportunities for corruption (section 3.1.4). So, integrating all this discussion together leads to the formation of following research hypothesis:

Research Hypothesis 1: By preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption.

Research hypothesis 1 is formulated to lend answer to the question of why some SARAs have failed to effectively control opportunities for corruption. It is proposed that SARA reform in some instances might have failed to balance increased autonomy with proportionate accountability. This, in turn, is proposed to have led to some progress in controlling motivations for corruption, but failing to control opportunities for corruption.

Referring back to section 3.1.3, it was argued that personnel autonomy is conceptualized to control motivations for corruption by 1) increases in wages and rewards, 2) increases in the probability of detection, 3) increases in and stricter enforcement of penalties for corruption, and 4) instilling ethics in tax officials. As a next step, all four of these preventive strategies for controlling motivations for corruption are integrated with research hypothesis 1 above. This leads to formulation of following four sub-hypotheses (with each one focusing on one preventive strategy for controlling motivations for corruption):

Research Hypothesis 1(a): By increases in wages and rewards, SARAs have been effective against motivations but not opportunities for corruption.

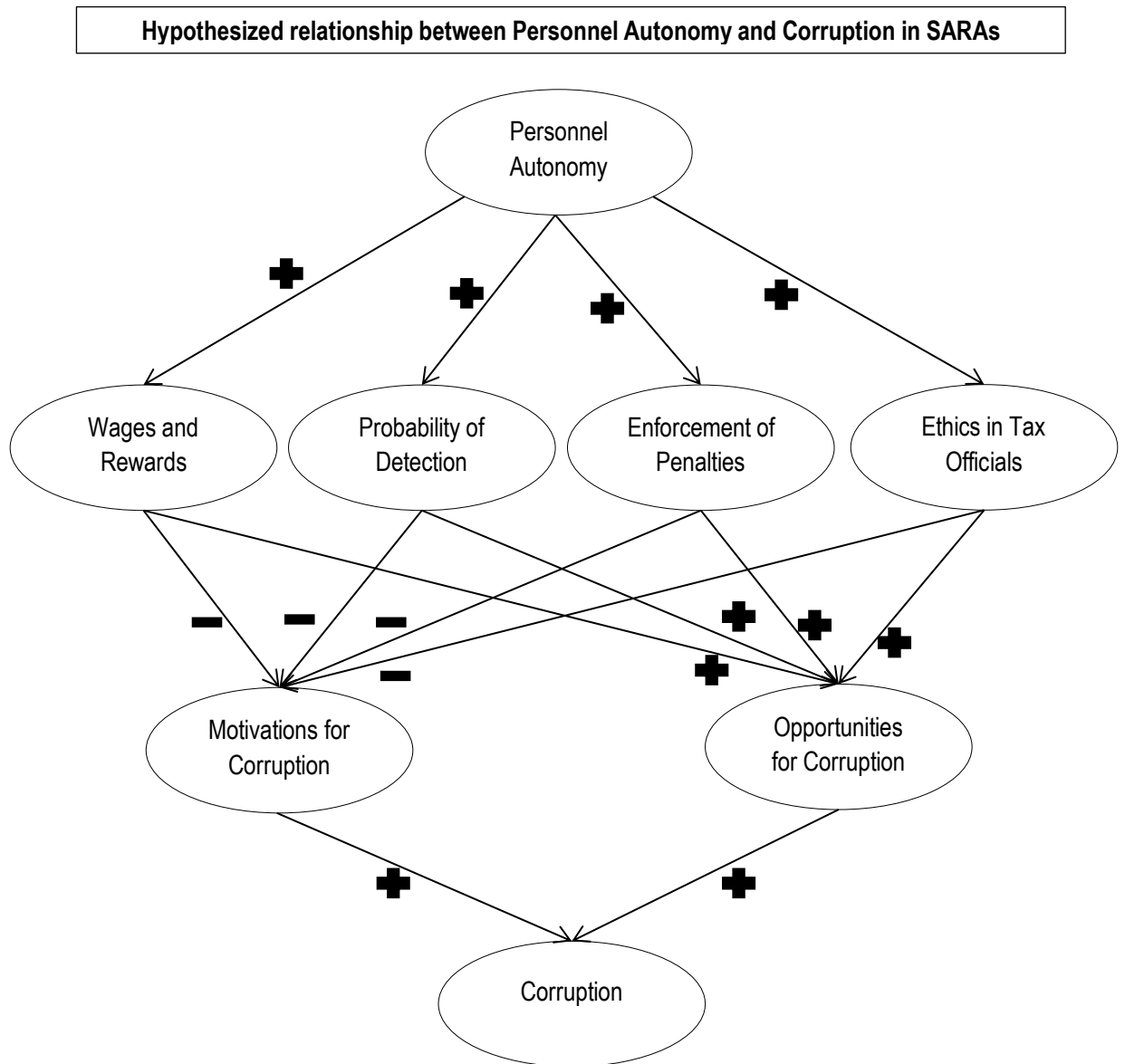
Research Hypothesis 1(b): By increases in the probability of detection, SARAs have been effective against motivations but not opportunities for corruption.

Research Hypothesis 1(c): By increases in and stricter enforcement of penalties for corruption, SARAs have been effective against motivations but not opportunities for corruption.

Research Hypothesis 1(d): By instilling ethics in tax officials, SARAs have been effective against motivations but not opportunities for corruption.

The underlying arguments behind each of these sub-hypotheses have been discussed before in section 3.1.3. It is hoped that formulation of these sub-hypotheses will help to add detail and focus to the examination of research hypothesis 1. Next, Figure 3.2 conceptualizes the sub-hypotheses into a sign graph diagram.

Figure 3.2 Sign Graph Diagram for Hypothesis 1



The sign diagram above proposes that by using personnel autonomy to increase wages and rewards, probability of detection, stricter enforcement of penalties and by instilling ethics in tax officials, SARAs are proposed to control for motivations but not opportunities for corruption. So as per research hypothesis 1, SARAs have preferred adoption of personnel autonomy which is effective against controlling motivations but not opportunities for corruption.

3.1.6 Why Ineffective Accountability for Controlling Corruption in SARAs?

The research hypothesis 1 above focused more on personnel autonomy and how it has been adopted more to control motivations for corruption. Following this same logic, but now focusing more on accountability, it can also be proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability. This idea is an extension of the same logic which was used to develop research hypothesis 1. In other words, it is to say that when research hypothesis 1 proposes that adoption of personnel autonomy has been preferred, then it also means to say that such preference has not been extended to adoption of effective accountability. The next logical question which comes to mind is '*Why*' SARAs have been unable to adopt effective accountability? The discussion in chapter two section 2.5.2 argued against inclusion of MoFs in the accountability arrangements of SARAs to ensure de-politicization of tax officials. Taking this argument further, it is proposed that SARAs have been unable to adopt effective accountability due to presence of MoFs in its accountability arrangements and hence leads to formation of research hypothesis 2:

Research Hypothesis 2: SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF.

Research hypothesis 2 is also formulated to lend answer to the question of why some SARAs have failed to effectively control opportunities for corruption.

Also section 3.1.4 above stated that SARA design component of effective accountability is conceptualized to control opportunities for corruption by 1) introduction of oversight mechanisms; 2) de-politicization of tax officials; and 3) reduction of discretionary powers of tax officials. It is also proposed that presence of MoFs in the accountability arrangements renders SARAs ineffective for all three preventive strategies to control opportunities for corruption. Following are possible explanations for this discussion.

The first preventive strategy to control opportunities for corruption relates to introduction of effective oversight mechanisms. It is proposed that presence of MoFs in the accountability equation, in addition to accountability powers extended to supervising revenue boards, undermines effective oversight mechanisms, due to tensions between these two bodies. This underlying argument has already been discussed in detail in chapter two, section 2.5.2.3. It discussed how continuing accountability link to MoFs can serve to undermine corruption control in SARAs by negatively affecting both delegation of authority to third parties and transfer of oversight to taxpayers (i.e., Revenue Boards).

The second preventive strategy to control opportunities for corruption relates to de-politicization of tax officials. It is proposed that presence of MoFs in the accountability equation results in continuation of politicization of tax officials in the guise of accountability by MoFs. This underlying argument has already been discussed in detail in chapter two, section 2.5.2.2. It discussed why centralized MoFs can be inclined to utilize their accountability powers negatively to politicize tax officials, not only to make up for lost autonomy, but also for gaining lost patronage benefits that were available to MoFs before SARA reform.

The third preventive strategy to control opportunities for corruption relates to reduction of discretionary powers of tax officials. It is proposed that presence of MoFs in the accountability equation, in addition to accountability powers extended to revenue boards, undermines reduction of discretionary powers of tax officials, due to tensions between these two bodies. This underlying argument has also been already discussed in detail in chapter two, section 2.5.3.2. It discussed how tensions due to simultaneous accountability by both MoFs and revenue boards resulted in imbalance between increased autonomy and effective accountability. This was

proposed to lead to conversion of autonomy concept into un-checked discretionary powers available to tax officials in the face of ineffective accountability.

In the paras above, it was discussed that presence of MoFs in the accountability arrangements renders SARAs ineffective for all three preventive strategies to control opportunities for corruption. As a next step, all three of these preventive strategies for controlling opportunities for corruption are integrated with research hypothesis 2 above. This leads to formulation of following three sub-hypotheses (with each one focusing on one preventive strategy for controlling opportunities for corruption):

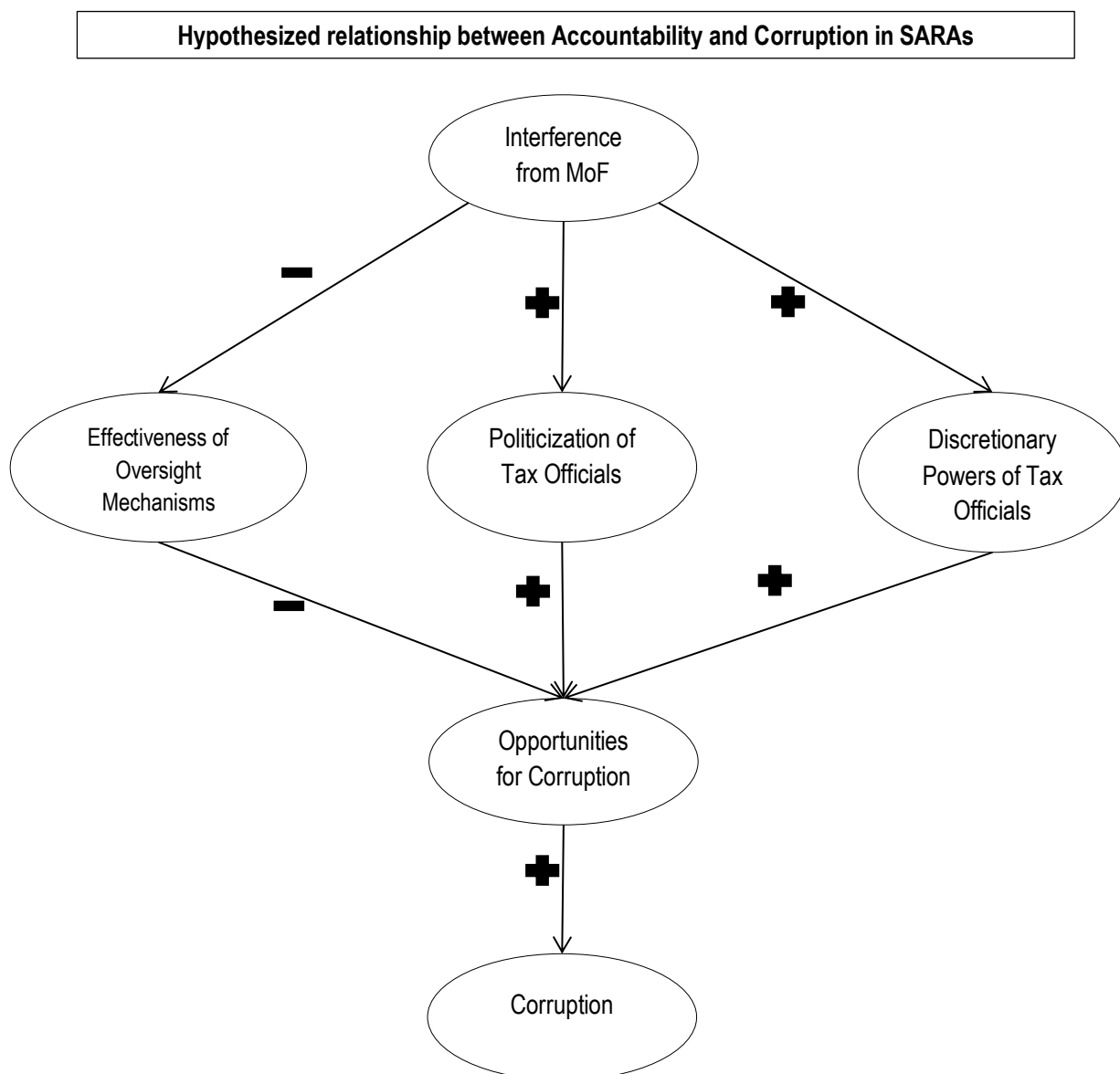
Research Proposition 2(a): SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not introducing effective oversight mechanisms.

Research Proposition 2(b): SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not de-politicizing tax officials.

Research Proposition 2(c): SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not reducing discretionary powers of tax officials.

It is hoped that formulation of these sub-hypotheses will help to add detail and focus to the examination of research hypothesis 2. Next, Figure 3.3 conceptualizes the sub-hypotheses into a sign graph diagram.

Figure 3.3 Sign Graph Diagram for Hypothesis 2



The sign diagram above proposes that the continuing interference by MoFs in the accountability arrangements of SARAs undermines not only the effectiveness of oversight mechanisms but continue to politicize and increase discretionary powers of tax officials and hence opportunities for corruption are not controlled.

3.2 SUMMARY AND CONCLUSION

In conclusion, this chapter sets out why some SARAs have failed to effectively control opportunities for corruption. To answer this it has set out an Anti-Corruption SARA Framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. This analytical framework is developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004). One of the advantages of this framework lies in conceptualizing how individual SARA design components can be utilized to separately control motivations and opportunities for corruption. In addition, another important contribution behind developing this framework lies in bringing together ideas by Taliercio (2004) and Martinez-Vazquez *et al.* (2004), which have previously remained separate. In a nutshell, the specific contribution of chapter three to the overall thesis argument lies in aiming to answer the question set out above by conceptually developing an Anti-Corruption SARA framework by drawing on literature reviewed in chapter two. The development of analytical framework resulted in formulation of two research hypotheses.

Research hypothesis 1 proposed that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. Also, research hypothesis 2 proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. With an aim to add focus and specificity to both research hypotheses, so as to make the forthcoming analysis of SARA cases more focused and to the point, sub-hypotheses were also developed. All sub-hypotheses, with each one referring to one specific preventive strategy to control motivations and opportunities for corruption, helped to logically break down both research hypotheses. For the purpose of clarity both research hypotheses along with sub-hypotheses are reproduced below.

Figure 3.4 Research Hypothesis 1 along with sub-hypotheses

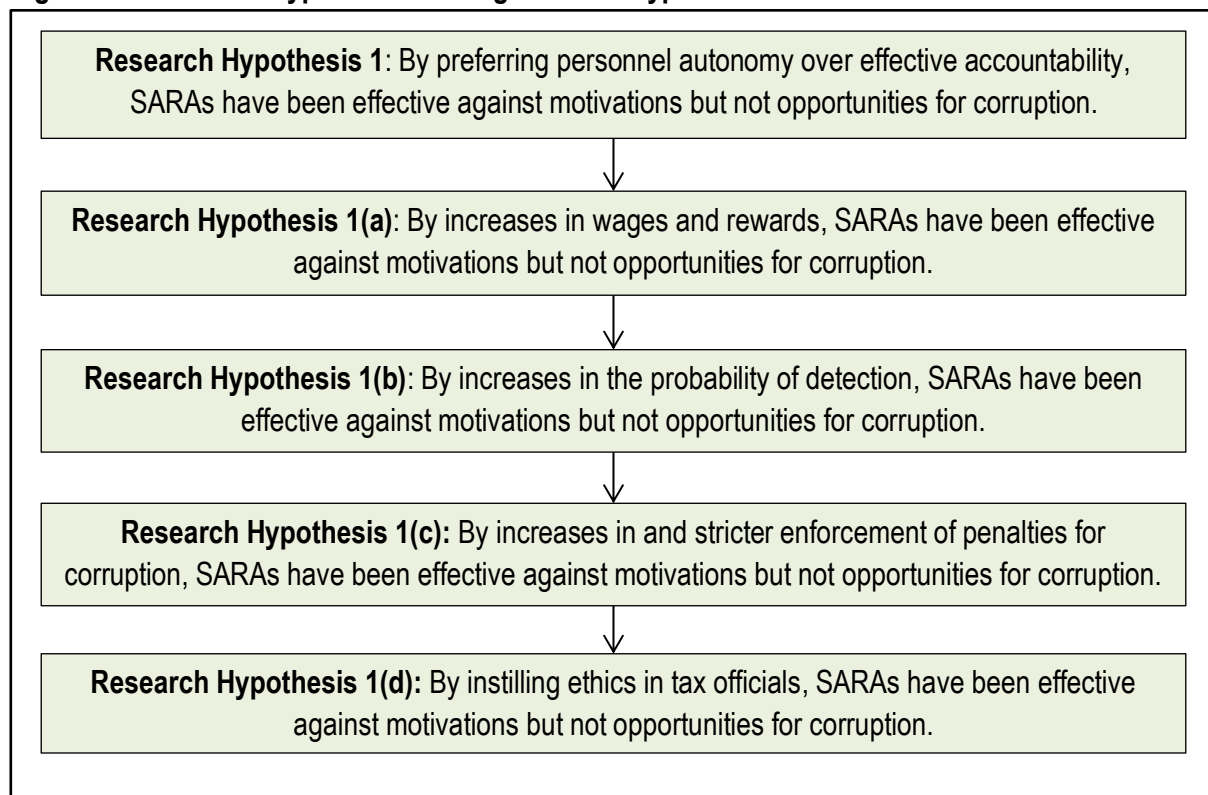
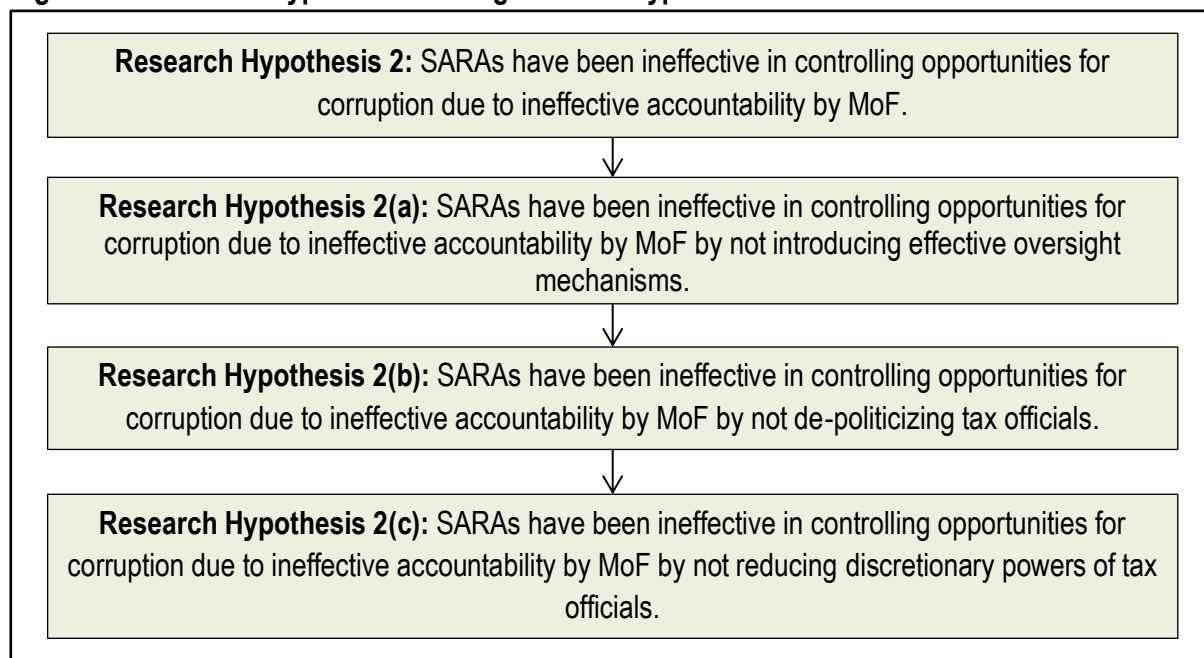


Figure 3.5 Research Hypothesis 2 along with sub-hypotheses



The development of Anti-Corruption SARA Framework highlighted the need to map existing SARA cases as per research hypotheses developed in this chapter. The development of sub-hypotheses helped to make the thesis argument more focused. In order to analyze the validity of the framework through analysis of SARA cases, the forthcoming analysis in chapters 5 and 6 of the thesis will be examined in terms of these sub-hypotheses. Analysis of sub-hypotheses will be undertaken with an aim to test both research hypotheses 1 and 2, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to both research hypothesis 1 and 2.

Next, chapter 4 will also outline the methodology to be used for conducting the proposed analysis of SARA cases and case study of tax administration reforms in Pakistan.

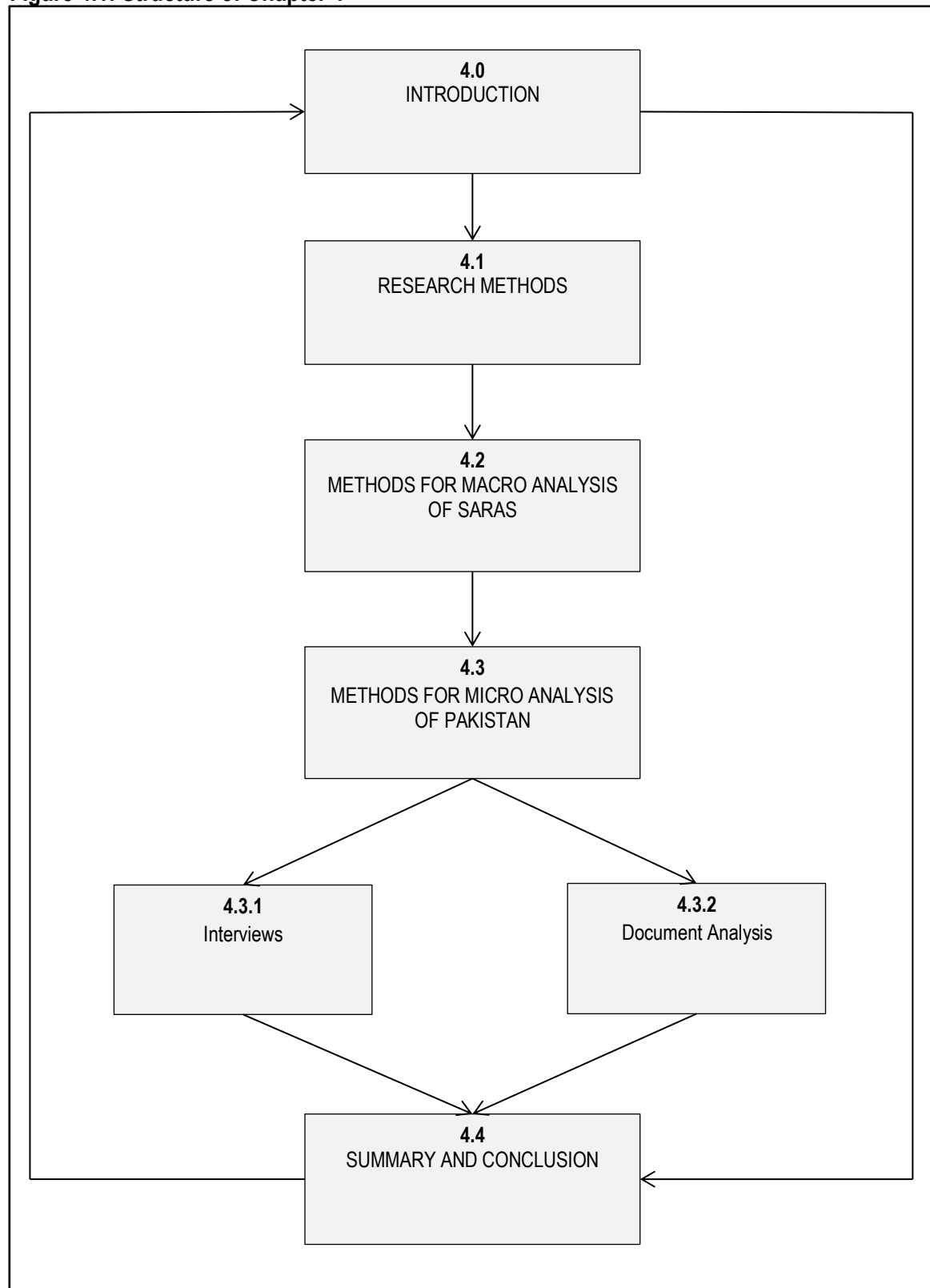
CHAPTER FOUR

RESEARCH METHODS

4.0 INTRODUCTION

Chapter three set out an Anti-Corruption SARA Framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. In order to analyze the validity of the framework through analysis of SARA cases, a two-staged analysis of SARA cases will be conducted in chapters five and six of the thesis, where the analytical framework will be tested and revised for SARA country cases. For this reason, this chapter aims to elaborate multiple research methods for both macro and micro level of analysis.

This rest of this chapter is divided into three main sections. Section 4.1 discusses research methods by explaining why multiple methods are employed to undertake macro and micro level of analysis and sequence and timing of data collection. Section 4.2 details how systematic review is conducting for macro level of SARA analysis. Section 4.3 explains how both interview data and documentary sources are combined for conducting micro level of analysis for Pakistan. Section 4.4 concludes the chapter. The structure of chapter 4 is elaborated in Figure 4.1 below:

Figure 4.1: Structure of Chapter 4

4.1 RESEARCH METHODS

This section aims to elaborate multiple research methods for both macro and micro level of analysis. Chapter five will include the macro analysis of SARA reforms while chapter six will comprise of micro analysis of tax administration reforms in Pakistan. Both 'macro' and 'micro' terms refer to their literal meanings with macro meaning large-scale, overall and micro meaning small or focused. The term 'macro' is adopted to denote the broad level of analysis including many SARA developing countries undertaken to develop a broader picture of SARA implementation against corruption. The term 'micro' is adopted to denote the focused and specific level of analysis including only Pakistan. Both 'macro' and 'micro' analyses are utilized not only to paint a picture of trend so far in SARA developing countries but also examining one case (Pakistan) specifically for focus. The multiple methods refer to selection of appropriate research methods at two levels of change, the macro (SARAs) and micro (Pakistan). At the macro level a detailed mapping of SARA cases will be undertaken for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries by conducting a systematic review in the form of analysing secondary literature (published papers, reports and books). At the micro level a detailed case study of tax administration reforms in Pakistan will be undertaken for conceptually testing the Anti-Corruption SARA framework for Federal Board of Revenue (FBR) by utilizing a combination of semi-structured interviews and secondary sources of data.

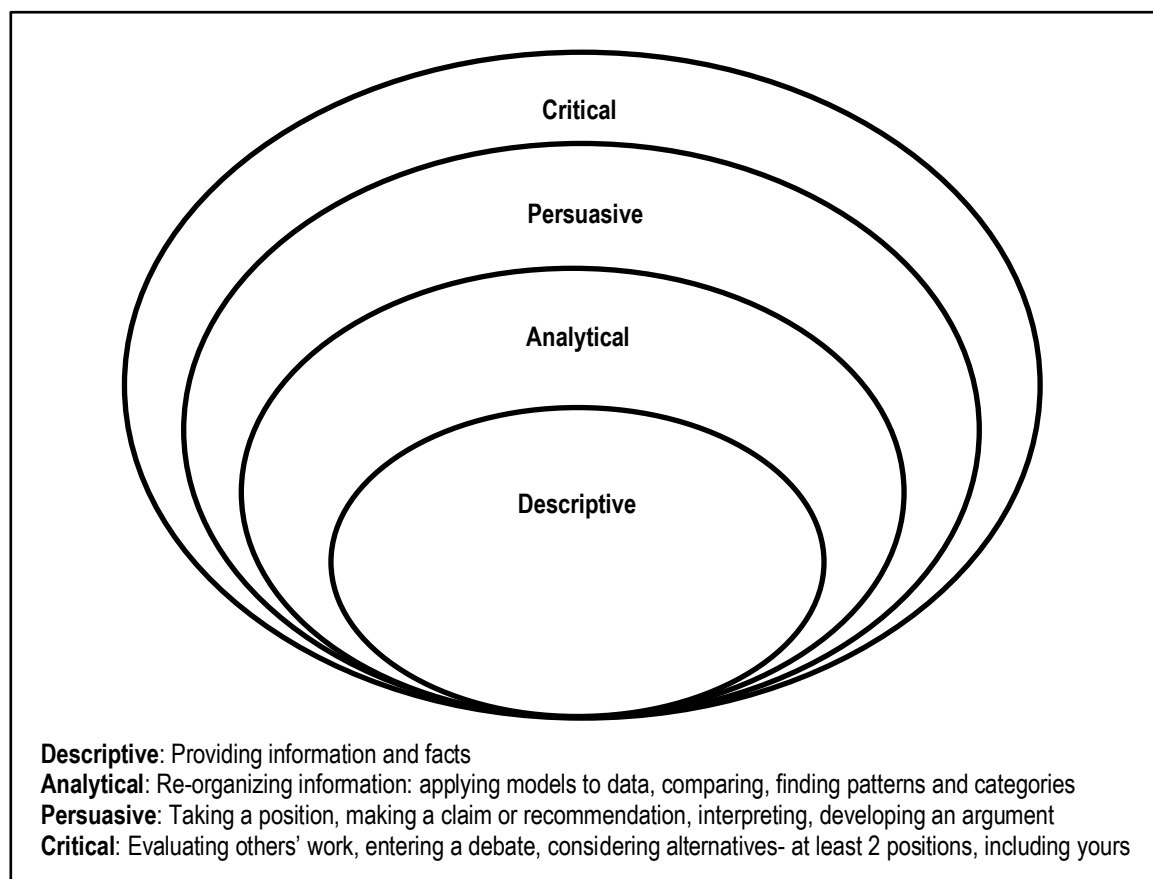
One of the advantages of conducting two-staged analysis of SARAs contributes towards increasing the robustness of thesis findings. Although the micro level of analysis, undertaking case study of tax administration reform in Pakistan, is cross-sectional in nature as data collection occurred in one point in time; but in terms of macro SARA analysis, the examination of secondary literature spanned different points in time/stages of reform due to different developing countries undertaking SARAs at different times, demonstrating a sort of longitudinal dimension of analysis.

Hence, undertaking both macro and micro level of analyses of analytical framework, and making an effort towards a cross-sectional as well longitudinal inquiry of research, increases the robustness of research findings. Another advantage of two-staged analysis entails combination of analysis with macro approaching old evidence (secondary literature) in a new way (analytical framework); while, the micro approaching new evidence (semi-structured interviews) in an old way (Case Study method). There is an argument which proposes that old evidence makes study relevant, while new evidence makes study useful for others. Thus, one of the significance of two-staged analysis involves combining both old evidence (macro) and new evidence (micro) and making this study not only relevant but also useful for future research.

The sequence and timing of data collection and analysis, like the plan of the thesis, was determined by the logic of needing one piece of information in order to find another. The first pieces were found at the macro level of analysis, and the last pieces were found at the micro level of analysis. In other words, the sequence and timing of data collection and analysis moved from the macro level of analysis examining SARAs to the micro level of analysis undertaking case study of tax reforms in Pakistan. There was also reflexivity in that earlier work was revisited. The literature reviews were continuously updated. The macro and micro level findings were continuously reflected on to increase the sophistication of interpretation. As illustrated in figure below, this research on SARAs is *Descriptive* (as it aims to provide information and facts about SARAs), *Analytical* (as it aims to apply analytical framework to literature and data and through macro and micro analysis also aims to re-organize information (data) for comparing SARAs, finding patterns against controlling corruption, and hence coming up with categories of SARAs with differences against corruption), *Persuasive* (as have taken a position regarding autonomy and accountability of SARAs, making a claim about interference from MoFs and recommending to keep MoFs out of accountability arrangements of SARAs) and *Critical* (as

evaluated Taliercio and Klitgaard's work and entered a debate about SARAs' capability to control corruption).

Figure 4.2: The Onion Model of Academic Discourse



Source: Humphrey, S., Charles, C., Economou, D. & Drury, H., (2015)

The evidence for this research has been collected from both qualitative and quantitative data by employing primary and secondary sources. The reliance of this thesis is tilted more towards qualitative than quantitative data because quantitative methods have restricted capability towards exploring the reasons and perceptions behind failure of SARA reforms towards controlling corruption in developing countries. Miles and Huberman (1994) highlighted that as qualitative methods emphasize people's 'lived experience', they are primarily suitable for tracing the meanings people attribute towards events, processes, and structures in their lives, along with their understandings, and for linking these understandings to the outer world. McEvoy and

Richards (2006) also proposed that qualitative methodology can help explain complex concepts and relationships that are probable to be captured by prearranged response categories or standard qualitative measures.

First the research strategy employed for conducting the macro level of SARA analysis is described below, followed by illustrating the research strategy for conducting micro level of analysis for FBR, Pakistan.

4.2 METHODS FOR MACRO ANALYSIS OF SARAS

At the macro level a detailed mapping of SARA cases was done for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries. The macro analysis entailed analyzing SARA cases which have not performed well against corruption. Although review of literature in chapter two highlighted quite a few SARAs fitting this purpose, but were geographically dispersed all around the globe. Since the researcher lacked resources of time and money to carry out in-depth case studies of selected SARA cases in pursuit of primary data to analyze analytical framework, the researcher was left with no other choice but to rely on secondary literature to conduct macro level of analysis. Hence, the macro level of SARA analysis was aimed at theorizing about what is going wrong with practice by approaching old evidence (secondary literature on SARAs) in a new way (i.e., analytical framework). Also this research, especially the macro level of analysis relying heavily on use of secondary literature, is limited by the lack of publicly available data. Therefore, the macro level of SARA analysis can only be as good as the quality and quantity of the secondary literature on which it has relied. As is common in such research, individuals and corporate organisations alike seldom offer information on how to pay bribes or engage in corruption (Johnston, 2002).

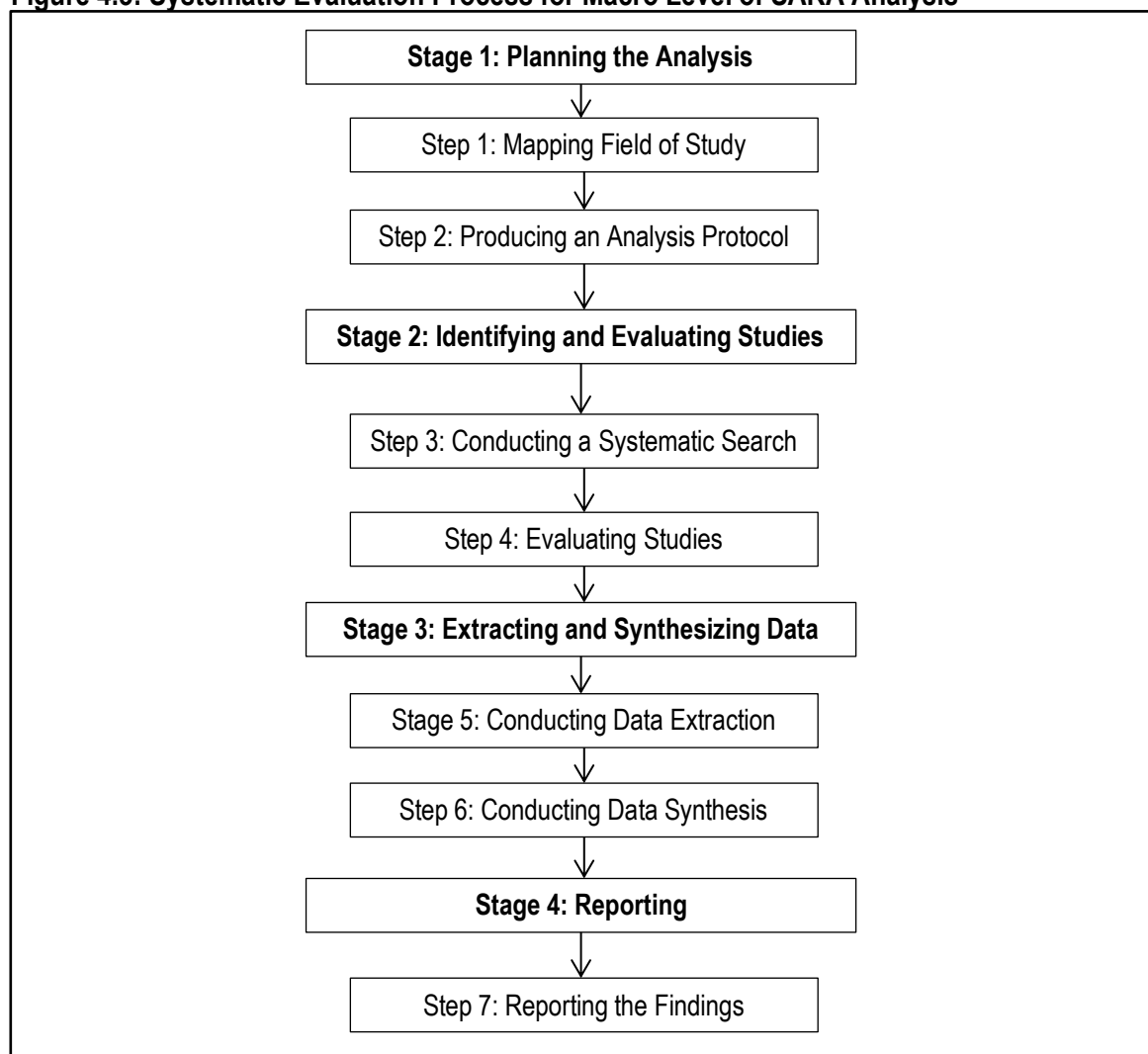
The secondary literature was acquired through published documentary sources including books, journal articles, archived documents, newspapers, government reports, reports by international donor organizations, reports of NGOs, and reports and information available at official websites of SARAs and ministries in developing countries to facilitate macro level of analysis. Unavoidably these sources of data have gaps, as true for any kinds of socially generated data, but they are also capable to offer insights into how corrupt practices might have developed. The documentary sources were selected on the basis of criteria of accessibility, comparability and association with SARAs and Corruption. One of dominant methodology in the field of public administration has been comparative study for over five decades (Guess, 1989). It has assumed centre stage in the field of social science and particularly in the field of public administration research. For this reason, Hood (1989) noted "Today, public administration scholars live in what is much more a global village conceptually, in that it would be hard to write an acceptable research degree thesis in the subject today which did not draw on an international literature for its conceptual framework. It is hard to see this trend going into reverse". Moreover, Bekke *et al.* (1996) argued, "comparative analysis is necessary for the identification of key concepts, of relations among concepts, and of the underlying logic or dynamic of the relations. Comparative research is also an antidote for the narrowness sometimes associated with studying a single system".

Secondary literature analysis was conducted because they "provide a key source of data on events or groups too small or scattered or otherwise difficult to trace for national interview surveys to be a realistic possibility." (Hakim, 1993, p.133). Hakim (1993) highlighted the suitability of secondary literature "for research on the policy process itself ... Albeit incomplete accounts, are part of the reality being studied" (p. 134). Content analysis can be particularly beneficial for conducting cross-sectional analysis requiring frequencies from qualitative or unstructured data (Carney, 1972; Jupp & Norris, 1993). It can also be beneficial when inferences are to be made about "what is 'written between the lines' (Carney, 1972, p. 25). But there is limitation for content

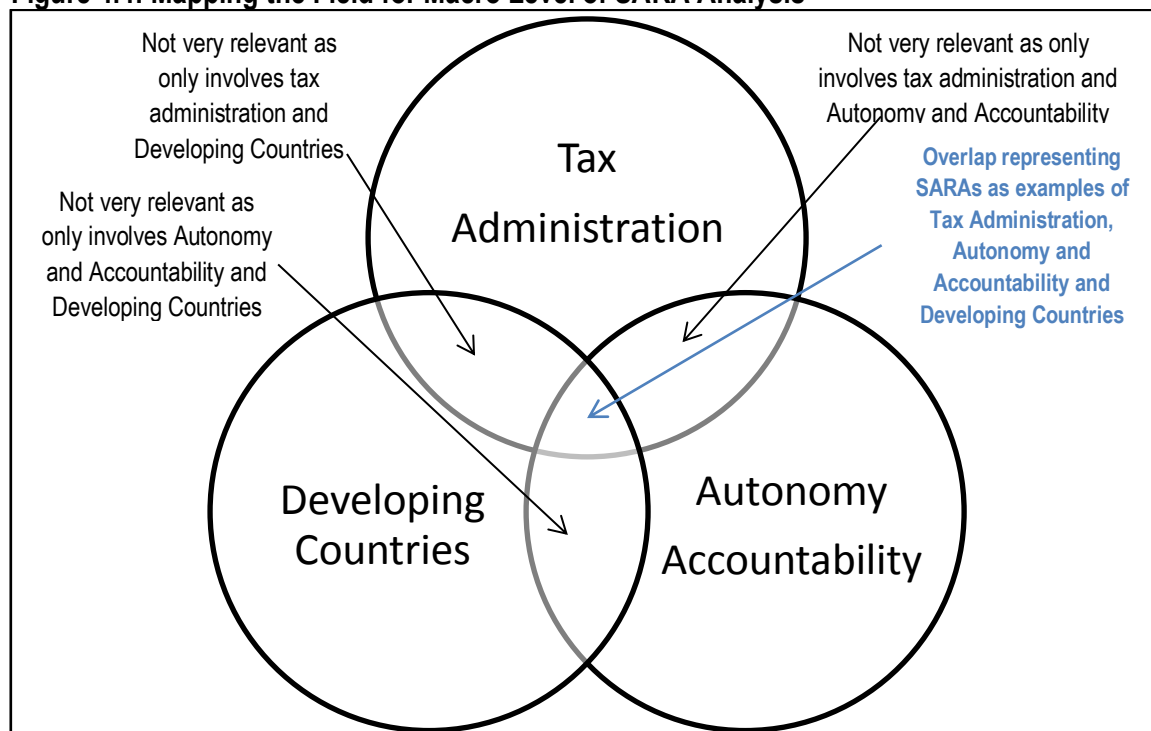
analysis as it only "gets the answers to the question with which it is supplied." (Carney, 1972, p. 283). Content analysis also presumes the significance of discourse. Some scholars might debate the ability of discourse towards producing valid results for reason that documentary data only captures partial accounts of the reality being examined. This is correct, but so is the argument that documents assume a key source of data on geographically spread events making interviewing challenging, and they might be incomplete but still remain part of reality being studied (Hakim, 1993).

The following figure illustrates the process followed to analyse secondary literature for macro level of SARA analysis (Source: adapted from Hakim, 1993).

Figure 4.3: Systematic Evaluation Process for Macro Level of SARA Analysis



The stage one of planning the analysis in figure above involved mapping the field and becoming clearer about its boundaries. 'The technique of mapping is one useful way in which one can begin to scope the research and become clearer about its boundaries' (Jenkins, 2003). The step one of the systematic review involved identification of secondary literature most relevant to this research, as this thesis integrates three major areas including reformed tax administrations, changes in autonomy and accountability and developing countries. For the purpose of mapping the field, the most relevant secondary literature represented the overlap of all three major areas in the form of SARAs as illustrated in the figure below, such that these literatures were related to all three domains of tax administrations, autonomy and accountability and developing countries. As the figure illustrates, SARAs represent a case of reformed tax administrations with changed autonomy and accountability mechanisms in developing countries. In other words, as this research aimed to analyse the interaction of reformed tax administrations with autonomy and accountability in developing countries. Hence, SARAs represented a good example of analysing an instance when tax administrations have been reformed in developing countries with changed autonomy and accountability.

Figure 4.4: Mapping the Field for Macro Level of SARA Analysis

In order to produce an analysis protocol (step two in figure 4.4 above) for conducting systematic review, keywords were devised for running online literature searches for the purpose of mapping the field and selection of relevant secondary literature. As a step three in figure 4.4 above, three separate systematic searches were conducted. In the first phase all four keywords i.e., Tax Administration + Developing Country + Autonomy + Accountability were used for finding published literature which clearly dealt with or examined all four areas or keywords. In the second phase, keyword searches were run with only Tax Administration + Developing Country to look for published literature which dealt with both these areas or keywords. After this step, the relevant material obtained in the second phase was critically evaluated for applicability or reference to SARAs and only those studies were included in the analysis showing linkage to SARAs. In the third phase, the keyword search only used the term 'SARA' or 'semi-autonomous revenue authority' or 'autonomous revenue authority' to look for published data sources which dealt with only this keyword. After this step, the relevant material obtained in the third phase was critically evaluated for material on autonomy and accountability mechanisms after reform and only those

studies were included for the systematic review having material for both. In sum, for the purpose of mapping the field online keyword searches were conducted in three layers following above scheme.

It is worth highlighting here that only those secondary literature studies were included for the systematic review in the macro analysis which fulfilled the above mentioned criteria. Special attention was paid to evaluating studies (step four in figure 4.4) for relevance and only those studies were included which were related to SARA reform in developing country and had material on implementation of autonomy and accountability mechanism. For example those secondary literature studies which had covered implementation of tax administration reform in developed countries were excluded from macro level of analysis. Also those secondary literature sources, which were although related to tax administration reforms in developing countries, but had not covered the topics of autonomy and accountability, were also excluded from macro analysis.

Furthermore, these literature searches lasted the duration of writing up systematic review for macro analysis (January 2013 to June 2013) and were continually updated over time in pursuit of new and current literature. The University of Stirling online library, online resource database JSTOR and Journal indexing services of Sage Journals and Emerald were used for data collection and extraction. Also steps were undertaken to ensure the quality of selected literature sources. Only published books, journal articles, government reports, reports by international donor organizations, reports and information available at official websites of SARAs and ministries in developing countries were used in this study. For the same reason, when internet searches as per keywords returned links to documents whose credibility could not be verified, although they appeared relevant to research topic, they were not selected to be included for systematic review.

After the selection of secondary literature as per the keyword searches described above, each and every literature source was analysed individually by following the procedure as described below. This represents the step five of data extraction as highlighted in figure 4.4 above. The softcopy of every literature source was read in detail by the researcher in pdf format. First, it was made sure that the literature under review referred to SARA implementation in a developing country. After this, the whole document was analysed for literature on personnel autonomy especially for indicators of wages and rewards (sub-hypothesis 1a), probability of detection (sub-hypothesis 1b), enforcement of penalties (sub-hypothesis 1c), and ethics in tax officials (sub-hypothesis 1d). Also, the document was also analysed for material on accountability especially for effective oversight mechanisms (sub-hypothesis 2a), politicization of tax officials (sub-hypothesis 2b) and discretionary powers of tax officials (sub-hypothesis 2c). In doing so, the researcher annotated and highlighted every secondary source extensively. Where the softcopy was not available, especially for books from library, the researcher studied the hard copies (photocopies) of these sources and highlighted and annotated the source as per procedure described above. After conducting this time-intensive exercise for each selected secondary literature, the researcher organized material for macro analysis as per each sub-hypothesis. For this purpose, separate folders (both in computer and hard files) were made, maintained and updated by the researcher for the whole duration of writing up macro analysis. For example, one such folder was labelled 'Sub-hypothesis1(a) Wages and Rewards' and included literature on SARAs having material on personnel autonomy in terms of changes in wages and rewards. Similar folders (both in computer and hard files) were also maintained for the rest of all six sub-hypotheses as well. A complete detail of selected secondary literature for each sub-hypothesis is presented in individual tables in the next chapter while undertaking systematic review under macro analysis. These tables are not reproduced here in order to avoid repetition. Please refer to

pages 130, 136, 142, 148, 155, 161, and 166 for summaries of selected literature sources for each sub-hypothesis.

Not only the organization but the synthesis and analysis of individual secondary literature sources (step 6 in figure 4.4 above) was also conducted as per sub-hypotheses. For example, in order to analyse a particular literature source 'X' for sub-hypothesis 1(a), it was analysed if the literature reported any increase in personnel autonomy in terms of wages and rewards after SARA reform. If the literature did reported positive increase in wages and rewards, then it was taken to control for motivations for corruption and supporting sub-hypothesis 1(a). Similar analysis was conducted for all other six sub hypothesis and findings are reported in the next chapter.

Also individual indicators developed for all sub-hypotheses were also utilized to analyze selected published sources. Individual indicators relating to each sub-hypothesis have already been identified and discussed in chapter three (See Sections 3.1.3, 3.1.4). As a next step, each indicator was utilized to evaluate the selected secondary literature source. In essence, the combination of all indicators was used for conducting systematic review for analysing personnel autonomy and effective accountability for controlling motivations and opportunities for corruption in SARAs through macro level of SARA analysis.

As a next step detailed descriptive information in the form of key findings and results was extracted from all selected secondary literature sources. This time-intensive exercise led to identification of SARA countries with most availability of secondary literature. So, based upon the logic of convenience sampling, those SARA countries with most number of secondary literatures appear in the next chapter for macro analysis of SARA cases. The SARA countries included for

systematic review include Peru, Ghana, South Africa, Tanzania, Mexico, Guatemala, Uganda, Kenya and Venezuela as highlighted in table 5.18 on page 176.

One of the limitations of acquiring secondary literature as per above procedure remains that researcher has no control over which SARA countries have been selected for macro analysis. Only those countries, for which better quantity and quality of secondary literature was available, make up the cases for macro analysis. Since the researcher lacked resources of time and money to carry out in-depth case studies of multiple SARA cases in pursuit of primary data to analyze analytical framework, the researcher was left with no other choice but to rely on secondary literature to conduct macro level of analysis.

4.3 METHODS FOR MICRO ANALYSIS OF PAKISTAN

To explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan, Chapter six aims to conceptually test the Anti-Corruption SARA framework for FBR, by conducting a detailed case study of tax administration reforms in Pakistan. The term 'micro' is adopted to denote the focused and specific level of analysis including only Pakistan, as this proposed analysis will enable to examine in detail the current state of affairs and potential and suitability of SARA reform for Pakistan. In this section the purpose of case study work and the choice of research method will be discussed. Case study of tax administration reform was used in this thesis to demonstrate and explain the reasons and extent of corruption weakening Pakistan's progress against optimum tax collection over years. There are a number of researches which highlight the applicability and benefits of case study method in social science research (Yin, 1981, 1984, 2003; Saunders, *et. al.*, 2003). Two main sources of data were employed for the case study at the micro level of analysis: document analysis (secondary literature) and semi-structured interviews. The triangulated methodology collects two types of data (documentary and

interview) for cross-checking. Hence, the micro level of analysis for FBR was aimed at theorizing what is going wrong with practice by approaching both new and old evidence (semi-structured interviews and secondary literature) in a new way (i.e., analytical framework). The following paragraphs will elaborate them further.

4.3.1 Interviews

The primary data source for case study on tax administration reforms in Pakistan was generated by using one-to-one semi-structured interviews for obtaining an understanding of the social world occupied by social actors, because corruption in tax administration is a social practice committed by and concerning social actors within a specific social context. The interviews were conducted to gather tax officials' perception about reasons of failure of tax administration reforms towards controlling opportunities for corruption in Pakistan. One of the challenges of this research has been to stimulate the interpretations and understandings of the actors through interviews in order to improve our understanding of why tax administration reforms failed to take off and control corruption in Pakistan. One of the useful inquiry techniques involves observing behaviour and can be used as a short-cut in search of answers to the research question by directly asking people what is going on (Robson, 2002). Face-to-face interviews offer numerous advantages over postal or self-administered questionnaires by offering the option of adjusting one's line of query and following up interesting responses with more questions for aiding examination of underlying motives. In order to gather the interpretations of individuals involved in tax administration reforms, it was argued that semi-structured interviews would be one of the most appropriate research techniques for gathering data. There are many research methods textbooks which have detailed three main types of interviews involving structured, semi-structured and unstructured interviews (Yin, 1994; Morris & Wood, 1991; Robson, 2002; Saunders, *et al.*, 2003). This technique permits the researcher to examine some of the primary motives more directly for

bringing out and undertaking ostensible contradictions (Norton *et al*, 2004). Semi-structured interviews permitted the researcher to examine "themes", "trails" and "patterns" (Pettigrew, 1990, p. 277).

In order to conduct semi-structured interviews of respondents, interview schedule was developed in this study. This interview schedule was based on the hypotheses developed in the analytical framework. The procedure of developing interview schedule is detailed below. The analytical framework resulted in development of two research hypotheses and seven sub-hypotheses. In order to analyze the validity of the framework through micro level of analysis, the forthcoming analysis in chapters six will be examined in terms of these sub-hypotheses. Consequently the development of the interview schedule was also undertaken with these sub-hypotheses in mind. Hence, the interview schedule consists of seven broad sections with each one referring to one specific preventive strategy to separately control motivations or opportunities for corruption in tax administrations (Appendix 1). Individual indicators relating to each sub-proposition have already been identified and discussed in chapter three (Sections 3.1.3, 3.1.4). As a next step, each indicator was utilized to develop individual questions of the interview schedule for testing sub-hypotheses. The combination of all questions made up the instrument of semi-structured interview schedule for testing personnel autonomy and effective accountability for controlling motivations and opportunities for corruption in FBR Pakistan through micro level of analysis. All sub-hypotheses for the micro level of analysis, along with indicators and relevant interview questions are illustrated in table 4.1 below.

Table 4.1 Overview of Sub-Hypotheses along with Indicators and Interview Schedule Questions for Micro Level of Analysis

Sub-Hypotheses	Indicators	Interview Questions
Research hypothesis 1(a) proposes that by increases in wages and rewards, SARAs have been effective against motivations but not opportunities for corruption.	Increases in wages for tax officials and utilization of performance-linked bonuses	Q1, Q2, Q3
Research hypothesis 1(b) proposes that by increases in the probability of detection, SARAs have been effective against motivations but not opportunities for corruption.	Increases in the quality and frequency of internal audits and probes by establishing internal audit and anti-corruption divisions; Increases in the number of supervisory personnel assigned to internal audit and anti-corruption divisions; statutory condition of declaration of assets by all employees	Q4, Q5, Q6, Q7, Q8, Q9
Research hypothesis 1(c) proposes that by increases in and stricter enforcement of penalties for corruption, SARAs have been effective against motivations but not opportunities for corruption.	Increases in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences.	Q10, Q11
Research hypothesis 1(d) proposes that by instilling ethics in tax officials, SARAs have been effective against motivations but not opportunities for corruption.	Increases in ethics training and adoption of code of conduct.	Q12, Q13, Q14, Q15
Research hypothesis 2(a) proposes that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not introducing effective oversight mechanisms.	Effective accountability relationships with all supervising bodies including Ministry of Finance, Revenue Boards/Superintendents (whichever applicable), and Parliament etc.	Q16, Q17
Research hypothesis 2(b) proposes that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not de-politicizing tax officials.	Effective accountability relationships with all supervising bodies <i>especially</i> Revenue Boards/Superintendents (whichever applicable), and Parliament etc., in addition to Ministry of Finance.	Q18, Q19
Research hypothesis 2(c) proposes that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not reducing discretionary powers of tax officials.	<i>Balancing</i> effective accountability relationships between all supervising bodies especially between Ministry of Finance and other supervising bodies including Revenue Boards/Superintendents (whichever applicable) and Parliament etc.	Q20, Q21

The researcher visited Pakistan to conduct interviews at FBR. The interviews were conducted from 15th September 2009 to 20th December 2009 and March 2016 to June 2016. The researcher conducted interviews with a number of tax officials, journalists, MoF officials, taxpayers and businessmen/traders and relied on the opinions of interviewees who highlighted their own personal experiences and perceptions, leading to some significant findings. In this study limited numbers of people were interviewed (31 semi-structured interviews) owing to problems of access and duration of fieldwork. 50 interviews were originally proposed but because of the sensitive nature of the theme of the research, the researcher faced considerable constraints in the

willingness of respondents to be interviewed, which limited the total number of semi-structured interviews to 31. Due to this reason, this study does not claim to offer a comprehensive account, rather only providing some illustrations from a limited number of cases, representing the views of some respondents about the main topic of this thesis. The views of interviewees were sought on their perceptions about effectiveness of tax administration reform towards controlling corruption in FBR. The researcher was of the opinion that these interviewees were actors who have been critics of practice of corruption in FBR Pakistan.

Since this case study has been qualitative in nature exploring a sensitive topic, more emphasis was given to acquiring a purposive sample of people, occupying key positions in relation to research topic and willing to participate in research by giving interview. For this reason and mainly due to the sensitivity of the research topic, this research cannot claim to have acquired a representative sample of people rather purposive sampling is utilized to acquire interview data. As Patton (1990) puts it, "there are no rules for sample size in qualitative inquiry", therefore it is the availability and willingness of the interviewees and the aim of the research that determine the size of the sample. The interviewees selected for the interviews not only belonged to FBR but also included, journalists, MoF officials, taxpayers and businessmen/traders, hence following a multi-stakeholder approach (Pettigrew, *et al.*, 1992, p. 301).

All employees in FBR can be categorized into two categories: gazetted (Grade 17 or above) or non- gazetted officers (Grade 1 till 16). There are total 22 grades for employees with clerical staff only going up to grade 16 in FBR. This research only targeted the population of gazetted officials in FBR (Grade 17 or above) either because in terms of seniority they occupied a lead position in FBR, or because of their direct involvement with the reform process. There were 1500 such officers in FBR (460 Customs officers, 1040 Inland Revenue Service officers) at the time of

writing this thesis (Personal communication with HR office, FBR). Out of this, 468 were working in both Lahore and Islamabad). Tax officials belonged to different functional groupings within FBR and occupied different hierarchical levels.

Table 4.2 lists the respondents who were interviewed from FBR.

Table 4.2 List of Tax Officials Interviewed

Respondent	Civil Service Group	Seniority*	Region
Tax Official 1	Customs Group	Junior Level	Provincial Level
Tax Official 2	Inland Revenue Service	Junior Level	Provincial Level
Tax Official 3	Customs Group	Mid-Senior Level	Federal Level
Tax Official 4	Customs Group	Mid-Senior Level	Federal Level
Tax Official 5	Inland Revenue Service	Mid-Senior Level	Provincial Level
Tax Official 6	Inland Revenue Service	Senior Level	Federal Level
Tax Official 7	Customs Group	Mid-Senior Level	Provincial Level
Tax Official 8	Inland Revenue Service	Senior Level	Federal Level
Tax Official 9	Inland Revenue Service	Mid-Senior Level	Provincial Level
Tax Official 10	Customs Group	Senior Level	Federal Level
Tax Official 11	Inland Revenue Service	Mid-Senior Level	Provincial Level
Tax Official 12	Inland Revenue Service	Junior Level	Provincial Level
Tax Official 13	Inland Revenue Service	Senior Level	Federal Level
Tax Official 14	Inland Revenue Service	Mid-Senior Level	Federal Level
Tax Official 15	Inland Revenue Service	Mid-Senior Level	Federal Level
Tax Official 16	Inland Revenue Service	Mid-Senior Level	Provincial Level

Source: Generated from Fieldwork

*Junior Level = Grade 17

Mid-Senior Level = Grade 18

Senior Level = Grade 19 and up

The interviewees from FBR represented not only different civil service groups in FBR including Customs and Inland Revenue Service, but also varied in terms of seniority in organizational hierarchy. These differences in groups and seniority were aimed to obtain a broader view on research topic. As highlighted in table above, most interview respondents (11/16) belonged to the newly integrated Inland Revenue Service. In addition, most of the interview respondents (9/16) belonged to the mid senior level in FBR. The designations of Interviewees cannot be revealed to protect their anonymity and was one of the conditions on which they agreed to be interviewed.

Some of the respondents were of the view that if the designations along with regional postings would be revealed, it would be possible to identify the interviewees. All respondents belonged to two cities of Pakistan including Lahore and Islamabad. The tax officials in Lahore belonged to the regional office of FBR in Lahore, while the tax officials in Islamabad belonged to FBR headquarters. Islamabad was chosen because the headquarters of FBR is based in the capital. Lahore was chosen because it is the capital city of largest province Punjab and other than the FBR headquarters in Islamabad, most tax officials are based in this city, helping with their access. Also Lahore was chosen because the researcher resided here and had access to tax officials in Lahore. Hence, all tax officials not belonging to Lahore or Islamabad were excluded from being interviewed, hence the purposive sample.

As for the selection of tax officials in Lahore and Islamabad, the researcher had no choice but to interview those tax officials who accepted the request for interview thus agreeing to be interviewed. For this reason, there is self-selection bias in the sample of respondents which means that those respondents who feel strongly for or against corruption are over-represented in this study. In order to take care of this bias, the researcher was very interested in interviewing certain tax officials who had reputation/ record of possibly being involved in some corrupt practices (newspaper sources) but those declined to be interviewed. The researcher would forward request for interview to different tax officials at FBR offices through calls and official emails. Access to first of the interviewees was assisted through mid-senior level tax officials (also friends of researcher) at FBR headquarters in Islamabad, who assured their colleagues about confidentiality and promise of anonymity of the interviewees. The interviewees varied on the issue of cooperativeness. Although quite a few were willing, but many declined to be interviewed. In total nineteen tax officials declined requests for interview. Mostly the reason of decline was suggested to be busyness due the official work but the researcher believes that the

sensitivity of the topic of thesis also played its part behinds interview refusals. In addition, some officials accepted the researcher's offer of an interview, but discussed the issue off-the-record (meaning not tape-recorded). Due to the sensitivity of the information sought, some tax officials were not willing to volunteer information about reasons and extent of corruption in FBR. Many interview respondents declined to be interviewed on grounds that they do not have any valuable information to share on the topic. Interestingly, many of the ones who declined for interviews themselves, were enthusiastic in referring the researcher to another colleague of theirs who in their view might have some pertinent information on the topic. Some were even able to make reference calls and arrange meeting for interviews for the researcher, hence assuming a snow-ball form of sampling strategy for selection of interview respondents at FBR. As a result of exposure to this practice, later in the field work, the researcher often asked the willing interviewees for references and calls to other colleagues who in their opinion might agree to be interviewed. Many tax officials were hesitant to be interviewed owing to reservations of the political implications of the subject of the interview. For this reason some respondents were very guarded in their responses and only presented restrictive and official, rather than truthful responses. This group of respondents were frank enough to tell the researcher that they only agreed to be interviewed because of the recommendation of their colleague and were not comfortable with the researcher taping the interview over fear of voices being recorded. In such cases, the researcher abandoned taping the interviews, and only took notes. It is worthwhile to highlight here that these 'off-the-record' interviews resulted in many interesting findings.

Negotiating access to the very senior tax officials proved particularly problematic because of busy schedules on account of official and administrative responsibilities. Despite numerous efforts to obtain interview appointments in the form of visits, letters and telephone calls to seek access to highest level of tax officials, access was not given. For this reason interviews of tax officials of

very high level such as Members of the Board and Chairman FBR and high level officials in MoF such as Secretary Finance and Minister of Finance could not be conducted on account of access issues. On one occasion, the researcher was able to fix appointment for interview over phone with one of the members of the board in FBR headquarters in Islamabad. Upon arrival from Lahore to Islamabad for the interview, after brief interaction, the member rather than giving the interview, directed the researcher to another high-ranking official in FBR for interview, for him being more knowledgeable about ongoing tax administration reforms in FBR. This official who was delegated with the responsibility of giving interview did not do so, rather promised to share a study on corruption in FBR with the researcher over email. This promise was not kept up despite repeated reminders over email.

In addition to tax officials at FBR, the researcher also conducted interviews with journalists, MoF officials, taxpayers and businessmen/traders. In total 15 such interviews were conducted by the researcher during March 2016 to June 2016. These interviews proved to be very beneficial as they offered diverse opinion of multiple stakeholders towards tax reforms in Pakistan and its effect on corruption. They helped to illuminate views of people other than tax officials relating to reform. In detail two journalists, three MoF officials, five taxpayers and five businessmen/traders were interviewed in the second stage interviews. The two journalists included Rehman Azhar (Dunya News) and Imdad Bhatti (Jang News). The three MoF officials were gazetted officers and occupied mid-level positions in Ministry of Finance in Islamabad, Pakistan. They were promised anonymity in exchange for interview. The five taxpayers included friends of researcher and were chosen because the researcher was certain that they actually paid taxes and were aware with tax reforms in Pakistan. Their identities will also be kept anonymous. The five businessmen represented prominent traders and were contacted for interview through a contact working at Lahore Chambers of Commerce and Industry. They also promised to be interviewed in exchange

for anonymity. The second stage of interviews was conducted to address the criticism that only interviewing tax officials might not fully represent the diverse opinion of multiple stakeholders to tax reform in Pakistan and it was considered important to also include their understandings of tax reform and its effect on corruption. All interviewees at the second stage, except of three interviewees from MoF Islamabad, were based in Lahore, which helped the researcher with access.

The preliminary contact with every interviewee was established by an official letter asking for their support, in addition to highlighting a brief description of the study. This introductory letter was also supported by other relevant documents including support letter provided by the supervisor, registration certificate of the university in UK, identification card supporting evidence of affiliation with the university in Pakistan for confirming academic status. This initial contact was followed-up with telephone calls, e-mail prompts and personal visits to their offices to fix appointments for interviews. A positive rapport with the interviewees was developed by being sensitive to the occasion in terms of punctuality and politeness, ensuring the confidentiality of the interview such that their names and designations will not be revealed, being empathetic by pairing active listening with probing questions, and awareness of busy schedules of tax officials resulting in different duration of interviews. The questions in Appendix 1 functioned as a guide for interview and provided a framework. There were instances when the interviewer was not able to cover all of the questions in the interview schedule, during the allocated time for the interview, on account of workload and busy schedule of tax officials. In these instances, interviews were disrupted due to unscheduled meetings of tax officials, but many times interviewer was able to wait for the tax official to return and finish the interview. Due to the sensitive nature of the thesis topic, the researcher promised complete anonymity to the interviewers. Hence, this thesis does not disclose either the names or designations of interviewed tax officials and only uses coded names

in place of names/designations of interviewees (see Table 6.1). The interviews were only taped when it was permitted and explicitly agreed by the respondent. Otherwise off-the-record un-taped interviews were only noted by the researcher during and immediately after the discussions in the form of detailed notes.

4.3.2 Document Analysis

In addition to the semi-structured interviews, the micro level of analysis was also supplemented by the documentary analysis of secondary literature. Document collection was conducted in both UK and Pakistan. The case study in the form of document analysis involved analysing tax reforms in Pakistan over three years period (2011-2013). Since the researcher was mainly based in UK for the duration of study, it was decided that newspaper analysis could provide researcher with important and latest news related to reform progress and corruption. These important news could then be verified from FBR for further information. The researcher had regular internet access, which made it possible to access epapers of newspapers in Pakistan. After discussion with the supervisor, two newspapers, 'DAWN News (www.epaper.dawn.com)' and 'The News (www.e.thenews.com.pk)' were selected for the analysis and analysed for three years period 2011-2013. Both these newspapers were in English language and represent mostly politically neutral instance. In other words, both these newspapers were not strongly aligned with any political party because doing so could bias news coverage. After this the researcher began with a very time intensive and disciplined routine of reading both newspapers every day. Although initially this routine seemed to be very time-consuming but later this was compensated with the quantity and quality of secondary literature generated for micro analysis. While conducting micro analysis for sub-hypotheses, chapter six makes reference to these newspaper sources when they are used. For example, the newspaper analysis enabled the researcher to find out that FBR chairmen were very abruptly transferred after the reform along with the dates of

such transfers, the duration of every chairman, and possible reasons of transfer. This information had important bearing for the micro analysis and is used in chapter six, section 6.3.1. Newspaper analysis enabled the researcher to keep a very keen eye on regular issues relating to FBR in Pakistan especially coverage on corruption cases, despite not being in Pakistan. Every interested piece of news/article was printed by the researcher and kept in folders for future analysis. The researcher maintained seven such folders, with each one for individual sub-hypotheses. At the time of writing micro analysis, the researcher was able to refer to secondary literature in each folder for analysing individual sub-hypotheses along with interview data. At the conclusion of interviews, the notes were transcribed by the researcher and interview data was analysed as per individual sub-hypotheses. The indicators for each sub-hypothesis were used to identify the themes in the interview material generated. These identified themes served to highlight the most relevant quotes from the interview material for each sub-hypotheses and they were reproduced as such while writing up micro analysis for Pakistan. Many times, both literature from newspaper and interview data supplemented each other in support of sub-hypotheses, thus serving the purpose of cross-checking under triangulated methodology. The analysis over three years was able to generate quite rich and detailed record of FBR performance against corruption as reported in newspapers. This greatly supplemented the interview data for micro analysis. The researcher was surprised with the quantity and depth of secondary literature generated through newspaper analysis.

In addition to newspaper analysis, documentary evidence was also obtained from FBR Headquarters; international donor organisations such as the World Bank, IMF, ADB; NGOs such as Transparency International; ministerial and non-ministerial reports. Internet searches with the help of key words were also conducted for micro level of analysis. Specifically, keywords of Pakistan + tax reform + corruption were used to search for relevant documents on internet

regularly over study period. The documents obtained through these searches were analysed for quality and only those documents coming from credible sources were utilized for case study on Pakistan. A considerable amount of information was also gathered from the official website of FBR. It often contained information about progress on cases against corruption. The data collected from these secondary sources was used to supplement the semi-structured interviews for the case study of tax administration reform in FBR Pakistan. Some of the issues discussed in this thesis were based on reports of international donor organizations readily available from the internet. Their acquisition proved quite straightforward. But same cannot be said about obtaining internal documents and reports of FBR, such as cases of pending inquiry on account of corruption charges against tax officials. The secrecy and lack of access to reports and documents in FBR constrained the comprehensive micro level of analysis examining progress of FBR towards corruption. Nonetheless, some of the very cooperative interviewees helped immensely with the collection of documents from FBR. This included some documents which were initially declined to be shared by the concerned department in FBR over questions about their usage by the researcher. A couple of interview respondents also emailed the researcher some documents which were not available straightforward. In a nutshell, the combination of published work along with newspaper analysis provided very useful information and supplemented interview data for micro study on Pakistan. A list of selected documents used for micro analysis is presented next in table 4.3.

Table 4.3 List of Selected Secondary literature for Macro Analysis of Pakistan

1)	ADB (2008) Implementing the Anti-Corruption Action Plan for Asia Pacific: Pakistan. Manila: ADB
2)	ADB (2013) Key Indicators Pakistan. Manila: ADB
3)	ADB OECD (2006) Anti-Corruption Policies in Asia and the Pacific. Manila: ADB
4)	ADB/OECD (2006) Combating Corruption in Asia Pacific. Manila: ADB
5)	Cheema (2013) Representation without Taxation. Centre for Investigative reporting in Pakistan.
6)	House of Commons (2013) Aid Tax Pakistan. House of Commons London
7)	IMF (2010) Letter of Intent. Washington DC: IMF
8)	IMF (2010) Pakistan Fourth Review. Washington DC: IMF
9)	IMF (2012) Article IV Consultation Pakistan. Washington DC: IMF
10)	IMF (2013) Article IV Consultation And Request For An Extended Arrangement Under The Extended Fund Facility. Washington DC: IMF
11)	Martinez-Vezquez (2006) Pakistan federal tax assessment
12)	Shah (2007) World Bank Performance Accountability and Combating Corruption
13)	World Bank (2003) Integrated Safeguards data sheet tax. Washington DC: World Bank
14)	World Bank (2004) Tax Administration Reform Project. Washington DC: World Bank
15)	World Bank (2004) Tax Project Information Project. Washington DC: World Bank
16)	World Bank (2009) Pakistan Tax Policy Report Full. Washington DC: World Bank

4.4 SUMMARY AND CONCLUSION

This chapter explained how methodology depends upon systematic review of previously published studies, collection of documents, newspaper analysis and collection of primary interview data with key respondents in order to collate and organise evidence and test validity of the analytical framework. In order to document corruption in SARAs, and to specifically explore why some SARAs have failed to effectively control opportunities for corruption, a detailed mapping of SARA cases will be undertaken in chapter five for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries. Secondary literature will be employed for conducting a systematic review of SARA cases at the macro level of analysis. This level of analysis is labeled as macro to denote the broad level of analysis including many SARA developing countries undertaken to develop a broader picture of SARA implementation against corruption. To explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan, Chapter six aims to conceptually test the Anti-Corruption SARA

framework for FBR, by conducting a detailed case study of tax administration reforms in Pakistan. Two main sources of data will be employed for the case study at the micro level of analysis: document analysis (secondary literature) and semi-structured interviews. In a nutshell, the specific contribution of chapter four to the overall thesis argument lies in outlining the methodology to be used for conducting analyses in chapters five and six. .

Next, a detailed mapping of SARA cases is undertaken for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries.

CHAPTER FIVE

MACRO LEVEL OF ANALYSIS: SYSTEMATIC REVIEW OF SARAs AGAINST CONTROLLING CORRUPTION

5.0 INTRODUCTION

This chapter intends to apply the analytical framework to selected developing countries in terms of SARAs' effect on corruption. To inquire why some SARAs have failed to effectively control opportunities for corruption, a detailed mapping of SARA cases is undertaken in this chapter for conceptually testing the Anti-Corruption SARA framework. In other words, it aims to test the framework by conceptualizing how individual SARA design components can be utilized to separately control motivations and opportunities for corruption. By doing so, this chapter intends to gauge the robustness and generalizability of the analytical framework by analysing different SARA countries under a same lens. As highlighted before, this level of analysis is labeled as macro to denote the broad level of analysis including many SARA developing countries undertaken to develop a broader picture of SARA implementation against corruption.

Secondary literature was used to analyse the analytical framework for SARAs at the macro level of analysis. A detailed discussion about how secondary literature was searched for and selected has already been highlighted in chapter four, section 4.2. It highlighted how keyword searches were used to search for and select each secondary literature source. It also highlighted which secondary literature was finally selected and used for doing analysis for each sub-hypothesis.

Next, it is detailed how the analytical framework was applied to analyse and compare literature sources. Each selected literature was reinterpreted as per sub-hypotheses in the analytical framework. For example, in order to analyse a particular literature source 'X' for sub-hypothesis

1(a), it was analysed if the literature reported any increase in personnel autonomy in terms of wages and rewards after SARA reform. If the literature did reported positive increase in wages and rewards, then it was taken to control for motivations for corruption and supporting sub-hypothesis 1(a). Similarly, in order to analyse a particular literature source 'Y' for sub-hypothesis 2(a), it was analysed if the literature reported ineffectiveness of oversight mechanisms due to interference from MoF after SARA reform. If the literature did report this, then it was taken as a failure to effectively control opportunities for corruption, thus supporting sub-hypothesis 2(a). Similar analysis was conducted for all other sub-hypothesis as follows. Every document was analysed for literature on personnel autonomy especially for indicators of wages and rewards (sub-hypothesis 1a), probability of detection (sub-hypothesis 1b), enforcement of penalties (sub-hypothesis 1c), and ethics in tax officials (sub-hypothesis 1d). Also, the documents were also analysed for material on accountability especially for effective oversight mechanisms (sub-hypothesis 2a), politicization of tax officials (sub-hypothesis 2b) and discretionary powers of tax officials (sub-hypothesis 2c). Also analysis for sub-hypotheses was undertaken with an aim to test research hypotheses 1 and 2, and the findings as per analysis of these sub-hypotheses will mean to respond to both research hypothesis 1 and 2.

Also individual indicators developed for all sub-hypotheses were also utilized to analyze selected published sources. Individual indicators relating to each sub-hypothesis have already been identified and discussed in chapter three (See Sections 3.1.3, 3.1.4). As a next step, each indicator was utilized to evaluate the selected secondary literature source. In essence, the combination of all indicators was used for conducting systematic review for analysing personnel autonomy and effective accountability for controlling motivations and opportunities for corruption in SARAs through macro level of SARA analysis. Every literature source was interrogated as above to discover whether, for each country specified, specific anti-corruption measures have or

have not been taken. As a next step detailed descriptive information in the form of key findings and results was extracted and compared from all selected secondary literature sources and presented in this chapter.

In spite of spread of SARAs in developing countries, there has been limited comparative analytical work on their implementation against corruption. As a result there is dearth of agreement and evidence on best practice in organizational design of SARAs. It is this gap this chapter aims to contribute towards filling by analyzing analytical framework for SARAs. This chapter aims to explain why certain SARA design components are more effective against corruption than others, and will offer specific recommendations to improve SARAs' capability against corruption. There is a need to analyse all the localized disjointed SARA cases in developing countries from a transnational angle as per analytical framework, hence the proposed macro level of SARA analysis. This is to contribute towards filling a gap in literature for studies on SARAs differentiating between motivations and opportunities for corruption.

One of the significance of macro level of SARA analysis in this chapter lies in the observation that it aims to analyze secondary literature on SARAs under a new lens and for a different purpose than originally envisaged. Originally, these literature studies were conducted to evaluate SARAs' progress against improvement in revenue performance by improving autonomy and accountability mechanisms. The macro analysis in this chapter aims to extend the use of this literature studies, not originally done to evaluate SARAs progress against corruption, for specifically evaluating balance of autonomy and accountability mechanisms under SARAs reforms and its effect on controlling motivations and opportunities for corruption as per research hypotheses. In addition, the macro analysis also includes literature studies (though limited in number) which have tried to evaluate SARAs' progress against corruption. The analysis in this

chapter aims to further develop these studies by segregating progress against corruption into separately controlling motivations and opportunities for corruption.

The nature of research hypotheses developed in the analytical framework enabled them to be analysed appropriately through a logical use of secondary literature. The nature of research hypotheses is such that secondary literature, initially developed to analyze autonomy and accountability and not corruption in SARAs, can be analyzed towards examining if motivations and opportunities for corruption have been controlled. Specifically, with the help of sub-hypotheses, the macro analysis also aims to segregate SARAs' progress against corruption towards separately controlling motivations and opportunities for corruption. So the contribution of macro analysis lies in utilizing previous secondary literature on SARAs by expanding interpretation of previous findings about autonomy and accountability towards controlling motivations and opportunities for corruption in SARAs.

By analysing the experience of SARAs, this analysis aims to highlight pre-conditions necessary for making this reform suitable to a developing country context. Taking the form of findings, this chapter will help to identify factors which might be present in a specific developing country to be considered a suitable candidate for SARA reform. The achievement of this objective should result in identification of contextual factors, which could be analysed in advance to SARA reform, making a developing country suitable or unsuitable candidate for this reform.

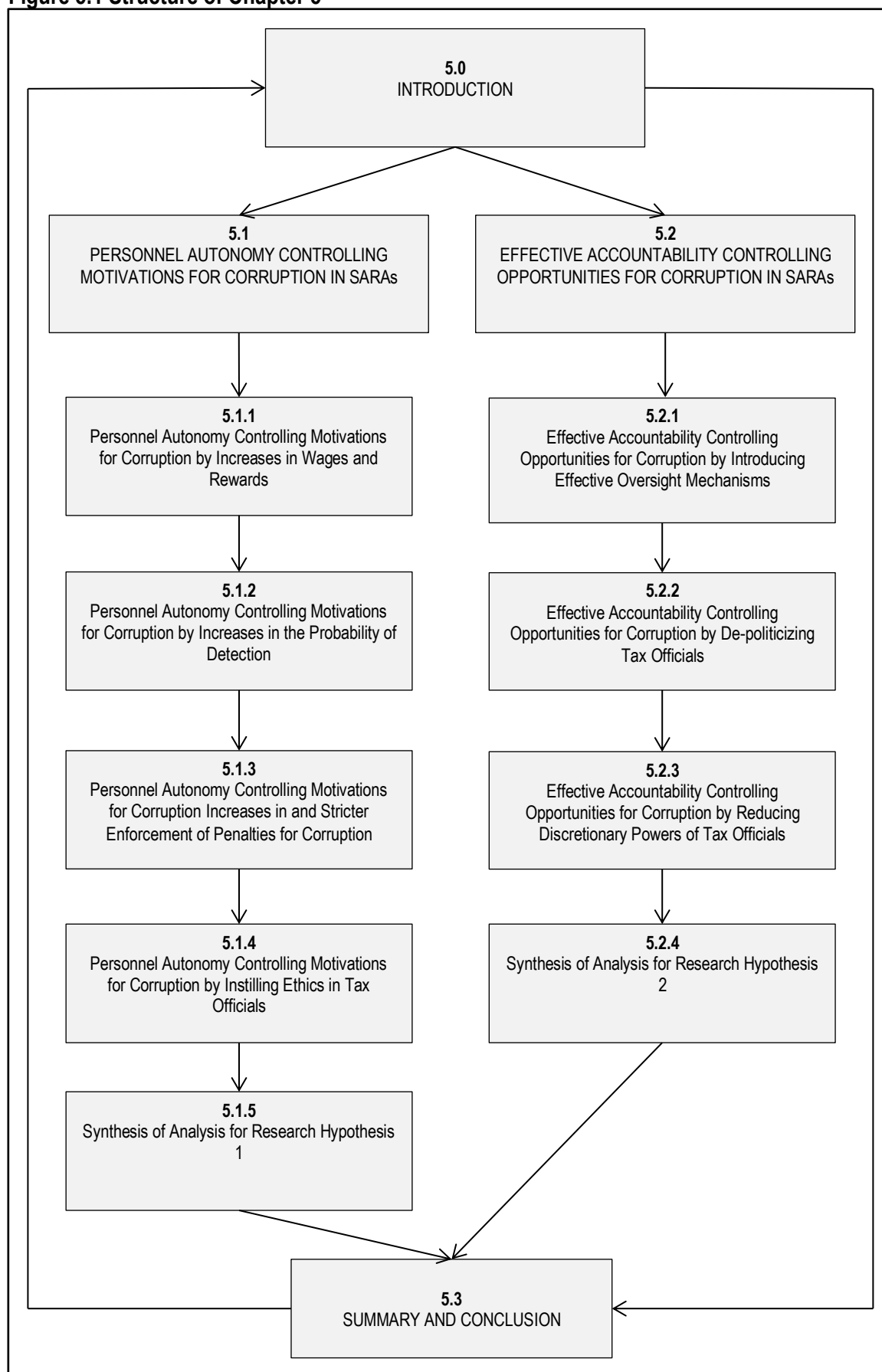
Table 5.1 lists all SARAs which have been established in developing countries so far.

Table 5.1: List of SARAs in Developing Countries (*arranged in alphabetical order*)

SARA Country	Name of SARA	Year Established
Argentina	General Tax Directorate (GTD)	1988
Bolivia	National Service of Internal Revenues (NSIR)	2001
Botswana	Botswana Unified Revenue Service (BURS)	2004
Colombia	Directorate of National Taxes (DNT)	1991
Ecuador	Servicio de Rentas Internas (SRI)	1999
Ethiopia	Ethiopian Revenues and Customs Authority (ERCA)	2008
Ghana	National Revenue Secretariat (NRS)	1986
Guatemala	Superintendencia de Administración Tributaria (SAT)	1999
Guyana	Guyana Revenue Authority (GRA)	2000
Jamaica	Tax Administration Jamaica (TAJ)	2011
Kenya	Kenya Revenue Authority (KRA)	1996
Lesotho	Lesotho Revenue Authority (LRA)	2003
Malawi	Malawi Revenue Authority (MRA)	2000
Malaysia	Inland Revenue Board of Malaysia (IRBM)	1996
Mexico	Mexican Tax Administration Service (SAT)	1997
Mozambique	Mozambique Revenue Authority (MRA)	2006
Peru	Superintendencia Nacional de Administración Tributaria (SUNAT)	1991
Rwanda	Rwanda Revenue Authority (RRA)	2000
Sierra Leone	National Revenue Authority (NRA)	2002
Singapore	Inland Revenue Authority of Singapore (IRAS)	1992
South Africa	South African Revenue Service (SARS)	1997
Spain	Agencia Estatal de Administración Tributaria (AEAT)	1992
Tanzania	Tanzania Revenue Authority (TRA)	1996
Uganda	Uganda Revenue Authority (URA)	1992
Venezuela	National Integrated Tax Administration Service (SENIAT)	1993
Zambia	Zambia Revenue Authority (ZRA)	1994
Zimbabwe	Zimbabwe Revenue Authority (ZIMRA)	2001

The rest of this chapter is organized as follows: Sections 5.1 and 5.2 will contain macro level of SARA analysis, where individual sub-hypotheses will be analyzed for selected SARA countries as per analytical framework. Section 5.3 will summarize the key findings arising out of macro level of SARA analysis and concludes. This section will also integrate the findings of all sub-hypotheses for the two research hypotheses of this study. The structure of Chapter 5 is shown in Figure 5.1.

Figure 5.1 Structure of Chapter 5



5.1 PERSONNEL AUTONOMY CONTROLLING MOTIVATIONS FOR CORRUPTION IN

SARAs

In this study, SARA design component of personnel autonomy is conceptualized to control motivations for corruption by 1) increases in wages and rewards; 2) increases in the probability of detection; 3) increases in and stricter enforcement of penalties for corruption; and 4) instilling ethics in tax officials. Research hypothesis 1 proposed that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. The macro level of SARA analysis in this section is aimed to analyse research hypothesis 1. It comprises of four sub-hypotheses (1a, 1b, 1c, and 1d), with each one referring to one specific preventive strategy to control motivations for corruption. First all four sub-hypotheses will be analyzed and then these analyses will be integrated for the cumulative analysis of research hypothesis 1 in sections below.

The next sections examine how SARAs used personnel autonomy to control motivations for corruption. The overall proposition is that those SARAs making most progress in ensuring personnel autonomy should also be the ones making greatest progress towards controlling motivations for corruption.

5.1.1 Personnel Autonomy Controlling Motivations for Corruption by Increases in Wages and Rewards

Research hypothesis 1(a) proposed that by increases in wages and rewards, SARAs have been effective against motivations but not opportunities for corruption. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how personnel autonomy is being utilized by SARAs to control motivations for corruption by increasing wages and rewards for tax officials. The development of research hypothesis 1(a) in the analytical framework enabled

to propose that if SARAs have made progress in terms of personnel autonomy by resulting in increases in wages and rewards, then it can also be taken to propose that motivations for corruption have been controlled as an intended but unrecognized consequence. Table 5.2 illustrates an overview of secondary literature analysed to examine research hypothesis 1(a).

Table 5.2: Overview of Secondary Literature concerning Personnel Autonomy and Increases in Wages and Rewards for SARAs

Selected Literature concerning Personnel Autonomy and Increases in Wages and Rewards for SARAs	
World Bank, 2001; 2004a	Clark & Wood, 2001
Taliercio, 2004	Jenkins, 1994; 1995
Fjeldstad, 2002; 2003; 2005a	Hall & Jenkins, 1995
Fjeldstad <i>et al.</i> , 2003	Devas <i>et al.</i> , 2001
Haltiwanger & Singh, 1999	Hlophe & Friedman, 2002
de Merode & Thomas, 1994	Durand <i>et al.</i> , 1998
Chand & Moene, 1997; 1999	Therkildsen, 2004
Terkper, 1994	Fjeldstad & Tungodden, 2003

One of the objectives behind creation of Superintendencia Nacional de Administración Tributaria (SUNAT) in Peru was to systematically root out corruption in tax administration by implementing radical personnel reform (World Bank, 2001). The Peruvian case showed good progress towards ensuring personnel autonomy by radically increasing salaries (Taliercio, 2004). Motivations for corruption coming from lack of competitive compensation were tackled by a strong increase in salaries of approximately 20 times. As a result the average salary of employees in the newly created SARA in 1991 rose from US\$ 50 per month to US\$ 1000 per month (Haltiwanger & Singh, 1999). In addition to increasing salaries to match employees' experience, additional constitutional provisions were also introduced to ensure that salaries at SUNAT would continue to be competitive with the private sector. There is no denying that SUNAT's massive rises in salaries would not have come true without personnel autonomy, and this increase in salaries helped SUNAT to curb motivations for corruption for its employees. This supposition was also supported by public's responses to perception survey in Peru carried out by Taliercio (2004). The

survey findings highlighted that public perception were extremely strong that SUNAT had contributed towards controlling corruption in tax administration in Peru. About 85% of the respondents agreed that corruption was substantially less than prior to SARA reform.

Ghana also represents one of the earlier SARA cases which utilized personnel autonomy to curb motivations for corruption by increasing wages and giving bonuses if agreed revenue targets are achieved. This was partly achieved by not re-hiring corrupt staff for the newly created National Revenue Secretariat (NRS) in 1985 (de Merode & Thomas, 1994; Chand & Moene, 1997, 1999; Terkper, 1994). The SARA in Ghana is a representative case of utilization of compensation-based anti-corruption reforms. Performance linked bonuses were implemented within a year of its inception to revert the downward trend in Tax-to-GDP ratio which declined to 4.8% in 1984 from 16% in 1976. Tax officials were rewarded with a bonus of 15% of annual salary if the annual revenue target was achieved. These bonuses were paid year end to all those employees who were rated positively by the Performance Review Report, and bonuses were financed through the excess revenues collected over the agreed annual revenue target. These bonuses seem to work as they helped to raise the tax-to-GDP ratio to a high 23.6% in 1993. The comparative advantage of NRS employees to the rest of the civil service has eroded over the years due to across-the-board raises in compensation for the whole civil service in Ghana. Notwithstanding erosion in salaries over the years, Ghana showed considerable progress towards utilizing personnel autonomy to curb motivations for corruption via increases in wages and rewards.

Kenya also showed good commitment towards personnel reform by establishing Kenyan Revenue Authority (KRA) in 1996. KRA utilized personnel autonomy to introduce selective and incremental increases in salaries. The management of the KRA introduced a new salary scale, which was developed by adopting the salary scales of Kenya's central and commercial banks as

benchmarks. The real term increase in salaries, based on the new scale, was applied to the top management only. Across-the-board implementation of the new scale was prevented due to funding restrictions. In lieu, the rest 98% of KRA employees were compensated with annual raises over many years. Despite these incremental raises, there is continuing disparity between improvement of wages for top management of KRA and rest of the employees. There is widespread perception that increases in wages in KRA were not possible without personnel autonomy and resulted in reduction, though not elimination, in corruption. Taliercio (2004) showed a strong positive correlation between KRA's overall performance (including control of corruption) and its degree of autonomy (including personnel autonomy).

After its inception in 1997, the South African Revenue Service (SARS) utilized its restricted personnel autonomy innovatively to increase wages and rewards. Market competitive salaries were introduced in 1999, although the difference with the rest of the civil service was not huge. SARS also utilized the tool of bonuses and rewards creatively to counteract the problem of 'auditor poaching' by the private sector, having experienced nearly 100% turnover of audit staff in approximately three years. Personnel autonomy was utilized to introduce supplementary premiums for employees with scarce skills at 10% of salary and performance contracts at further 20% of salary. This enabled SARS to retain its experienced auditors by offering a premium of around 30% of salary. Immediately after its inception SARS also used a slightly controversial performance reward system for three years. Staff was paid performance bonuses of around 46% of annual salaries and functioned as a substitute of salary reform. These bonuses were based on excess revenues collected by SARS over revenue target. Although these performance bonuses were praised by SARS management for enabling improvement in revenue collection, they were also criticized on account of compensating idlers as well as better performers and creating a "prosecutorial mentality" of tax officials against taxpayers (Taliercio, 2004).

After its inception in 1992, the Uganda Revenue Authority (URA) increased its wages dramatically to attract talent from the private sector and motivate existing employees to improve performance and avoid corrupt behaviour (Clark & Wood, 2001; Fjeldstad *et al.*, 2003). But in case of Uganda, increased wages raised the opportunities for corruption in the appointment of staff in URA. Uganda showed less progress in utilizing personnel autonomy to increase wages and rewards with major harm done by interference from the MoF. The MoF was able to interfere fully with the hiring and firing mechanisms in the newly established URA in the wake of increased wages, although theoretically URA was supposed to be independent from executive in recruitment choices. Therkildsen (2004) highlighted how several high level tax officials belonging to the revenue department were simply 'transferred' to the URA and not 'recruited' by following the laid down procedures. Uganda represents a case of SARAs where any increase in wages and rewards, in the face of limited personnel autonomy, due to continuing political interference from MoFs, simply results in increase in ills of patronage. Taliercio (2004) highlighted the patronage problem in Uganda where tax officials continued reporting to work despite dismissal by URA management. Also the increased wages did not keep up with inflation as they were increased only once in a decade of 1991-2001. The real increase in wages for high level officials in URA has declined over the years as MoF, though permitted, but refused to offer any further funding for improvement in salary scales. Although the URA has shown some progress towards ensuring personnel autonomy via increases in wages and rewards but these reforms are undermined by interference from MoF. As a result although taxpayers perceived some progress against corruption due to increases in wages, but these reforms have not dissuaded taxpayers from continuing to perceive high level of corruption in URA (Taliercio, 2004).

Tanzania, which established Tanzania Revenue Authority (TRA) in 1996, represents a SARA case which tried to control motivations for corruption by utilizing personnel autonomy to increase

wages (Clark & Wood, 2001). As a result there was drastic increase in wages, in some cases as high as ten times of an average salary, to attract and keep skilled and honest staff. But Fjeldstad (2003) showed how improved levels of remuneration co-existed with simultaneous high levels of corruption after SARA reform. The reason of failure of increased wages to deter tax officials from indulging in corruption was attributed to availability of opportunities for corruption coupled with low portability of being caught. In other words, increased salaries were aimed at curbing motivations, but not opportunities for corruption. The high probability of getting caught reduced in TRA as corruption was found in its internal monitoring unit, which itself was designated with the task of unearthing corruption. The internal investigation and monitoring unit (IIMU) of the TRA, aimed at strengthening internal oversight mechanisms, by increasing the probability of corruption detection, was accused of corruption itself. This resulted in dismissal of 24 employees (including the head) from IIMU on account of corruption charges in 2000 (Fjeldstad, 2002). As a result increased wages, in the absence of sufficient monitoring mechanisms, served as a bonus for tax officials rather than a substitute, on top of bribes received through corruption. The experience of TRA showed that increases in wages represent only one of the numerous factors affecting tax official behavior towards corruption. Fjeldstad *et al.*, (2003, p.69) argued that “*since corruption to some extent is more a question of lack of social stigma than low wages, high wages will not in themselves keep people away from corrupt practices*”. Tanzania represents a SARA case which highlights that increase in wages will act as an add-on to bribes for tax officials in the face of ineffective anti-corruption internal monitoring mechanisms. Hence, progress towards controlling motivations for corruption in TRA through increases in wages was damaged by the weaknesses in controlling opportunities for corruption due to ineffective internal monitoring mechanisms.

Venezuela, which introduced National Integrated Tax Administration Service (SENIAT) in 1993, has not made much progress with personnel reform after its inception, and has not made any

considerable advances regarding utilizing increases in wages and rewards towards ensuring personnel autonomy. Rather it focused more towards recruitment and retrenchment mechanisms of personnel reform, which enabled SENIAT to reduce staff number and hiring experts from private sector. Similarly to Venezuela, the progress of Mexico's Mexican Tax Administration Service (SAT), which was set up in 1997, towards ensuring personnel autonomy has been appraised less than average (Taliencio, 2004). Like Venezuela, Mexico has not made any considerable efforts towards utilizing increases in wages and rewards as a tool for ensuring personnel autonomy. As a result taxpayers continued to perceive high levels of corruption in Venezuela and Mexico after SARA reforms due to reversion of SARA to old ways (Venezuela) and minor impact of reform on SARA (Mexico) (Taliencio, 2004).

Table 5.3 presents overview of macro level of SARA analysis with respect to the link between personnel autonomy resulting in increases in wages and rewards for SARAs analysed above.

Table 5.3: Overview of Selected SARA Countries concerning Personnel Autonomy resulting in Increases in Wages and Rewards

SARA Country	Personnel Autonomy and Increases in Wages and Rewards*
Ghana	+
South Africa	+
Peru	+
Tanzania	+
Mexico	-
Uganda	+
Kenya	+
Venezuela	-

* + means personnel autonomy resulted in increases in wages and rewards in the SARA country.

- means personnel autonomy did not resulted in increases in wages and rewards in the SARA country.

This table illustrates that all analysed SARA cases, except Venezuela and Mexico, utilized personnel autonomy to increase wages and rewards for tax officials. As per discussions in the macro level of SARA analysis, the SARA cases showing good progress towards controlling

motivations for corruption by ensuring personnel autonomy in terms of increases in wages and rewards include Peru, Kenya, Ghana, and South Africa, while SARA cases including Uganda, Tanzania, Venezuela, and Mexico showed less progress towards controlling motivations for corruption by inadequately utilizing personnel autonomy to increase wages and rewards for SARAs. These SARA countries can be loosely categorized into three groups. All three of these groups lend support to the basic argument behind sub-hypothesis 1(a) as per macro level of SARA analysis. First, the progress against controlling motivations for corruption improved most when personnel autonomy in terms of increases in wages and rewards was relatively high in comparative terms (Peru, Kenya, Ghana and South Africa). These SARA cases made better use of personnel autonomy to increase wages and rewards and were better able to control motivations for corruption. Second, the progress against controlling motivations for corruption improved least in cases where personnel autonomy in terms of increases in wages and rewards was low (Venezuela, Mexico). These SARA cases made less than optimal use of personnel autonomy to increase wages and rewards and were less effective in controlling motivations for corruption. Third, the progress against controlling motivations for corruption varied, improving at first and then declining over time, in cases where personnel autonomy in terms of increases in wages and rewards decreased over time (Uganda, Tanzania). These SARA cases could not sustainably increase wages and rewards and experienced decline in controlling motivations for corruption over time. So for sub-hypothesis 1(a), the macro level of SARA analysis only provided limited support for four out of eight SARAs analysed for increases in wages and rewards. Hence sub-hypothesis 1(a) was only partially supported for four out of total eight SARA cases.

5.1.2 Personnel Autonomy Controlling Motivations for Corruption by Increases in the Probability of Detection

Research hypothesis 1(b) proposed that by increases in the probability of detection, SARAs have been effective against motivations but not opportunities for corruption. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how personnel autonomy is being utilized by SARAs to control motivations for corruption by increases in the probability of detection. The development of research hypothesis 1(b) in the analytical framework enabled to propose that if SARAs have made progress in terms of personnel autonomy by resulting in increases in the probability of detection, then it can also be taken to propose that motivations for corruption have been controlled as an intended but unrecognized consequence. Table 5.4 illustrates an overview of secondary literature analysed to examine research hypothesis 1(b).

Table 5.4: Overview of Secondary Literature concerning Personnel Autonomy and Increases in the Probability of Detection for SARAs

Selected Literature concerning Personnel Autonomy and Increases in the Probability of Detection for SARAs	
Mann, 2004	Clark & Wood, 2001
Fjeldstad, 2002; 2003	Terkper, 1994
Martinez-Vazquez <i>et al.</i> , 2004	World Bank, 2001
Ofori-Amaah <i>et al.</i> , 1999	Devas <i>et al.</i> , 2001
Taliercio, 2004	Hlophe & Friedman, 2002
Fjeldstad <i>et al.</i> , 2003	Durand <i>et al.</i> , 1998

A powerful deterrent for tax officials to engage in corruption is the penalty received in case they are caught. For this, the probability of detection represents an important factor towards motivating tax officials not to engage in corruption. Increasing the probability of detecting corruption within SARAs requires the introduction and strengthening of monitoring mechanisms to monitor the tax officials. In Tanzania, the TRA took concrete steps towards controlling motivations for corruption by increasing the probability of detection, but did not progressed well. Improvements in the Prevention of Corruption Act in 1993 were largely aimed towards decreasing the motivations for corruption by increasing the probabilities of detection via reinforcing the capability of TRA to

monitor staff. A new internal investigation and monitoring unit (IIMU) of the TRA, aimed at strengthening internal oversight mechanisms, by increasing the probability of corruption detection, was established. Despite this, the probability of getting caught reduced in TRA as corruption was found in IIMU itself, although it was designated with the task of unearthing corruption in the rest of the TRA. Right after its inception in 1996, many staff of the IIMU were already taking bribes for not detecting corruption by 1997. This resulted in dismissal of 24 employees (including the head) from IIMU on account of corruption charges in 2000 (Fjeldstad, 2002; 2003; Mann, 2004). The TRA reforms were rated as successful in its first year of operation with significant decline in corruption. This was partly owing to the reason that employees were unable to gauge the probability of detection by the newly created IIMU due to unawareness of the effectiveness of internal auditing mechanisms. After first year, though, progress against corruption significantly declined (Osoro *et al.*, 1999) as employees quickly learned that they could collude with the members of the IIMU for corruption.

Legislation relating to possessing inexplicable wealth or property, in the form of mandatory declaration of assets, can serve as an effective indirect indicator to increase the probability of detection. SARA countries which have made progress by utilizing the force of law to enforce declaration of assets by employees include Tanzania, Ghana, Uganda, Mozambique, and Malawi (Martinez-Vazquez *et al.*, 2004). Introduction of this legislation necessitates the investigation of suspicious cases. But the implementation of any effective investigation can be fraught with difficulty as it is commonplace for corrupt employees to transfer illegitimate assets to family members and friends. To overcome this hurdle, Tanzania took an extra step of supporting the investigation of assets of family members of employees under suspicion in the legislation (Ofosu-Amaah *et al.*, 1999). Tanzania represents a SARA case which tried to effectively increase the probability of detection of corruption by establishing an internal monitoring and investigation unit

as well as legislating for monitoring dubious assets of employees, but this two-pronged strategy crumbled to the ground in the face of corruption found in the monitoring unit itself.

In addition to Tanzania, other SARA cases trying to increase the probability of corruption detection include Peru, Kenya, South Africa, and Guatemala. Like Tanzania, the progress of Guatemala's Superintendencia de Administración Tributaria (SAT) towards increasing the probability of detection has been rated as less than satisfactory. The ineffectiveness of its internal audit unit has been criticized to following a policy of "see no evil, hear no evil, speak no evil" (Mann, 2004). For the period 2002- 2004, many employees of SAT accused of corruption charges were simply let go by either dismissal from service or transferred to outer offices of SAT, without prosecution. Peru, on the other hand, relied on legislation to effectively increase the probability of corruption detection through a presidential executive decree in 1991. This decree authorized the superintendent of SUNAT to probe the "indicators of immoral conduct" and firing employees on account of "lack of probity" or "abuse of authority". In particular, this decree empowered the superintendent to get rid of employees who displayed discrepancy between "exterior signs of wealth" and their tax declarations. The effectiveness of this legislation in increasing the probability of corruption in Peru has been largely termed as effective (Taliencio, 2004).

In Africa, Kenya's progress towards improving the probability of corruption detection has been rated as exemplary. KRA incorporated numerous overlapping accountability mechanisms including establishment of an internal audit division. This division was entrusted with the responsibility of undertaking internal audits on a quarterly basis and reporting the results to the Commission General of KRA. In addition, probability of detection also improved on account of KRA's code of conduct and establishment of a board disciplinary committee. These accountability

mechanisms have been evaluated to worked fairly well over the years and resulting in increase in the professionalism of staff as well as reduction, though not elimination, of corruption in KRA.

Like Kenya, the SARS in South Africa also made good progress towards increasing the probability of detection by creating an internal audit division in the year 2000. This division also reports directly to the commissioner of SARS, in addition to having a direct link with the chairperson of the advisory board of SARS. This division was charged with the responsibility of undertaking internal audits on a quarterly basis and reporting the results to the Audit Committee in SARS (Taliercio, 2004).

Table 5.5 presents overview of macro level of SARA analysis with respect to the link between personnel autonomy resulting in increases in the probability of detection for SARAs analysed above.

Table 5.5: Overview of Selected SARA Countries concerning Personnel Autonomy resulting in Increases in the Probability of Detection

SARA Country	Personnel Autonomy and Increases in the Probability of Detection*
South Africa	+
Peru	+
Tanzania	+
Guatemala	+
Kenya	+

* + means personnel autonomy resulted in increases in the probability of detection in the SARA country.

- means personnel autonomy did not resulted in increases in the probability of detection in the SARA country.

This table illustrates that all analysed SARA cases utilized personnel autonomy to increase the probability of corruption detection. As per discussions in the macro level of SARA analysis, the SARA cases showing good progress towards controlling motivations for corruption by ensuring personnel autonomy in terms of increases in the probability of detection include South Africa, Peru, and Kenya, while SARA cases including Tanzania and Guatemala showed less progress towards controlling motivations for corruption by inadequately utilizing personnel autonomy to

increase the probability of corruption detection in SARAs. Both these groups lend support to the basic argument behind research hypothesis 1(b) as per macro level of SARA analysis. First, the progress against controlling motivations for corruption improved most when personnel autonomy in terms of increases in the probability of detection was relatively high in comparative terms (South Africa, Peru, and Kenya). These SARA cases made better use of personnel autonomy to increase the probability of detection and were better able to control motivations for corruption. Second, the progress against controlling motivations for corruption varied, improving at first and then declining over time, in cases where personnel autonomy in terms of increases in the probability of detection decreased over time (Tanzania and Guatemala). These SARA cases could not sustainably increase the probability of detection and experienced decline in controlling motivations for corruption over time. So for research hypothesis 1(b), the macro level of SARA analysis only provided limited support for three out of five SARAs analysed for increases in the probability of detection. Hence research hypothesis 1(b) was only partially supported for three out of total five SARA cases.

5.1.3 Personnel Autonomy Controlling Motivations for Corruption Increases in and Stricter Enforcement of Penalties for Corruption

Research hypothesis 1(c) proposed that by increases in and stricter enforcement of penalties for corruption, SARAs have been effective against motivations but not opportunities for corruption. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how personnel autonomy is being utilized by SARAs to control motivations for corruption by increases in and stricter enforcement of penalties for corruption. The development of research hypothesis 1(c) in the analytical framework enabled to propose that if SARAs have made progress in terms of personnel autonomy by resulting in increases in and stricter enforcement of penalties for corruption, then it can also be taken to propose that motivations for corruption have

been controlled as an intended but unrecognized consequence. Table 5.6 illustrates an overview of secondary literature analysed to examine research hypothesis 1(c).

Table 5.6: Overview of Secondary Literature concerning Personnel Autonomy and Increases in and Stricter Enforcement of Penalties for Corruption in SARAs

Selected Literature concerning Personnel Autonomy and Increases in and Stricter Enforcement of Penalties for Corruption in SARAs	
Mann, 2004	Fjeldstad, 2005a
Kidd & Crandall, 2006	Fjeldstad & Moore, 2009
Martinez-Vazquez <i>et al.</i> , 2004	Fjeldstad <i>et al.</i> , 2003
World Bank, 1999; 2001	Devas <i>et al.</i> , 2001
Taliercio, 2004	Delay <i>et al.</i> , 1998

The imposition of high levels of penalties institutes an efficient deterrence to corruption. The logic behind imposition of high levels of penalties for corruption rests on the need to combine positive incentives with negative incentives. As Di Tella and Schargrodsky (2003, p. 3) posits “carrots and sticks should be viewed as complementary tools in fighting corruption”. World Bank (1999) also recommends adoption of this dual strategy in the anticorruption strategy for tax administrations. Martinez-Vazquez *et al.*, (2004) recommends imposition of strict penalties once corrupt activities have been identified including monetary sanctions and/or job dismissals with a prospect of prison sentences in order to reduce motivations for corruption in tax administrations.

In case of Uganda, the progress of URA towards controlling motivations for corruption via increases in and stricter enforcement of penalties for corruption can be characterized by a case of one step forward and two steps back. Adoption of SARA reform in Uganda failed to dissuade taxpayers from continuing to perceive high levels of corruption, but some progress against corruption was noticed on account of strict punishments for tax officials. Over a period of eight years from 1993-2001, URA fired 257 employees on corruption charges (Taliercio, 2004). The reform of revenue authority in Uganda resulted in dismissal of 14% of its staff on misconduct

charges (Fjeldstad *et al.*, 2003). Rather than exemplifying the strengthening of the sanctioning mechanisms, dismissal of such a high number of staff on corruption charges demonstrates the ineffectiveness of the monitoring and sanctioning mechanisms in place in URA, enabling such a high number of corrupt staff to continue working in the URA, until finally caught. Also the effectiveness of dismissal from service as a penalty has been put to question in case of Uganda, even though the obvious loss of wages and employment. Fjeldstad *et al.*, (2003) highlighted a troubling perception by several employees in the revenue authority that the span of their employment at the URA consists of a very few number of years to make as much money as possible, after which the inconvenience of dismissal is perceived to be quite limited once finally caught. URA case highlights that despite a seemingly high number of dismissals on account of corruption, enforcement of penalties has generally failed to deter tax officials from indulging in corruption. On top of it, this dimension of personnel autonomy of URA, though generally proving ineffective, has been disputed in court of law by criticizing personnel autonomy of URA which enables it not to give a reason for dismissal of employees. The URA defends this policy stance owing to complications of proving alleged corruption. In general, URA has made efforts to increase the number and severity of penalties for corruption, which has resulted in some reduction in corruption, with taxpayers continuing to perceive still high levels of corruption at the URA.

In Tanzania, the objectives behind creation of TRA included autonomy for hiring and firing mechanisms and increasing the probability of dismissal when caught for corruption, thus increasing the opportunity cost of committing corruption (Martinez-Vazquez *et al.*, 2004). Right after its inception, in order to undertake a cleaning exercise, the TRA dismissed all of its previous employees and let me re-apply for employment in the revenue authority by undergoing a rigorous recruitment exercise. As a result more than one third of the employees who re-applied were

rejected on proof or suspicion of wrongdoing. Although, the reform of revenue authority in Tanzania resulted in dismissal of a very high 35% of staff on account of misconduct charges (Fjeldstad *et al.*, 2003). And dismissal of such a high number of staff on corruption charges demonstrated the ineffectiveness of the monitoring and sanctioning mechanisms in place before the creation of TRA. But this cleaning exercise by TRA backfired in the wake of development of corruption networks outside TRA. Martinez-Vazquez *et al.*, (2004) suggested that the high turnover in TRA may have led to formation of corruption networks external to TRA. The former employees of the TRA, well versed with the knowledge as well as loopholes of the internal organizational workings, were recruited in the private sectors as tax accountants and experts. This increased the chances of development of a bigger corruption network spanning both within and outside TRA, with chances of collusion between TRA staff and their former coworkers now in the private sector. TRA's efforts to increasing and strictly enforcing penalties for corruption through dismissal of a large number of staff were neutralized by its inability to bring convictions against the perpetrators of corruption. Hence it failed to bar them from gaining employment in the private sector, greatly reducing their opportunity cost of dismissal from the TRA.

The case of Guatemala's SAT is similar to Uganda in a sense that on paper it seems that over the years it has moved quite forcefully against several high profile cases of corruption, and seemingly tried to increasingly and strictly enforcing penalties for corruption. But further analysis points towards the ineffectiveness of the monitoring and sanctioning mechanisms in place in SAT, enabling such a high level of corruption being committed, until finally detected. Over the years the former Vice President and Minister of Finance, who also chaired the board of directors of SAT, have been imprisoned on corruption charges. SAT also moved forcefully against its former superintendent. One of its former superintendents for period 2002-2004, who absconded for five months, was finally caught and sentenced in 2004. He was accused of embezzling more

than 5 million US\$. Several other co-accusers, including his family and SAT personnel were not caught (Mann, 2004). The case of Guatemala highlights that despite efforts to increasingly detect and penalize corruption in SAT, more effort is needed to try to prevent incidence of corruption of such a high magnitude in the first place.

In Peru, the effectiveness of SUNAT's personnel autonomy towards increasing and strictly enforcing penalties for corruption has been rated to function well. This in part rested on the introduction of a presidential executive decree in 1991. This decree authorized the superintendent of SUNAT to dismiss employees on account of "lack of probity" or "abuse of authority". Although president Fujimori was largely praised for providing immense support for SARA reform from the highest political level (World Bank, 2001), but towards the end of Fujimori government agents from the National Intelligence Service (SIN) intruded into SUNAT (Taliencio, 2004). Starting in 2000, a former Deputy Superintendent of SUNAT, perceived to be very honest, was given a second term at SUNAT as Superintendent, mainly to undertake the 'cleaning' exercise and getting rid of infiltrators coming from SIN. Although his term at SUNAT spanned for only eight months and was eventually replaced with the arrival of a new government in 2001, nonetheless he was able to get rid of almost 40 agents of the SIN who were working as SUNAT employees. Also, the former head of SIN was also convicted and imprisoned for 15 years on account of corruption charges, in addition to facing 47 additional charges. Over the next four years till 2004, Peru was able to get convictions for more than 100 persons on account of corruption charges in the Fujimori government, in addition to recovering more than 150 million US\$ from foreign banks (Mann, 2004). In view of these sanctions, Peru made headway towards increasing and strictly enforcing penalties for corruption in Peru's SARA to effectively curb motivations for corruption.

In South Africa, SARS has also tried to make significant progress towards increasingly and strictly enforcing penalties for corruption. From 1998, SARS got rid of 173 personnel on account of misconduct and corruption charges, which represented almost 1.5% of the total personnel. In addition, SARS openly publicizes the total prison sentences attained against corruption as deterrence for the rest of its personnel. It announced the figures of total 99 years of prison sentences attained in 2000 and 121 years of prison sentences attained in 2001 on account of tax fraud (Taliencio, 2004). This resulted in significant reduction of tax officials as well taxpayers' perception of prevalent corruption in SARS, mainly due to perceived improvement in quality and integrity of the personnel that remain in SARS after reform. In case of Kenya as well, significant progress has been noted in KRA towards increasingly and strictly enforcing penalties for corruption, mainly on account of personnel autonomy resulting in independence of its management to easily get rid of employees suspected of corruption, in addition to KRA's code of conduct and board disciplinary committee playing their part in increasing the integrity of staff.

Table 5.7 presents overview of macro level of SARA analysis with respect to the link between personnel autonomy resulting in increases in and stricter enforcement of penalties for corruption for SARAs analysed above.

Table 5.7: Overview of Selected SARA Countries concerning Personnel Autonomy resulting in Increases in and Stricter Enforcement of Penalties for Corruption

SARA Country	Personnel Autonomy and Increases in and Stricter Enforcement of Penalties*
South Africa	+
Peru	+
Tanzania	+
Guatemala	+
Uganda	+
Kenya	+

* + means personnel autonomy resulted in increases in and stricter enforcement of penalties in the SARA country.
 - means personnel autonomy did not result in increases in and stricter enforcement of penalties in the SARA country.

This table illustrates that all analysed SARA cases utilized personnel autonomy to result in increases in and stricter enforcement of penalties for corruption. As per discussions in the macro level of SARA analysis, the SARA cases showing good progress towards controlling motivations for corruption by ensuring personnel autonomy in terms of increases in and stricter enforcement of penalties for corruption include South Africa, Peru, and Kenya, while SARA cases including Tanzania, Uganda, and Guatemala showed less progress towards controlling motivations for corruption by inadequately utilizing personnel autonomy to result in increases in and stricter enforcement of penalties for corruption in SARAs. Both groups lend support to the basic argument behind research hypothesis 1(c) as per macro level of SARA analysis. First, the progress against controlling motivations for corruption improved most when personnel autonomy in terms of increases in and stricter enforcement of penalties for corruption was relatively high in comparative terms (South Africa, Peru, and Kenya). These SARA cases made better use of personnel autonomy to result in increases in and stricter enforcement of penalties for corruption and were better able to control motivations for corruption. Second, the progress against controlling motivations for corruption varied, improving at first and then declining over time, in cases where personnel autonomy in terms of increases in and stricter enforcement of penalties decreased over time (Tanzania, Uganda, and Guatemala). These SARA cases could not sustainably result in increases in and stricter enforcement of penalties for corruption and experienced decline in controlling motivations for corruption over time. So for research hypothesis 1(c), the macro level of SARA analysis only provided limited support for three out of six SARAs analysed for increases in and stricter enforcement of penalties. Hence research hypothesis 1(c) was only partially supported for three out of total six SARA cases.

5.1.4 Personnel Autonomy Controlling Motivations for Corruption by Instilling Ethics in Tax Officials

Research hypothesis 1(d) proposes that by instilling ethics in tax officials, SARAs have been effective against motivations but not opportunities for corruption. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how personnel autonomy is being utilized by SARAs to control motivations for corruption by instilling ethics in tax officials.

The development of research hypothesis 1(d) in the analytical framework enabled to propose that if SARAs have made progress in terms of personnel autonomy by resulting in instilling ethics in tax officials, then it can also be taken to propose that motivations for corruption have been controlled as an intended but unrecognized consequence. Table 5.8 illustrates an overview of secondary literature analysed to examine research hypothesis 1(d).

Table 5.8: Overview of Secondary Literature concerning Personnel Autonomy and Instilling Ethics in Tax Officials in SARAs

Selected Literature concerning Personnel Autonomy and Instilling Ethics in Tax Officials in SARAs	
Shah, 2007	Fjeldstad <i>et al.</i> , 2003
World Bank, 2001	Martinez-Vazquez <i>et al.</i> , 2004
Silvani & Baer, 1997	Durand <i>et al.</i> , 1998
Mayville, 2005	Devas <i>et al.</i> , 2001
Taliercio, 2004	Clark & Wood, 2001

The importance of ethical behaviour and conduct by tax officials towards sustaining anti-corruption SARA reforms cannot be overstated. One of the ways of dealing with corruption in SARAs is by taking steps to strengthen the ethical and moral behavior of tax officials. One way of doing it is by increasingly conducting ethics training aimed at sensitizing tax officials to different forms of corruption, and how to avoid motivations for corruption. Second, adoption of a Code of Conduct which elucidates expectations for ethical behavior by tax officials can be utilized as an effective preventive tool for building ethics and checking corruption. The potential capability of code of conduct towards checking corruption is one reason behind its adoption by many SARA

countries in 1990s. Their effectiveness against corruption depends upon a multitude of factors including effective publicity by the government, exposure of tax officials to its contents, and enforcement mechanisms in place for checking deviations from ethical standards. Adoption of both ethics training and a code of conduct for tax officials have been considered essential ingredients of an anti-corruption strategy for tax administrations (Martinez-Vazquez *et al.*, 2004).

Tanzania took a number of concrete steps towards utilizing personnel autonomy to instil ethics in tax officials. After its inception, the TRA undertook a cleaning exercise by dismissing all of its previous employees and let them re-apply for employment in the revenue authority by undergoing a rigorous recruitment exercise. Following a merit-based recruitment, it re-hired only those who were not suspected to have engaged in corruption. TRA also established a code of conduct for tax officials in 2000 which was largely based on sanctions and appeals procedures of the general civil service and labor codes. The code of conduct entitled immediate dismissal of tax officials in case of conviction by a court for fraud. This code of conduct, which was especially developed for tax administration, also categorized offences and penalties into minor, serious, and very serious offences. Likewise, the sequence of penalties for breach of conduct, in increasing order of severity included written warning, reprimand, severe reprimand, fine, and finally summary dismissal (Mayville, 2005). The code of conduct also specified the level and seniority of administrative staff charged with taking disciplinary action against the suspected tax officials, matched with the severity of offence. A detailed hierarchical grievance procedure was also in place in case any tax official wished to report corruption by fellow employees. In 2003, TRA also formulated a five member ethics committee which was chaired by the Deputy Commission General and reported to the Commission General on a monthly basis. This committee was made up of members based on the grade and seniority of the tax officials against whom penal action was taking place (Fjeldstad *et al.*, 2003). TRA's efforts to increase ethics by clearly defining

corruption offenses and penalties via Prevention of Corruption Act (1993) and code of conduct (2000) have been nullified to some extent due to corruption in its judicial system, resulting in failure to ensure convictions for TRA (Martinez-Vazquez *et al.*, 2004). Despite this, Tanzania showed considerable efforts towards instilling ethics in tax officials.

Peru has also taken considerable steps toward instilling ethics in tax officials. Right after its inception in 1991, SUNAT also undertook a purging exercise whereby all of its previous employees were offered a choice of either resign or re-apply for employment in the revenue authority by undergoing a rigorous merit-based recruitment exercise. Following a three-phased recruitment exam, which included an assessment of moral judgment of tax officials, it re-hired less than one third of the successful applicants (World Bank, 2001). In terms of ethics training, the SUNAT stipulated a new condition of sixteen-hour course in ethics for all of its technical personnel and auditors, as a way of controlling motivations for corruption (Silvani & Baer, 1997). As for code of conduct, the SUNAT's ethics code promulgated in 1996 described the organizational arrangements of an ethics committee for dealing with corruption. The ethics committee, which was an important part of SUNAT, comprised of the Commissioner of Revenue (chair), the head of Tax Administration, the Director General of Administration, the Director of Internal Audit, the head of Human Resources, the head of Legal Affairs, and the Director of Organization. The Committee recommended approaches to deal with tax officials alleged for illegal actions. In order to encourage ethical behavior, SUNAT also nominated and recognized tax officials annually for performing their jobs with devotion and commitment to service, including having supported, encouraged and demonstrated ethical behaviour as per norms of SUNAT (Mayville, 2005). By taking up these measures, Peru made headway towards instilling ethics in tax officials in SUNAT to effectively curb motivations for corruption.

Other SARA countries taking steps to improve the ethical behaviour of tax officials include Kenya and Mexico. Mexico's code of conduct, which was promulgated in 2000, has been used in

evaluating tax official's performance and for determining promotions. Its code of ethics for the fiscal career drew on the constitution of Mexico, the general civil service code, and tax and customs legislation. In case of Mexico, although it had developed a code of conduct, but could not manage to fully implement it. The code of conduct remained a sort of moral guide without much effect on the behavior of tax officials. In Kenya, the KRA was recognized to have improved the professionalism of tax officials and reducing the corruption in the revenue authority. KRA's code of conduct and board disciplinary committee were recognized to contribute towards increasing the integrity of tax officials (Taliencio, 2004).

Table 5.9 presents overview of macro level of SARA analysis with respect to the link between personnel autonomy resulting in instilling ethics in tax officials for SARAs analysed above.

Table 5.9: Overview of Selected SARA Countries concerning Personnel Autonomy resulting in Instilling Ethics in Tax Officials

SARA Country	Personnel Autonomy and Instilling Ethics in Tax Officials*
Peru	+
Tanzania	+
Mexico	+
Kenya	+

* + means personnel autonomy resulted in instilling ethics in tax officials in the SARA country.

- means personnel autonomy did not resulted in instilling ethics in tax officials in the SARA country.

This table illustrates that all analysed SARA cases utilized personnel autonomy to instil ethics in tax officials. As per discussions in the macro level of SARA analysis, all analyzed SARA cases including Peru, Tanzania, and Kenya, except Mexico, showed good progress towards controlling motivations for corruption by utilizing personnel autonomy in terms of instilling ethics in tax officials. Mexico showed less progress towards controlling motivations for corruption by inadequately utilizing personnel autonomy to instill ethics in tax officials in SARAs. Both groups lend support to the basic argument behind research hypothesis 1(d) as per macro level of SARA

analysis. First, the progress against controlling motivations for corruption improved most when personnel autonomy in terms of instilling ethics in tax officials was relatively high in comparative terms (Peru, Tanzania, and Kenya). These SARA cases made better use of personnel autonomy to instill ethics in tax officials and were better able to control motivations for corruption. Second, the progress against controlling motivations for corruption varied, improving at first and then declining over time, in case where personnel autonomy in terms of instilling ethics in tax officials decreased over time (Mexico). This SARA case could not sustainably instill ethics in tax officials and experienced decline in controlling motivations for corruption over time. In case of Tanzania, the macro level of SARA analysis for research hypothesis 1(a), 1(b) and 1(c) in sections 5.1.1, 5.1.2 and 5.1.3 highlighted that it made less than optimal use of personnel autonomy to control motivations for corruption by unsustainably increasing wages and rewards for tax officials, unsustainably increasing the probability of detection and ineffectiveness in increasingly and strictly enforcing penalties for corruption, but showed better progress in case of instilling ethics in tax officials. So, Tanzania has shown some notable progress towards utilizing personnel autonomy to instill ethics in tax officials, but not the other three preventive strategies to control motivations for corruption. So for research hypothesis 1(d), the macro level of SARA analysis only provided partial support for three out of four SARAs analysed for instilling ethics in tax officials. Hence research hypothesis 1(d) was only partially supported for three out of total four SARA cases.

5.1.5 Synthesis of Analysis for Research Hypothesis 1

As highlighted at the start of this section, the macro level of SARA analysis was aimed to analyse research hypotheses 1 and 2. Research hypothesis 1 proposed that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. Research hypothesis 1 comprised of four further sub-hypotheses

(1a, 1b, 1c, and 1d), which have already been examined in sections above. As it was proposed at the start of section 5.1, analysis of these four sub-hypotheses will be undertaken with an aim to test research hypotheses 1, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to research hypothesis 1. Consequently this section aims to synthesize all four sub-analyses discussed in sections above for the cumulative analysis of research hypothesis 1.

Table 5.10 illustrates the accumulation of all four sub-analyses discussed in sections 5.1.1, 5.1.2, 5.1.3 and 5.1.4 of the macro level of SARA analysis with respect to the link between personnel autonomy and all four preventive strategies to control motivations for corruption.

Table 5.10: Overview of Selected SARA Countries concerning Personnel Autonomy and all four preventive strategies to control Motivations for Corruption

SARA Country	Research Hypothesis 1 Personnel Autonomy			
	Increases in Wages and Rewards	Increases in the Probability of Detection	Increases in and Stricter Enforcement of Penalties	Instilling Ethics in Tax Officials
Ghana	+	n.d	n.d	n.d
South Africa	+	+	+	n.d
Peru	+	+	+	+
Tanzania	+	+	+	+
Mexico	-	n.d	n.d	+
Guatemala	n.d	+	+	n.d
Uganda	+	n.d	+	n.d
Kenya	+	+	+	+
Venezuela	-	n.d	n.d	n.d

Note: n.d means no data available.

+ means personnel autonomy resulted in increase in the specific preventive strategy to control motivations for corruption, as per macro level of SARA analysis.

- means personnel autonomy did not resulted in increase in the specific preventive strategy to control motivations for corruption, as per macro level of SARA analysis.

This table presents a snapshot of selected SARA countries towards utilizing different preventive strategies to control motivations for corruption. This table also summarizes the findings in terms of individual sub-hypotheses. As evident from the table, almost one third cells (13/36) display non-availability of comparative data, which constraints comprehensive analysis for some SARA countries in terms of all four preventive strategies in support of research hypothesis 1. In terms of individual sub-hypotheses, research hypothesis 1 was provided limited support by sub-hypothesis 1(a) {support for 4/8 SARAs}, limited support by sub-hypothesis 1(b) {support for 3/5 SARAs}, limited support by sub-hypothesis 1(c) {support for 3/6 SARAs}, and also limited support by sub-hypothesis 1(d) {support for 3/4 SARAs}. Hence, it is pertinent to conclude that as per individual sub-hypotheses, research hypothesis 1 was only provided limited support. In sum, this section was aimed at analyzing the overall proposition contending that those SARAs making most progress towards ensuring personnel autonomy should also be the ones making greatest progress towards controlling motivations for corruption. This supposition was only provided limited support above.

5.2 EFFECTIVE ACCOUNTABILITY CONTROLLING OPPORTUNITIES FOR CORRUPTION IN SARAs

In this study, SARA design component of effective accountability is conceptualized to control opportunities for corruption by 1) introduction of oversight mechanisms; 2) de-politicization of tax officials; and 3) reduction of discretionary powers of tax officials. Research hypothesis 2 proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. The macro level of SARA analysis in this section is aimed to analyse research hypothesis 2. It comprises of three sub-hypotheses (2a, 2b, and 2c), with each one referring to one specific preventive strategy to control opportunities for corruption. First all

three sub-hypotheses will be analyzed and then these analyses will be integrated for the cumulative analysis of research hypothesis 2 in sections below.

The next sections examine how SARAs used effective accountability to control opportunities for corruption. The overall proposition is that those SARAs which had ineffective accountability due to interference from MoFs would also be ineffective in controlling opportunities for corruption.

5.2.1 Effective Accountability Controlling Opportunities for Corruption by Introducing Effective Oversight Mechanisms

Research hypothesis 2(a) proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not introducing effective oversight mechanisms. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how effective accountability is being utilized by SARAs to control opportunities for corruption by introduction of oversight mechanisms. The development of research hypothesis 2(a) in the analytical framework enabled to propose that if SARAs have made progress in terms of ensuring effective accountability by introducing effective oversight mechanisms, then it can also be taken to propose that opportunities for corruption have been controlled as an intended but unrecognized consequence. Table 5.11 illustrates an overview of secondary literature analysed to examine research hypothesis 2(a).

Table 5.11: Overview of Secondary Literature concerning Effective Accountability and Introduction of Oversight Mechanisms for SARAs

Selected Literature concerning Effective Accountability and Introduction of Oversight Mechanisms for SARAs	
Clark & Wood, 2001	Hall & Jenkins, 1995
Delay <i>et al.</i> , 1998	Kidd & Crandall, 2006
Fjeldstad, 2002, 2003, 2005a, 2005b	Martinez-Vazquez <i>et al.</i> , 2004
Fjeldstad & Rakner, 2003	Taliercio, 2004, 2004a
Haldenwang, 2010	Terkper, 1999

Matinez-Vazquez *et al.*, (2004) highlighted that SARA reform can strengthen the internal monitoring mechanisms of revenue authorities when properly implemented. Kenya represented a SARA case where a strong MoF consistently tried to meddle with its accountability relationships with other oversight bodies, and undermined effective oversight as a consequence. This was especially the case with its governing board of directors, all of which members were appointed, or could be dismissed, by the minister of finance. In KRA case, the design of accountability mechanisms empowered the minister of finance immensely. The board eventually reflected the favourites of the minister owing to the power to constitute the board to his liking. Since the minister had complete freedom in shaping board membership, he appeared to use it generously. This severely impacted the security of tenure of board members, including the chairperson and Commission General. During the six year period of 1995-2001 four chairmen changed hats at the KRA with an average tenure of around 1.6 years (Taliencio, 2004). KRA's four Commission Generals (mostly bureaucrats), who were also appointed directly by the minister of finance, experienced short lived average tenure of around 1.8 years during the same period. The board members of KRA also experienced a less severe form of turnover rate with an average tenure of 2.8 years against a minimum term of three years. There were instances where the board members have been dismissed all together over differences with the government. This data indicating a high turnover rate of KRA's board members highlighted the instability of its autonomy, and interference and encroachment of MoF in its affairs. It also highlighted how MoF undermined the effective oversight mechanisms of KRA by undermining its accountability relationships with other oversight bodies i.e., the revenue board in this case (Hall & Jenkins, 1995; Fjeldstad & Moore, 2009; Terkper, 1999).

Peru represented a SARA case which used superintendents in place of governing board of directors. Although the superintendent model bestows a huge amount of authority in one person's

hands, in comparison to board of directors, which might undermine effective accountability. But in case of Peru the most damage to SUNAT's autonomy and accountability occurred due to interference from MoF. Although, Peru started out as a SARA case which was initially characterized by a restrained MoF control and its indirect influence in SUNAT's operations. Legislation provided that the superintendent of SUNAT can be selected and dismissed by the president only, based on the recommendation of minister of finance, who provided this with the agreement of the council of ministers. In practice, this legislation entailed that when the president was strong and supportive of SARA reform, the minister of finance could not interfere with the naming of superintendent. The first two superintendents of SUNAT were appointed by the president directly without any input from the minister of finance. This resulted in decrease in corruption as well as improvement in the accountability mechanisms of Peru at that time (Taliencio, 2004, 2004a). However, when the support of the president diminished over time, due to political reasons, the authority of minister in the appointment decision increased proportionately, owing to advising powers of the minister in the appointment procedure of superintendent by law. This subjected SUNAT to the whim of minister of finance and weakened its autonomy over time. The minister of finance gained effective control over the selection and dismissal of superintendent of SUNAT, which has effectively transferred a lot of autonomy from SUNAT to MoF. In addition to the appointment of superintendent, MoFs is also charged with the authority of approving the budget of SUNAT, and carry out periodic assessments of SUNAT. This loss of autonomy of SUNAT ultimately resulted in deterioration in revenue performance for Peru over time. Peru represented a SARA case which took off well, but experienced decline in its autonomy over time due to interference from MoF (Martinez-Vazquez *et al.*, 2004; Fjeldstad, 2005b; Haldenwang, 2010; Kidd & Crandall, 2006).

Uganda represented a SARA case which was directly under the influence of minister of finance. The dominance of MoF of URA's board was characterized by the situation where the minister of finance selected five out of total seven members of the board, in addition to selecting the chairperson and Commission General. The URA act authorized the minister of finance to dismiss any member of the board for reasons including malfeasance, incapacitation, or "for any other sufficient cause", thus severely undermining their security of tenure (Taliencio, 2004). In addition, the minister of finance could direct the board for compliance with his directives pertaining to how to perform their duties, effectively making the URA board an instrument of MoF. This resulted in URA boards composed of members having political ties within the ministry, such that these boards were more political than technical. The Commission Generals of URA, who were appointed and could be removed directly by the minister of finance, proved to be mere agents of the minister. As a result the relationship between the Commission Generals and minister proved to be more active, than the relationship between the commission generals and the board. Such high dominance of MoF over URA's board raised questions about its purpose and value-addition to the accountability mechanisms. In view of these arrangements, the effect of SARA reform on revenue performance proved to be unstable over time, only rising initially, in view of improvements in organizational workings, but deteriorating afterwards (Clark & Wood, 2001). The deterioration in revenue improvement and corruption were blamed to the ineffectiveness of the accountability mechanisms, due to interference of MoF in URA's board (Delay *et al.*, 1998; Fjeldstad, 2005a, 2005b; Fjeldstad & Rakner, 2003; Jenkins & Khadka, 2000; Kidd & Crandall, 2006).

Tanzania represented a SARA case engaged in tug-of-war with MoF over control and autonomy. SARA reform translated into loss of considerable autonomy and diminished patronage benefits for its MoF, which in turn became strong resistance against successful implementation of SARA

reform, and was eventually able to over-turn the reform process, and win back autonomy and patronage benefits (Clark & Wood, 2001; Talierco 2004). This practice in TRA was quite similar to the case of URA discussed above, in terms of institutional framework including the legislation. The effectiveness of the accountability relationship between the principal (minister) and agents (board of directors) declined over time, despite efforts by the TRA by making available standard reports of authority's performance against agreed revenue collection targets to the MoF. Fjeldstad (2003) showed how SARA reform, conceptually designed to curb corruption, did not fared well when empirically dealing with corruption in TRA in Tanzania, and showed that improved levels of remuneration co-existed with high levels of corruption, in the fact of ineffectiveness accountability mechanisms. The deterioration in corruption was blamed to the ineffectiveness of the accountability mechanisms, due to interference of MoF in TRA's operations (Fjeldstad, 2002; Kidd & Crandall, 2006).

Table 5.12 presents overview of macro level of SARA analysis with respect to the link between effective accountability resulting in introduction of oversight mechanisms for SARAs analysed above.

Table 5.12: Overview of Selected SARA Countries concerning Effective Accountability resulting in Introduction of Oversight Mechanisms

SARA Country	Effective Accountability and Introduction of Oversight Mechanisms*
Peru	-
Tanzania	-
Uganda	-
Kenya	-

*+ means SARA design component of effective accountability was successful to introduce effective oversight mechanisms in the SARA country, with no interference from MoF.

- means SARA design component of effective accountability was unsuccessful to introduce effective oversight mechanisms in the SARA country, due to interference from MoF.

This table illustrates that all analysed SARA cases experienced interference from MoFs undermining introduction of effective oversight mechanisms. As per discussions in the macro level of SARA analysis, all analyzed cases including Peru, Tanzania, Uganda, and Kenya showed less than optimal progress towards controlling opportunities for corruption, due to interference from MoFs, undermining SARA design component of effective accountability to introduce effective oversight mechanisms for SARAs. All analyzed SARA cases lend support to the basic argument behind research hypothesis 2(a) as per macro level of SARA analysis. These SARA cases made less than optimal use of effective accountability to introduce effective oversight mechanisms and were less effective in controlling opportunities for corruption. For research hypothesis 2(a), the macro level of SARA analysis provided considerable support for four out of four SARAs examining how presence of MoFs undermined effective oversight mechanisms of SARAs. Hence, research hypothesis 2(a) was considerably supported for four out of total four SARA cases.

5.2.2 Effective Accountability Controlling Opportunities for Corruption by De-politicizing Tax Officials

Research hypothesis 2(b) proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not de-politicizing tax officials. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how effective accountability is being utilized by SARAs to control opportunities for corruption by de-politicization of tax officials. The development of research hypothesis 2(b) in the analytical framework enabled to propose that if SARAs have made progress in terms of ensuring effective accountability by de-politicization of tax officials, then it can also be taken to propose that opportunities for corruption have been controlled as an intended but unrecognized consequence.

Table 5.13 illustrates an overview of secondary literature analysed to examine research hypothesis 2(b).

Table 5.13: Overview of Secondary Literature concerning Effective Accountability and De-politicization of Tax Officials for SARAs

Selected Literature concerning Effective Accountability and De-politicization of Tax Officials for SARAs	
Durand & Thorp, 1998	Martinez-Vazquez <i>et al.</i> , 2004
Fjeldstad & Moore, 2009	Osoro <i>et al.</i> , 1999
Fjeldstad <i>et al.</i> , 2003	Taliercio, 2004
Jenkins & Khadka, 2000	Terkper, 1999
Jenkins, 1994	Therkildsen, 2004
Kidd & Crandall, 2006	World Bank, 2001
Mann, 2004	

Political interference by the MoFs has proved to be a big hurdle in the successful implementation of SARAs. As Talbot (1994) highlighted that managers' ability to refrain from political interference in operations has drastically declined owing to old habit of micro-management. Taliercio (2004) demonstrated that when taxpayers perceived the tax agency to be free of any political influence, then they also perceived the tax administration as more fair. Also, when taxpayers perceived the personnel of the tax agency to be more free of political influence, then they also perceived the tax agency to be more fair towards taxpayers. In other words, taxpayers perceived autonomous tax agencies as fairer and less politicized in comparison to traditional line agencies closely connected to MoFs. The politicization and patronage problem is especially severe for tax administrations owing to large-scale patronage opportunities available. These political appointments result in selection of wrong person for the right job, and high turnover and corruption.

The URA represented a SARA case which provides a good example of how continuing interference from MoF led to inadequate progress in controlling political patronage. The URA

struggled to reach even minimum level of autonomy from MoF. The URA was supposed to translate into loss of considerable autonomy and diminished patronage benefits for its MoF, which in turn became strong resistance against URA's successful implementation, and was able to effectively over-turn the reform process and win back autonomy and patronage benefits (Clark & Wood, 2001; Taliercio, 2004). In practice, the URA was not granted the autonomy as stipulated in the legal framework, which resulting in continuing interference by MoF, in the form of one-sided decisions affecting operations in URA. The MoF continued to exercise undue powers to meddle with the funding of URA each year, despite the legal provision stipulating stable funding. In addition, the politicians in MoF, who were empowered to approve the budget of URA on an annual basis, used this autonomy to further their political interests by politicizing high level officials in URA. Political interference also resulted in large number of political appointments in URA, which not only sabotaged merit-based appointments, but also made it difficult to get rid of corrupt but politically-aligned employees. Managers reported problems of politicization where employees dismissed on misconduct continued to report to work by relying on the power of their strong political connections. In case of URA, it seems that an improvement in compensation mechanism, in the face of continuing political interference, simply resulted in increase in patronage problem. It also highlighted how MoF undermined de-politicization of tax officials in URA by not enabling enough autonomy to exercise effective accountability (Hall & Jenkins, 1995; Fjeldstad *et al.*, 2003; Fjeldstad & Moore, 2009; Martinez-Vazquez *et al.*, 2004; Terkper, 1999; Therkildsen, 2004).

Peru represented one of the very few SARA cases which were able to work without political interference, albeit only initially, with deterioration in de-politicization experienced over time. SUNAT's resistance to political interference in appointments, through a merit-based recruitment drive, was largely due to political support from the highest level i.e., the president. President

Fujimori showed pronounced interest in SUNAT's reform for quickly improving revenue performance. Owing to commitment shown towards SARA reform from the highest level of government, SUNAT demonstrated the value of merit-based recruitment reforms towards reducing politicization of tax officials. After its inception, more than 97% of its employees were selected according to a merit-based recruitment policy. As a result, Peru emerged, at least for a limited time, as a SARA largely free from patronage pressures. Starting in 1995, the MoF started meddling with SUNAT's affairs, in the wake of diminishing presidential support. It stripped SUNAT of its influence over tax policy, and patronage pressures led to penetration of political appointees, mainly agents of the National Intelligence Service into SUNAT. The decline in governmental support also impacted progress against corruption due to declined effectiveness of judicial system and police support, negatively affecting the institutional support needed for any concrete progress against corruption. In Peru's case, deterioration in political support not only resulted in increased politicization of tax officials, but also impacted the revenue performance negatively. Hence, SUNAT's tax-to-GDP ratio followed a downward trend after 1997. In case of Peru, although the reform took off well, but increasing interference from MoF gave way to politicization of tax officials over the long run (Jenkins, 1994; Durand & Thorp, 1998; Fjeldstad & Moore, 2009; Mann, 2004; World Bank, 2001).

In Tanzania, the TRA was created with the objective of de-politicization of tax officials by following a merit-based recruitment mechanism. As the opportunities for patronage and misuse of merit based recruitment system become higher with the involvement of MoF in the selection of head of SARA. So, the president directly appointed the CEO of the TRA, as well as constitution of a governing board for the supervision of TRA's management. The effectiveness of the merit-based recruitment system was undermined in case of TRA due to wrongdoings in the application process. Although all of its employees had to go through a recruitment cleaning exercise, which

got rid of almost 1200 employees mostly for misconduct, nonetheless senior managers were still able to hire their favorites by twisting the application process (Osoro *et al.*, 1999; Fjeldstad *et al.*, 2003; Mann, 2004; Martinez-Vazquez *et al.*, 2004). In case of Kenya as well, although in theory the management of the KRA was entrusted with autonomy to effectively fend off patronage pressures. But minister of finance, in this case as well, misused his capability to appoint governing board members by hiring his past colleagues for these positions. In this case as well, MoF undermined de-politicization of governing board in KRA by cherry-picking its board members based on favouritism. In case of both Tanzania and Kenya, SARAs experienced corruption-led form of micromanagement by MoFs. Because politicians did not wanted to let go of autonomy to SARAs, as it also entailed letting go of possible opportunities for patronage and corruption. Conversely, deeply entrenched corruption in MoFs crawled back into SARAs in the guise of political appointees by politicians (Delay *et al.*, 1998; Jenkins & Khadka, 2000; Kidd & Crandall, 2006).

Table 5.14 presents overview of macro level of SARA analysis with respect to the link between effective accountability resulting in de-politicization of tax officials for SARAs analysed above.

Table 5.14: Overview of Selected SARA Countries concerning Effective Accountability resulting in De-politicization of Tax Officials

SARA Country	Effective Accountability and De-politicization of Tax Officials*
Peru	-
Tanzania	-
Uganda	-
Kenya	-

*+ means SARA design component of effective accountability was successful to de-politicize tax officials in the SARA country, with no interference from MoF.

- means SARA design component of effective accountability was unsuccessful to de-politicize tax officials in the SARA country, due to interference from MoF.

This table illustrates that all analysed SARA cases experienced interference from MoFs undermining de-politicization of tax officials. As per discussions in the macro level of SARA analysis, all analyzed cases including Peru, Tanzania, Uganda, and Kenya showed less than optimal progress towards controlling opportunities for corruption, due to interference from MoFs, undermining SARA design component of effective accountability to de-politicize tax officials for SARAs. All analyzed SARA cases lend support to the basic argument behind research hypothesis 2(b) as per macro level of SARA analysis. These SARA cases made less than optimal use of effective accountability to de-politicize tax officials and were less effective in controlling opportunities for corruption. It is worthwhile to highlight that the findings obtained for research hypothesis 2(b) are very consistent with the findings reached for research hypothesis 2(a). This is partly due to inclusion of same SARA cases for both sub-hypotheses. For research hypothesis 2(b), the macro level of SARA analysis provided considerable support for four out of four SARAs examining how presence of MoFs led to continuation of politicization of tax officials in SARAs. Hence, research hypothesis 2(b) was considerably supported for four out of total four SARA cases.

5.2.3 Effective Accountability Controlling Opportunities for Corruption by Reducing Discretionary Powers of Tax Officials

Research hypothesis 2(c) proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not reducing discretionary powers of tax officials. This section aims to identify and analyze secondary literature on SARAs with particular focus on if and how effective accountability is being utilized by SARAs to control opportunities for corruption by reduction of discretionary powers of tax officials. The development of research hypothesis 2(c) in the analytical framework enabled to propose that if SARAs have made progress in terms of ensuring effective accountability by reduction of discretionary powers of tax

officials, then it can also be taken to propose that opportunities for corruption have been controlled as an intended but unrecognized consequence. Table 5.15 illustrates an overview of secondary literature analysed to examine research hypothesis 2(c).

Table 5.15: Overview of Secondary Literature concerning Effective Accountability and Reduction of Discretionary Powers of Tax Officials for SARAs

Selected Literature concerning Effective Accountability and Reduction of Discretionary Powers of Tax Officials for SARAs	
Delay <i>et al.</i> , 1998	McCarten, 2006
Fjedstad & Moore, 2009	Taliercio, 2004, 2004a
Fjedstad & Rakner, 2003	Terkper, 1999
Fjedstad, 2005b	World Bank, 1999
Kidd & Crandall, 2006	

Tanzania represented a SARA case where the ineffectiveness of its accountability mechanisms to control opportunities for corruption, led to increase in discretionary and monopoly powers available to tax officials. As highlighted before, in order to purge corrupt employees, TRA underwent a recruitment cleaning exercise, which resulted in laying-off of almost one third of its total employees. In spite of this, the TRA failed to reduce discretionary powers available to tax officials and break existing corruption networks within the revenue authority. The recruitment managers required bribes to be paid by the employees to have their applications supported by the management. In addition to bribes received, this also enabled the managers to find employees who were willing to collude in corruption networks. This situation also highlighted that behind a façade of a merit-based recruitment drive, potential employees continued to perceive TRA as a lucrative place for corruption and were willing to bribe for a place in it. For TRA, the efforts to improve the integrity of its employees by depoliticizing the appointment procedure through a merit-based recruitment exercise were undermined by the ineffective accountability and discretionary powers available to recruiting managers. In case of Tanzania, the TRA

remained ineffective in ensuring meritocracy or de-politicization of the recruitment procedure on account of discretionary powers available to recruitment managers. This scenario can also be utilized to explain why Tanzania was not able to effectively control opportunities for corruption even after TRA reform. TRA represented a case where increased autonomy for hiring managers was not balanced with increased effective accountability mechanisms. Rather autonomy levels granted to recruiting managers were greater than as could be effectively controlled with available accountability. This occurrence led to conversion of increased autonomy under TRA into discretionary and monopoly powers available to recruiting managers in the face of ineffective accountability mechanisms, leading to increases in opportunities for corruption (Delay *et al.*, 1998; Fjeldstad, 2005b; Fjeldstad & Moore, 2009; Fjeldstad & Rakner, 2003; Terkper, 1999; World Bank, 1999).

The Mexican SARA was representative of complete dominance by MoF of SAT's board, leading to no value addition by the board to the effectiveness of accountability arrangements of SAT by oversight bodies other than MoF. The board of directors of SAT comprised of total six members, including the minister of finance, and the president of the SAT, and both of these nominating two members each from the MoF and SAT. In essence, all six members were either for the MoF or the SAT, and there were no private sector members. The legislation placed the board completely under the control of minister of finance by providing the minister with full control over the board, although the legislation also bestowed the board with important decision making powers. In practice, the board did not play any significant role towards the management or policy making, owing to the composition of the board. The composition of the board did not enabled any value addition to the accountability mechanisms, since all members of the board were already part of top management of SAT and MoF anyway. Owing to MoF's complete control over SAT's board, the board's presence seemed unnecessary. The SAT's board was generally perceived to be

inessential and ineffective, it met very rarely over time (all members meet-up in other formal meetings anyway) and its decision making powers were openly encroached by the minister of finance without any official consent of the board. Taliercio (2004, 2004a) also highlighted how interference by the MoF in SAT's autonomy negatively impacted revenue performance, with decline in Tax-to-GDP ratio over time. In view of MoF's complete control of the SAT's board, it raised questions about any value added to the effectiveness of the accountability mechanisms of SAT (Kidd & Crandall, 2006; McCarten, 2006).

In Venezuela, the SENIAT employed a superintendent model of governance. The minister of finance was bestowed with complete authority of selecting and dismissing both the superintendent and adjunct superintendent of SENIAT. This mechanism very clearly subordinated the SARA to the goodwill of the minister of finance. This scenario resulted in minister of finance usually getting his way by the superintendent of SENIAT, and on several occasions superintendents were simply removed by the minister over disagreements, depicting poor security of tenure. Consequently, the average term of superintendents in SENIAT was less than a year (10.5 months) over six years period of 1994-2000. In 1999, the MoF almost took over SENIAT by not appointing any superintendent over a considerable period of time, and exercised direct control over the revenue authority. Within few years of the reform, MoF was able to circumvent the autonomy of SENIAT by fully controlling its superintendents, and in the wake of insufficient checks over minister's control over SARA, the MoF emerged as the main overseer of SENIAT in practice. In its early years though, the SENIAT was bestowed with the goodwill of a pro-reform minister of finance, whose support enabled the launch of SENIAT reform. This support quickly disappeared with the change of minister of finance within next two years. Taliercio (2004, 2004a) also highlighted how interference by the MoF in SENIAT's autonomy negatively impacted revenue performance, with decline in Tax-to-GDP ratio over time. The

SENIAT was representative of complete dominance by MoF of its superintendents, leading to no value addition by the superintendent to the effectiveness of accountability arrangements of SENIAT by oversight bodies other than MoF (Kidd & Crandall, 2006).

Table 5.16 presents overview of macro level of SARA analysis with respect to the link between effective accountability resulting in reduction of discretionary powers of tax officials for SARAs analysed above.

Table 5.16: Overview of Selected SARA Countries concerning Effective Accountability resulting in Reduction of Discretionary Powers of Tax Officials

SARA Country	Effective Accountability and Reduction of Discretionary Powers of Tax Officials*
Tanzania	-
Mexico	-
Venezuela	-

*+ means SARA design component of effective accountability was successful to reduce discretionary powers of tax officials in the SARA country, with no interference from MoF.

- means SARA design component of effective accountability was unsuccessful to reduce discretionary powers of tax officials in the SARA country, due to interference from MoF.

This table illustrates that all analysed SARA cases experienced interference from MoFs undermining reduction of discretionary powers of tax officials. As per discussions in the macro level of SARA analysis, all analyzed cases including Tanzania, Mexico and Venezuela showed less than optimal progress towards controlling opportunities for corruption, due to interference from MoFs, undermining SARA design component of effective accountability to reduce discretionary powers of tax officials for SARAs. All analyzed SARA cases lend support to the basic argument behind research hypothesis 2(c) as per macro level of SARA analysis. These SARA cases made less than optimal use of effective accountability to reduce discretionary powers of tax officials and were less effective in controlling opportunities for corruption. It was found that these SARA countries, which were not able to effectively control opportunities for

corruption, were represented by an instance where autonomy levels granted to tax officials after reforms were greater than as could be effectively controlled by existing accountability levels. In this case, this un-checked autonomy concept transformed into a combination of monopoly plus discretionary powers available to tax officials, as not controlled by effective accountability mechanisms. For research hypothesis 2(c), the macro level of SARA analysis provided considerable support for three out of three SARAs examining how presence of MoFs resulted in increases in discretionary powers available to tax officials in SARAs. Hence, research hypothesis 2(c) was considerably supported for three out of total three SARA cases.

5.2.4 Synthesis of Analysis for Research Hypothesis 2

As highlighted at the start of this section, the macro level of SARA analysis was aimed to analyse research hypotheses 1 and 2. Research hypothesis 2 proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. Research hypothesis 2 comprised of three further sub-hypotheses (2a, 2b and 2c), which have already been examined in sections above. As it was proposed at the start of section 5.1, analysis of these three sub-hypotheses will be undertaken with an aim to test research hypotheses 2, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to research hypothesis 2. Consequently this section aims to synthesize all three sub-analyses discussed in sections above for the cumulative analysis of research hypothesis 2.

Table 5.17 illustrates the accumulation of all three sub-analyses discussed in sections 5.2.1, 5.2.2 and 5.2.3 of the macro level of SARA analysis with respect to the link between effective accountability and all three preventive strategies to control opportunities for corruption.

Table 5.17: Overview of Selected SARA Countries concerning Effective Accountability and all three preventive strategies to control opportunities for Corruption

SARA Country	Research Hypothesis 2 Effective Accountability		
	Introduction of Oversight Mechanisms	De-politicization of Tax Officials	Reduction of Discretionary Powers of Tax Officials
Peru	-	-	n.d
Tanzania	-	-	-
Mexico	n.d	n.d	-
Uganda	-	-	n.d
Kenya	-	-	n.d
Venezuela	n.d	n.d	-

Note: n.d means no data available.

+ means SARA design component of effective accountability resulted in increase in the specific preventive strategy to control opportunities for corruption, with no interference from MoF, as per macro level of SARA analysis in the sub-proposition analyses.

- means SARA design component of effective accountability did not resulted in increase in the specific preventive strategy to control opportunities for corruption, due to interference from MoF, as per macro level of SARA analysis in the sub-proposition analyses.

This table presents a snapshot of selected SARA countries towards utilizing different preventive strategies to control opportunities for corruption. This table also summarizes the findings in terms of individual sub-hypotheses. As evident from the table, almost one third of cells (7/18) display non-availability of comparative data, which constraints comprehensive analysis for some SARA countries in terms of all three preventive strategies in support of research hypothesis 2. In terms of individual sub-hypotheses, research hypothesis 2 was provided considerable support by sub-hypothesis 2(a) {support for 4/4 SARAs}, considerable support by sub-hypothesis 2(b) {support for 4/4 SARAs}, and also considerable support by sub-hypothesis 2(c) {support for 3/3 SARAs}. Hence, it is pertinent to conclude that as per individual sub-hypotheses, research hypothesis 2 was provided considerable support.

This section was aimed at analyzing the overall proposition that those SARAs which had ineffective accountability due to interference form MoFs would also be ineffective in controlling

opportunities for corruption. This supposition was considerably supported above. The cumulative finding for research hypothesis 2 has demonstrated that SARA design component of effective accountability, which is adopted to enhance the accountability of the reform model, has proved to be ineffective due to presence of MoF in the accountability equation of SARAs, and this in turn has led to increases in opportunities for corruption. This section questioned why SARAs have been unable to adopt effective accountability? It was found that presence of MoFs in the accountability arrangements have rendered SARAs ineffective in controlling opportunities for corruption. Continued interference from MoFs was found to undermine not only the effective oversight mechanisms of SARAs (sub-hypothesis 2a), but also found to lead to continuation of politicization of tax officials (sub-hypothesis 2b), and resulting in increases in discretionary powers available to tax officials (sub-hypothesis 2c). This finding suggesting how SARAs' accountability mechanisms were undermined due to interference by MoFs, point towards a case for not keeping SARAs directly accountable to MoFs, in the presence of other effective oversight bodies including Revenue Boards/Superintendents and Parliament etc.

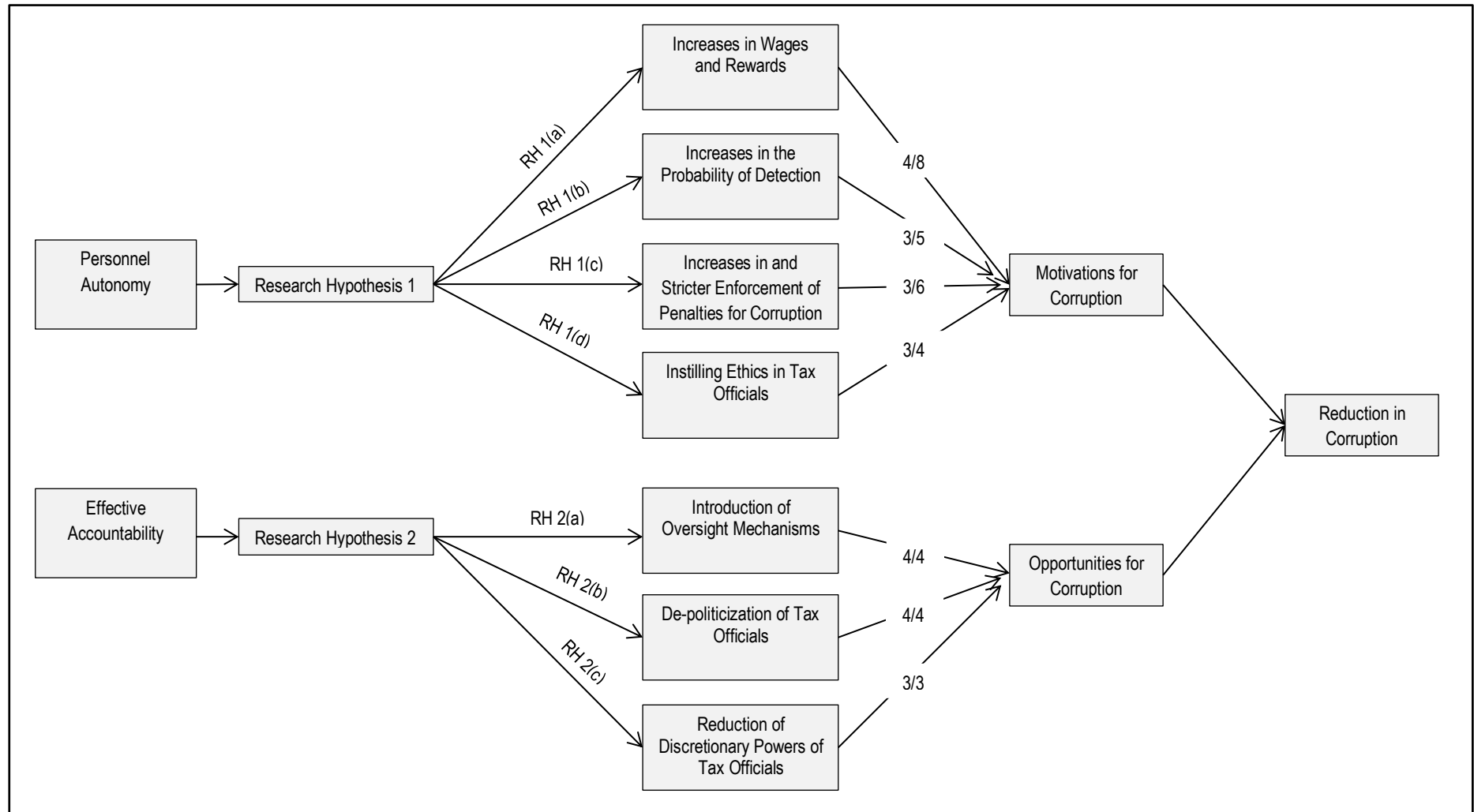
5.3 SUMMARY AND CONCLUSION

It is very important to highlight here that the macro analysis of SARAs represents only a systematic review coming up with tentative findings and cannot claim the rigour of primary data studies. Since the researcher lacked resources of time and money to carry out in-depth case studies of selected SARA cases in pursuit of primary data, the researcher was left with no other choice but to rely on secondary literature. Similarly the findings obtained for the hypothesized relationships in the macro analysis are also tentative and only suggest that relationship might exist. This also points towards future research in this area where primary data might be collected to analyze the validity of analytical framework for SARAs. Nonetheless, the macro analysis has helped to build some sort of picture to understand how SARAs' implementation against corruption

fared so far in some developing countries. Doing so also sets the stage for micro level of analysis where the tax administration reforms for Pakistan are examined in detail.

As highlighted at the start of this chapter, the macro level of SARA analysis was aimed to analyse research hypothesis 1 and 2. Consequently this section aims to integrate all sub-analyses discussed in sections above for the cumulative analysis of research hypothesis 1 and 2. Figure 5.2 presents the graphical representation of overall findings of macro level of SARA analysis for research hypothesis 1 and 2.

Figure 5.2 Graphical Representation of Findings of Macro Level of SARA Analysis



RH = Research Hypothesis

As illustrated in figure, in terms of individual sub-hypotheses, research hypothesis 1 was provided limited support by sub-hypothesis 1(a) {support for 4/8 SARAs}, limited support by sub-hypothesis 1(b) {support for 3/5 SARAs}, limited support by sub-hypothesis 1(c) {support for 3/6 SARAs}, and also limited support by sub-hypothesis 1(d) {support for 3/4 SARAs}. Hence, it is pertinent to conclude that as per individual sub-hypotheses, research hypothesis 1 was only provided limited support. In terms of individual sub-hypotheses, research hypothesis 2 was provided considerable support by sub-hypothesis 2(a) {support for 4/4 SARAs}, considerable support by sub-hypothesis 2(b) {support for 4/4 SARAs}, and also considerable support by sub-hypothesis 2(c) {support for 3/3 SARAs}. Hence, it is pertinent to conclude that as per individual sub-hypotheses, research hypothesis 2 was provided considerable support.

Next, Table 5.18 illustrates the accumulation of all sub-analyses discussed in sections 5.1.5 and 5.2.4 of the macro level of SARA analysis for research hypotheses 1 and 2.

Table 5.18: Overview of Selected SARA Countries accumulating sub-analyses of the macro level of SARA analysis for research hypotheses 1 and 2

SARA Country	Research Hypothesis 1 Personnel Autonomy				Research Hypothesis 2 Effective Accountability		
	RH 1(a) Increases in Wages and Rewards	RH 1(b) Increases in the Probability of Detection	RH 1(c) Increases in and Stricter Enforcement of Penalties	RH 1(d) Instilling Ethics in Tax Officials	RH 2(a) Introduction of Oversight Mechanisms	RH 2(b) De-politicization of Tax Officials	RH 2(c) Reduction of Discretionary Powers of Tax Officials
Ghana	+	n.d	n.d	n.d	n.d	n.d	n.d
South Africa	+	+	+	n.d	n.d	n.d	n.d
Peru	+	+	+	+	-	-	n.d
Tanzania	+	+	+	+	-	-	-
Mexico	-	n.d	n.d	+	n.d	n.d	-
Guatemala	n.d	+	+	n.d	n.d	n.d	n.d
Uganda	+	n.d	+	n.d	-	-	n.d
Kenya	+	+	+	+	-	-	n.d
Venezuela	-	n.d	n.d	n.d	n.d	n.d	-
+ means personnel autonomy resulted in increase in the specific preventive strategy to control motivations for corruption, as per macro level of SARA analysis in the sub-proposition analyses. - means personnel autonomy did not resulted in increase in the specific preventive strategy to control motivations for corruption, as per macro level of SARA analysis in the sub-proposition analyses.					+ means SARA design component of effective accountability resulted in increase in the specific preventive strategy to control opportunities for corruption, with no interference from MoF, as per macro level of SARA analysis in the sub-proposition analyses. - means SARA design component of effective accountability did not resulted in increase in the specific preventive strategy to control opportunities for corruption, due to interference from MoF, as per macro level of SARA analysis in the sub-proposition analyses.		

Note: n.d means no data available.

RH = Research Hypothesis

This table presents a snapshot of selected SARA countries towards utilizing different preventive strategies to ensure personnel autonomy and effective accountability for controlling motivations and opportunities for corruption. To explore why some SARAs have failed to effectively control opportunities for corruption, a detailed mapping of SARA cases, labelled as the macro level of SARA analysis, was undertaken in this chapter. This chapter applied the analytical framework to selected developing countries in terms of SARAs' effect on corruption, and gauged the robustness and generalizability of the analytical framework by analysing different SARA cases under a same lens. In a nutshell, the specific contribution of chapter 5 to the overall thesis argument lies in aiming to answer the question set out above by conceptually testing the Anti-Corruption SARA framework by analyzing individual SARA design components in their separate contributions towards controlling motivations and opportunities for corruption. This was to contribute towards filling a gap in literature for studies on SARAs differentiating between motivations and opportunities for corruption. It is concluded that SARAs preferred adoption of personnel autonomy over ensuring effective accountability for controlling corruption. In other words, SARAs preferred adoption of autonomy-enhancing design components over accountability-enhancing design components for controlling corruption. This imbalance led to some progress in controlling motivations for corruption, but failing to effectively control opportunities for corruption. This chapter also questioned why SARAs have been unable to adopt effective accountability? It was found that presence of MoFs in the accountability arrangements rendered SARAs ineffective in controlling opportunities for corruption. Continued interference from MoFs was found to undermine not only the effective oversight mechanisms of SARAs, but also lead to continuation of politicization of tax officials, and resulting in increases in discretionary powers available to tax officials.

In sum, by conducting the macro level of SARA analysis, progress was made towards a two part answer to the main question of the thesis. To explore why some SARAs have failed to effectively control opportunities for corruption, it was found that SARAs have made partial progress to control corruption by focusing more on controlling motivations for corruption (through autonomy-enhancing design components) and lesser focus on controlling opportunities for corruption (through accountability-enhancing design components). Continued interference from MoFs was found to undermine not only effective accountability for SARAs, but also undermining control of opportunities for corruption. These findings are significant as they not only highlighted **‘why’** opportunities for corruption were not controlled by SARAs due to imbalance in adoption of personnel autonomy over effective accountability. But also showed **‘how’** this imbalance rose due to continued interference from MoFs. The macro level of SARA analysis was also aimed to offer propositions about why certain SARA design components are more effective against corruption than others, and to offer specific recommendations to improve SARAs’ effectiveness against corruption. The macro level of SARA analysis was also aimed at improving, revising and re-forming the existing SARA reform model, to make it more robust against corruption, by incorporating changes in existing SARA model as identified by analysis. It is pertinent to conclude here that balancing both autonomy and accountability-enhancing SARA design components is highly warranted to effectively control both motivations and opportunities for corruption. Also, findings suggesting how SARAs’ accountability mechanisms were undermined due to interference by MoFs, leading to ineffectiveness in controlling opportunities for corruption, point towards a case for not keeping SARAs directly accountable to MoFs, in the presence of other effective oversight bodies including Revenue Boards/Superintendents and Parliament etc.

To explore why some SARAs have failed to effectively control opportunities for corruption, a two-staged analysis of SARAs was proposed to be conducted in chapters five and six of the thesis.

Next, in chapter six of the thesis, a detailed case study of tax administration reforms in Pakistan will be conducted as per analytical framework developed in this study. Two main sources of data will be employed for the case study at the micro level of analysis: document analysis (secondary literature) and semi-structured interviews.

CHAPTER SIX

MICRO LEVEL OF ANALYSIS: CASE STUDY OF TAX ADMINISTRATION REFORMS IN PAKISTAN

6.0 INTRODUCTION

In the previous chapter, a detailed mapping of SARA cases, labelled as the macro level of SARA analysis was undertaken for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries. This analysis helped to conclude that some SARAs have made partial progress to control corruption by focusing more on controlling motivations for corruption (through autonomy-enhancing design components) and lesser focus on controlling opportunities for corruption (through accountability-enhancing design components). Taking the form of findings, chapter seven helped to identify factors, which could be analyzed in advance to SARA reform, making a developing country suitable or unsuitable candidate for SARA reform. Such as continued interference from MoFs was found to undermine not only effective accountability for SARAs, but also undermining control of opportunities for corruption.

Building onto the discussions raised in chapter five, this chapter aims to conceptually test the Anti-Corruption SARA framework for FBR, by conducting a detailed case study of tax administration reforms in Pakistan. In spite of increasing proliferation of SARAs in developing countries for controlling corruption in tax administrations, the researcher has not come across any significant research on the practical side of designing and implementing SARA reform against controlling corruption. It is this gap that this research aims to contribute towards filling by doing a practical work of designing an Anti-Corruption SARA framework (chapter 3) and applying it to Pakistan in this chapter.

This level of analysis is labeled as micro level of analysis, as this proposed analysis will enable to examine in detail the current state of affairs and potential and suitability of SARA reform for Pakistan. While the macro level of analysis was aimed at questioning why some SARAs have failed to effectively control opportunities for corruption. The micro level of analysis aims to question why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan. This chapter intends to apply the Anti-Corruption SARA framework to FBR to gauge the effect of tax administration reform on corruption, and will offer specific recommendations to improve progress against corruption.

Two main sources of data were employed for the case study at the micro level of analysis: document analysis (secondary literature) and semi-structured interviews. The triangulated methodology collects two types of data (documentary and interview) for cross-checking. Hence, the micro level of analysis for FBR was aimed at theorizing what is going wrong with practice by approaching both new and old evidence (semi-structured interviews and secondary literature) in a new way (i.e., analytical framework). The information obtained from the interviewees through semi-structured interviews was analysed to show interviewees' views about why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan. The views of significant actors were also solicited to explore potential and suitability of SARA reform for Pakistan. In particular these interviews were aimed to gauge if opportunities for corruption have not been controlled in FBR due to imbalance in adoption of personnel autonomy over effective accountability, and if this imbalance arisen due to continued interference from MoF in FBR. In total the researcher conducted 31 semi-structured interviews with 16 tax officials, 2 journalists, 3 MoF officials, 5 taxpayers and 5 businessmen/traders. The two journalists included Rehman Azhar (Dunya News) and Imdad Bhatti (Jang News). The three MoF officials were gazetted officers and occupied mid-level positions in Ministry of Finance in Islamabad, Pakistan.

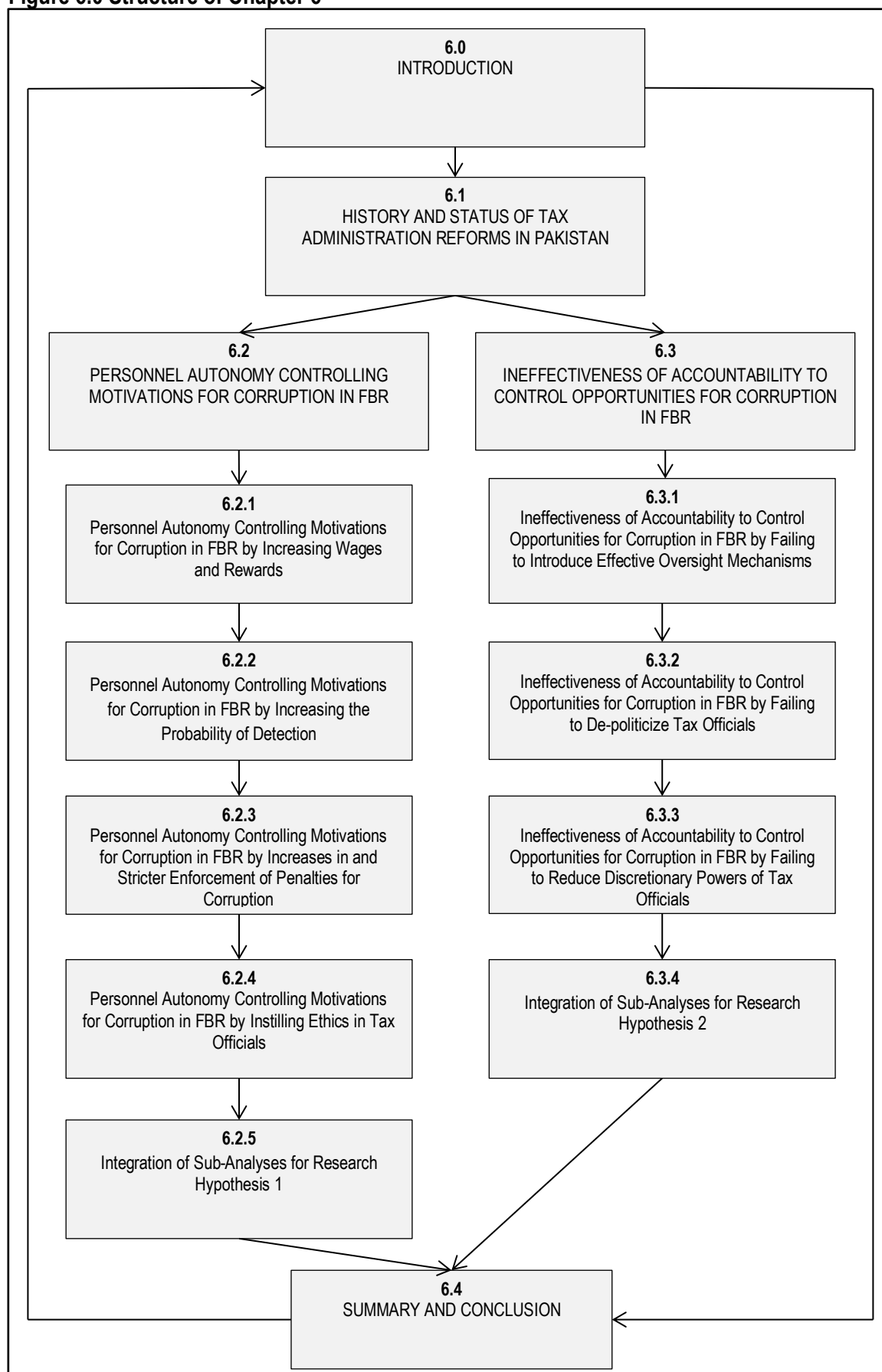
They were promised anonymity in exchange for interview. The five taxpayers included friends of researcher and were chosen because the researcher was certain that they actually paid taxes and were aware with tax reforms in Pakistan. Their identities will also be kept anonymous. The five businessmen represented prominent traders and were contacted for interview through a contact working at Lahore Chambers of Commerce and Industry. Detailed discussion about the process of selection and other details for interviews has already been discussed in chapter four (Section 4.3.1). Thus, this chapter reports the results of semi-structured interviews which were used to acquire the views of 31 respondents. In addition to semi-structured interviews, the micro level of analysis was also supplemented by the documentary analysis of secondary literature. In particular newspaper analysis over a period of three years (2011 to 2013) and collection of other relevant documents from FBR Headquarters; international donor organizations such as the World Bank, IMF, ADB; NGOs such as Transparency International; ministerial and non-ministerial reports was undertaken. Further details about the process of newspaper analysis and collection of other documents have already been discussed in chapter four (Section 4.3.2)

In order to analyze the validity of the framework for FBR, the micro level of analysis in this chapter will also be examined in terms of sub-hypotheses, with an aim to test both research hypothesis 1 and 2, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to research hypothesis 1 and 2. Further, by examining individual sub-hypotheses, this analysis also aims to segregate FBR's progress against corruption towards separately controlling motivations and opportunities for corruption. In particular, this case study aims to confirm if the findings reached for SARA countries in the macro analysis are also applicable to FBR. The case study will try to analyze if opportunities for corruption have not been controlled in FBR due to imbalance in adoption of personnel autonomy over effective accountability, and if this imbalance arisen due to continued interference from MoF in FBR as

well. Such analysis will help to conclude if there is potential and suitability of adopting Anti-Corruption SARA framework for FBR to control corruption in tax administration of Pakistan.

The rest of this chapter is organized as follows: Section 6.1 will detail the history and status of tax administration reform in Pakistan. This section will specifically examine the question if tax administration reform has failed to effectively control opportunities for corruption in FBR Pakistan. Sections 6.2 and 6.3 will contain micro level of analysis, where the individual sub-hypotheses will be tested for FBR Pakistan. Section 6.4 will summarize the key findings arising out of micro level analysis and concludes. This section will also integrate the findings of all sub-hypotheses for two main research hypotheses of this study.

The structure of Chapter 6 is shown in Figure 6.0.

Figure 6.0 Structure of Chapter 6

6.1 HISTORY AND STATUS OF TAX ADMINISTRATION REFORMS IN PAKISTAN

As per World Justice Project (WJP) Pakistan stands as the seventh most corrupt nation in the world out of total 97 countries analysed for year 2012 (The News, 2012a). An example of the scale of system-wide corruption in tax system of Pakistan can be illustrated by the case of Osama-bin-Laden. Even the most wanted terrorist of the world could not escape corruption in taxation in Pakistan as he had to bribe Rs. 50,000 to the local revenue official (locally known as Patwari) to obtain permission to build the compound in Pakistan. As dully noted in his diary, only after taking the bribe, Osama was allowed to build a three-floor compound, complete with 14 feet high outer wall along with iron fencing. Osama was not only aware of the bribing practice, but also gave explicit approval to bribe the Patwari (The News, 2012b). The Chief of National Accountability Bureau (NAB), Pakistan's central anti-corruption agency, made headlines in 2012 by projecting an eye watering daily figure of corruption in Pakistan of around Rs. 13 billion (or almost 5 trillion a year). Out of this total corruption, a figure of Rs. 7 billion per day (Rs. 2500 to 3000 billion per year) was given on account of tax evasion (Raza, 2012). Adding to these figures, the Chief added:

“The nexus between the legislature and executive which aggravated corruption in the 80s and 90s has now become monstrous. Corruption in Pakistan is no longer a party-centric or incident-centric phenomenon, but is now an attitude across the board. A flood of corruption is flowing in which there are fish and crocodiles, but rather than catching them, we have to tap the flow of corruption so that the fish and crocodiles die a natural death when the flow of corruption stops” (The News, 2012c, p.1).

These statements did not sit well with the government of Pakistan at that time, and a body was formed to probe these claims. The Chief was ultimately removed in the next few months.

In Pakistan no one has been impeached for personal income tax evasion in the last 25 years, says chairman FBR (The News, 2012d). In case of Pakistan the problem of tax evasion starts at

the top. The ones who make revenue policies, run the government, and collect taxes have not been demonstrating exemplary behavior. In 2011, only 90 out of total 341 members of the national assembly of Pakistan filed tax returns, i.e., only 33% of parliamentarians, and 38% of cabinet ministers complied with their tax responsibility. Almost 70% of Pakistan's MPs did not file a tax return in 2011, including the President Asif Ali Zardari (Ali, 2012; The News, 2012a). In 2008, 61% of the lawmakers in Pakistan did not paid anything on account of taxes. In the same year, the prime minister, all his cabinet members, including the minister of finance did not paid any income tax (Cheema, 2012a). Upon media furor, rather than discharging their tax responsibility and paying taxes, politicians openly criticized FBR of unlawfully releasing data. FBR, on the other hand, rather than taking any legal action against tax crooks, guaranteed full action against the persons involved in releasing data. A former chairman of FBR described the Pakistan taxation system as skewed, whereby the poor subsidize the rich:

"This is a system of the elite, by the elite, and for the elite" (Ali, 2012, p. 1).

Pakistan is characterized by a country where the political parties do not file tax returns as an across-the-board practice, so much so that FBR has never issued notices to any party (Bukhari & Haq, 2013). The situation is so bad that many leading cricketers don't file tax returns, taking the plea that they get their income after tax is deducted at source, although they are legally bound to file tax return even if the income is deducted for tax at source, for declaring any other sources of income (Khan, 2012b).

Keeping in view the dismal state of affairs projected above, Pakistan has made numerous attempts to reform its tax machinery over years since its independence. Before independence, the Central Board of Revenue (CBR) was formed on 1st April 1924 via enactment of Central Board of Revenue Act, 1924. In 1944, a bigger revenue division was established underneath

MoF. After independence in 1947, this organization continued to operate till 31st August 1960, when CBR was reorganized as an attached department of the MoF, on the recommendations of the administrative re-organization committee. By 1974, the post of chairman CBR was established to further rationalize the organization and functions of CBR. This post was equivalent in status to an ex-officio additional secretary. Consequently, this post replaced the secretary finance who exercised responsibilities as ex-officio chairman of the CBR. Over the next thirty years, CBR faced further reorganizations. The status of CBR as a revenue division under MoF was returned on 22nd October, 1991, to eliminate barriers in the exercise of powers by the secretary, and for effective creation and implementation of fiscal policy actions. However, the CBR relapsed to the pre-1991 situation, when the revenue division was abolished in January 1995. Another summersault came on 1st December, 1998, when the revenue division was again restored. With the enactment of FBR Act 2007, the CBR was replaced with FBR in July 2007. In terms of autonomy, the status of FBR lies in between a revenue authority and a centralized government department working under close supervision of the ministry. FBR is neither a SARA nor a conventional government department. As per World Bank (2004b) case of converting CBR into a SARA for Pakistan, i.e., creation of a 'Pakistan Revenue Authority' was considered at the start of reform exercise. But ultimately a decision was taken in favour of an organizational arrangement of FBR which would remain under governmental control, but with significant autonomy in terms of recruitment, compensation, and promotions etc. The decision to go with this 'contradictory' or 'confused' form of organizational arrangement, i.e., under governmental control but autonomous, was attributed to following international best practices.

Although Pakistan has made numerous attempts to reform its inefficient and corrupt tax administration, but a prominent reform effort came in the form of the Tax Administration Reform Project (TARP) in 2005. This project was mutually funded by the World Bank (\$100 million),

Department for International Development (DFID) (\$23 million), and Government of Pakistan (GoP) with a total financing of \$135million. This reform was designed to implement the findings of a stakeholders' feedback exercise conducted by the CBR in 1999, and a perception gathering survey conducted by the 'Syed Shahid Hussain Committee' in 2001. Both these surveys confirmed that taxpayers perceived CBR as very unfair in its professional dealings, and very corrupt. One of underlying reasons behind entrenched corruption was blamed on below-subsistence level wages for tax officials. Some of the major objectives of TARP included improving organisational efficiency and effectiveness of revenue administration; facilitating and promoting voluntary compliance by taxpayers; increasing tax to GDP ratio; increasing transparency and integrity; broadening the tax base; and strengthening audit and enforcement procedures. The major thrust of the TARP reform project was laid on re-organization of the CBR on functional lines, automation, and emphasis on human resource management (FBR, 2008).

After initiation of TARP program, how did Pakistan do with the reform? In its official evaluation, the World Bank labelled the TARP program outcome as 'unsatisfactory' or failed project. The tax-to-GDP ratio at the launch of TARP stood at 10.1% in 2005, but dropped to 9.3% in 2011 at the project completion, which was not only very poor in Pakistan history, but also in comparison to the world. In 2011, Pakistan had the second lowest tax-to-GDP ratio among 154 countries (ADB, 2013). According to FTO, 1% decrease in tax-to-GDP ratio cost the government of Pakistan a massive \$100 billion (approx.) in terms of tax collection. So, while FBR was busy with TARP to improve tax collection, it was haemorrhaging \$100 billion of taxes side by side. A House of Commons Committee on International Development, while evaluating TARP in Pakistan noted that although it was right to support the reform program by DFID, but it was poorly supervised both by the World Bank and DFID. TARP was evaluated as "non-performing" by the World Bank in 2008, with no one detecting that audit had been stopped within a year into reform. Work on

functional administration, which was the basic objective of TARP, had not even begun until 2009. The committee concluded that TARP also failed due to very late interventions by the donors, not willing to criticize the government in office. The major criticism on TARP was only brought forward in 2008 when Musharraf government had been weakened (House of Commons, 2013). The critics of TARP have labelled the reform exercise just a name change from CBR to FBR, with the organization retaining its out-of-date character and dysfunctional corrupt culture, adding only coatings of modernity over an outdated structure (Shah, 2011).

In order to salvage poor performance under TARP, another Tax Reform program under International Monetary Fund (IMF) was initiated with the change of government in Pakistan in 2008. This was proposed by the then President Zardari to the 'Friends of Pakistan' conference in New York in 2009, thus becoming the base of another IMF program of \$11.3 billion minus any conditions. The major thrust was proposed towards creation of arms-length tax administration and elimination of Statutory Rules and Orders (SRO) powers. This program also collapsed in 2010, amid dispute between IMF and government of Pakistan for not undertaking promised radical tax reforms. This program was evaluated as half-hearted, and failed due to strong resistance from administration and tax officials of FBR alike, refusing to let go of rent-seeking opportunities. The major failure was attributed to resistance by those in powers in Pakistan, corrupt politicians and tax administrators alike, unwilling to abandon opportunities for corruption. Another controversy came when Pakistan tried its hand at personnel reform by merging different services in FBR into an integrated Inland Revenue Service (IRS) under the TARP project. As a result a new occupational group was created by integrating income tax, sales tax, and federal excise to administer domestic taxes. Previously, federal excise was administrated by the customs group, who was not happy with the move, and complained against the World Bank for constitutional violations. This move resulted in a formal dispute between the government of

Pakistan and the World Bank, with both parties blaming each other for violations. The customs association held that by insisting Pakistan to create IRS, the World Bank not only desecrated its own policies, but also distorted Pakistan's constitution to their detriment. This resulted in World Bank dissociating itself from the creation of IRS, taking the position that creation of IRS was never part of World Bank reform programme. This left Pakistan into a predicament of how to move ahead with the merger of different taxation groups. Pakistan maintained that the World Bank was not only informed, but rather pressed on Pakistan towards creation of integrated IRS. FBR Chairman said:

"For the World Bank to initially press for the FBR to undergo these reforms and make them as benchmarks in GoP's negotiations with IMF, and to now take adverse notice of successful implementation by FBR/GoP, is totally inappropriate and undesirable" (Kiani, 2010, p.1).

Pakistan maintained that the establishment division issued notices of creation of IRS in 2009 with the approval of the then prime minister, and on the advice of the World Bank and IMF. Another setback towards creation of IRS came from Pakistan's central recruitment agency, the Federal Public Service Commission (FPSC) which refused to recognize IRS as an approved service group. The FPSC maintained that it was never consulted by the government who singlehandedly approved the creation of new group through the establishment division via office memorandum. FPSC clarified that it was mandatory for the government to seek advice from the commission, and the matter eventually went to court for violation of FPSC rules. This instance again highlighted the half-hearted attempt to reform tax administration in Pakistan, lacking fair treatment of all FBR staff affected by proposed reorganization.

After these failures in TARP implementation to reform tax administration, what is the response of the government of Pakistan? Ironically, preparations are underway to bid for second phase of TARP from the World Bank, after TARP-I ended miserably in 2011. The government of Pakistan

is currently busy in consultations for finalizing the roadmap for TARP-II with possible funding from the World Bank, to complete the unfinished agenda which it failed to do so first time (The News, 2013b). The total cost of this adventure would be a credit of more than \$300 million to be re-paid back from the (very few) honest taxpayers' money in Pakistan. It is also worthwhile to mention here that the FBR is yet to examine in detail the factors which led to the failure of TARP-I, though it is excitedly preparing for the unfinished reform business through TARP-II.

Pakistan's poor progress and non-commitment towards tax reform has not gone un-noticed by the international donor community, which has openly criticized Pakistan for the failures against reform. The calls for making aid conditional to tax reform are emerging from several corners. Former US Secretary of State, Hillary Clinton openly criticized Pakistan's elite. She observed:

"The very well-off in Pakistan do not pay their fair share for the services that are needed, in health and education primarily" (Iqbal, 2010, p. 14).

She pressed on the rich elite in Pakistan to pay more tax for self-sufficiency, and to lessen Pakistan's reliance on foreign aid. She expressed that Pakistan should not become "perpetually dependent on financial dole" and noted that it is wrong to assume that American taxpayers could forever pay for Pakistan's economic and social development.

Similarly, the International Development Committee in the UK asked the British government to hold back additional aid to Pakistan, unless Pakistan takes necessary steps to collect taxes from its rich citizens. The committee recommended that the increase in British aid to Pakistan (from £267 million to £446 million) should be put off, and made conditional to Pakistan collecting more taxes from the rich and combating corruption effectively. The report also pressed on UK ministers towards ensuring that aid was concentrated on anti-corruption efforts (Mustafa, 2013). Chairman

of the Commons International Development Committee, Sir Malcolm Bruce commented that Pakistan's approach towards aid has been:

"We'll take your money and do what we please".

He further added:

"We cannot expect people in the UK to pay taxes to improve education and health in Pakistan if the Pakistani elite do not pay meaningful amounts of income tax" (The News, 2013c, p.1).

Another member of the committee, Fiona O'Donnell commented on distrust of Pakistani citizens towards government of Pakistan by quoting common people saying:

"I do not pay my taxes because the government is so corrupt that it does not do any good, so I would rather engage in private philanthropy" (The News, 2013d, p.1).

This reaction of the international donor community not only highlights their response on the poor reform efforts of tax administration in Pakistan, but also highlights how significant it is to examine the reason behind failure of tax reform efforts in Pakistan in this chapter. This introductory section of the chapter, in addition to providing the history and context of tax reform efforts in Pakistan, was also able to lend a positive answer to the two-part question raised at the start of this chapter asking **'If'** and **'Why'** tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan. Yes the tax administration reform has failed to effectively control opportunities for corruption in FBR in Pakistan. Next, the following sections aim to further explore the reasons behind **'Why'** tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan and what should be done about it. In addition, the potential and suitability of adopting Anti-Corruption SARA framework for Pakistan to control corruption in tax administration will be analyzed.

Before moving onto next sections, tables 6.1, 6.2, and 6.3 as well as figures 6.1, 6.2, and 6.3 illustrates an overview of revenue performance (in terms of Tax-to-GDP ratio) along with progress against corruption (in terms of CPI rating) for Pakistan over years and in comparison to its regional countries, in addition to making comparisons with SARA countries of the macro level of analysis.

Table 6.1: Overview of Pakistan's Progress towards Revenue Improvement and Corruption Control from 2001-2012

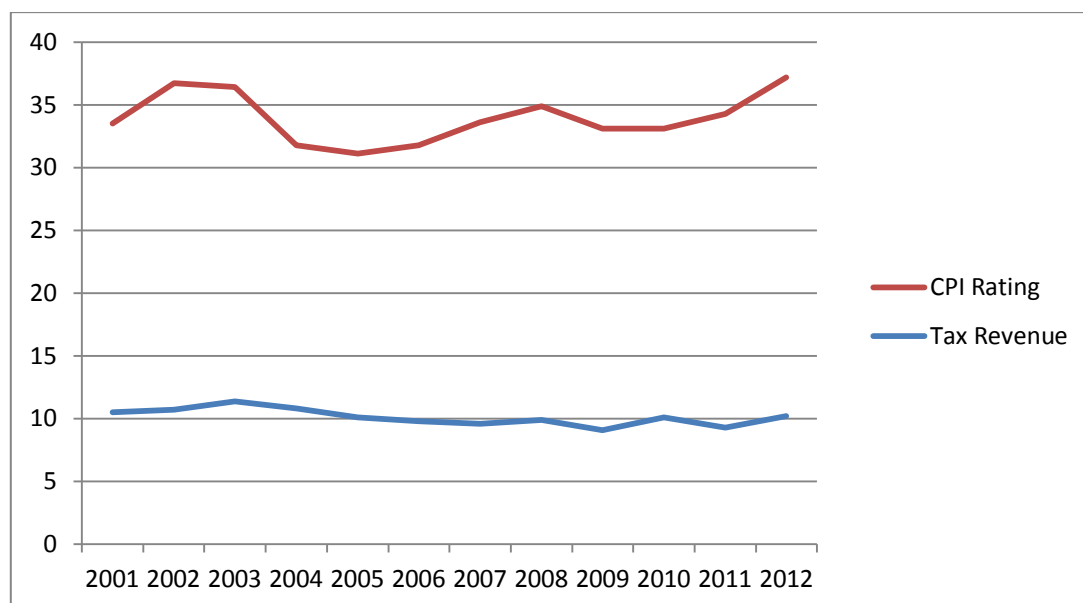
Year	Tax Revenue (% of GDP)*	Corruption Perception Index (CPI) score**
2001	10.5 %	23
2002	10.7 %	26
2003	11.4 %	25
2004	10.8 %	21
2005	10.1 %	21
2006	9.8 %	22
2007	9.6 %	24
2008	9.9 %	25
2009	9.1 %	24
2010	10.1 %	23
2011	9.3 %	25
2012	10.2 %	27

*Source: ADB (2013)

**Source: Transparency International. Available online <http://cpi.transparency.org>

'The Corruption Perceptions Index ranks countries based on how corrupt their public sector is perceived to be. A country's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean'.

Figure 6.1: Graphical Representation of Pakistan's Progress towards Revenue Improvement and Corruption Control from 2001-2012



As illustrated in table 6.1 along with figure 6.1, Pakistan's Tax-to-GDP ratio, which is quite low by international standards, has stagnated over the last twelve years and not shown any considerable improvement over this period, despite efforts to reform. In addition, its CPI rating, which again is very low, consistently placed Pakistan as one of most corrupt countries of the world over the period analyzed.

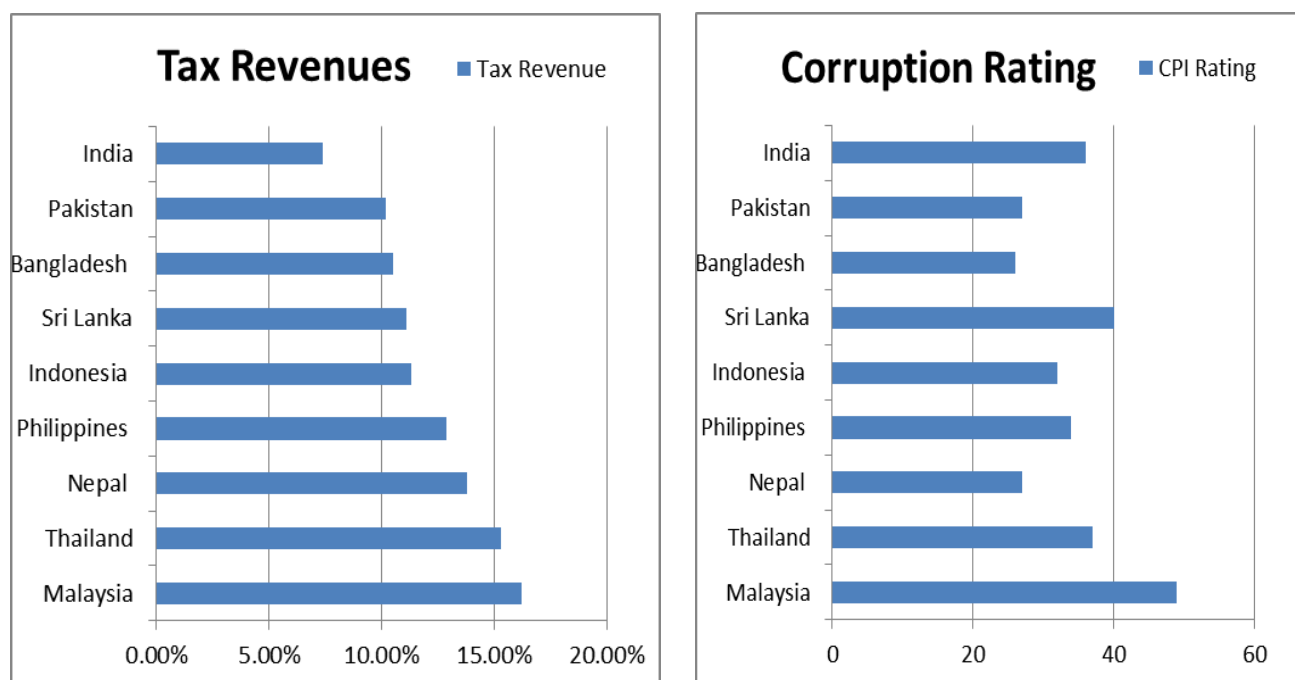
Table 6.2: Overview of Pakistan's Progress towards Revenue Improvement and Corruption Control in Comparison to Regional Counterparts

Country	Tax Revenue (% of GDP) 2012*	Corruption Perception Index (CPI) 2012**
Malaysia	16.2 %	49
Thailand	15.3 %	37
Nepal	13.8 %	27
Philippines	12.9 %	34
Indonesia	11.3 %	32
Sri Lanka	11.1 %	40
Bangladesh	10.5 %	26
Pakistan	10.2 %	27
India	7.4 %	36

*Source: ADB (2013)

**Source: Transparency International. Available online <http://cpi.transparency.org>

Figure 6.2: Graphical Representation of Pakistan's Progress towards Revenue Improvement and Corruption Control in Comparison to Regional Counterparts



Moreover, as illustrated in table 6.2 along with figure 6.2, Pakistan's current tax revenue in comparison to other regional developing countries is one of the lowest in the group, with only India having the lower tax-to-GDP ratio than Pakistan. This highlights poor progress made by Pakistan to improve its revenue performance over time, in comparison to other developing countries with similar contexts. In addition, its CPI rating is also one of the lowest in the group, with only Bangladesh having lower CPI rating than Pakistan, placing Pakistan as one of most corrupt countries in the group.

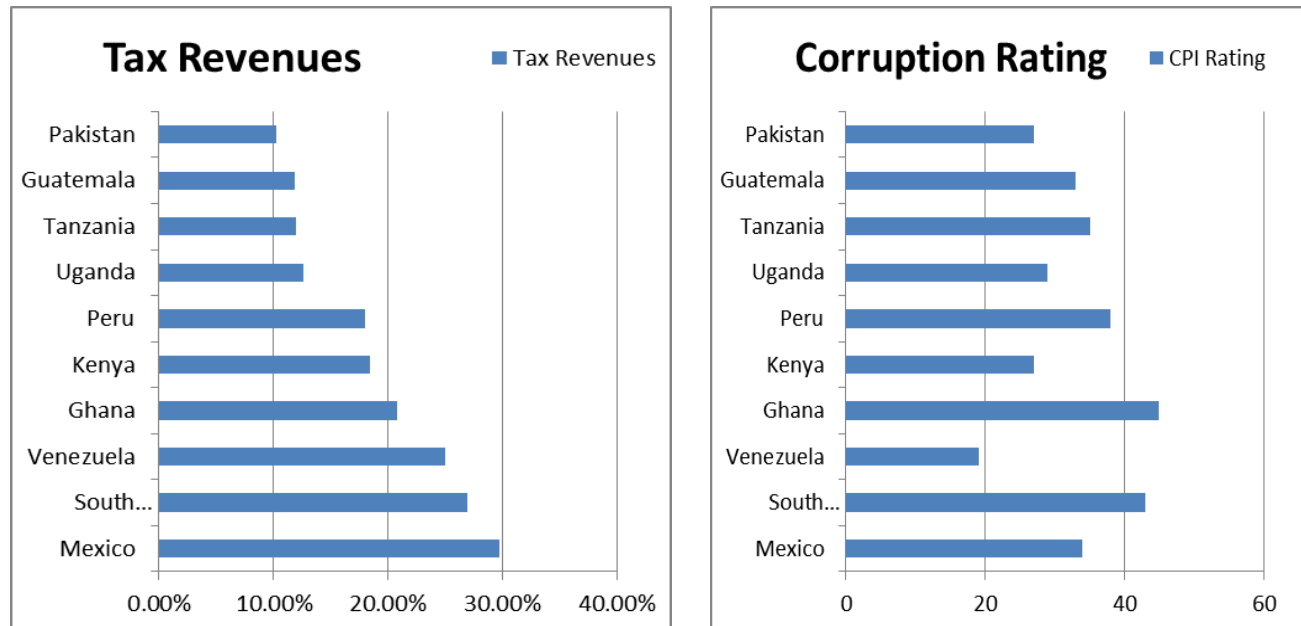
Table 6.3: Overview of Pakistan's Progress towards Revenue Improvement and Corruption Control in Comparison to SARA Countries in Macro level of Analysis

SARA Country	Tax Revenue (% of GDP) 2012*	Corruption Perception Index (CPI) 2012**
Mexico	29.7 %	34
South Africa	26.9 %	43
Venezuela	25.0 %	19
Ghana	20.8 %	45
Kenya	18.4 %	27
Peru	18.0 %	38
Uganda	12.6 %	29
Tanzania	12.0 %	35
Guatemala	11.9 %	33
Pakistan	10.2 %	27

*Source: Heritage Foundation. Available online <http://www.heritage.org/index/ranking>

**Transparency International. Available online <http://cpi.transparency.org>

Figure 6.3: Graphical Representation of Pakistan's Progress towards Revenue Improvement and Corruption Control in Comparison to SARA Countries in Macro level of Analysis



Lastly, table 6.3 along with figure 6.3 illustrates Pakistan's progress towards revenue improvement and progress against corruption in comparison to SARA developing countries included in the

macro level of analysis in chapter five. As evident, Pakistan has the lowest tax-to-GDP ratio in comparison to the group of better as well as poorly performing SARA countries. In addition, Pakistan's CPI rating is also one of the lowest in the group, with only Venezuela having lower CPI rating than Pakistan. This highlights poor progress made by Pakistan to improve its revenue performance and progress against corruption in comparison to developing countries having undertaken SARA reform to varied levels of success.

The tables and figures above helped to demonstrate that Pakistan's progress towards improvement in revenue collection as well as controlling corruption has not improved over time, or in comparison to its regional developing countries, or in contrast to selected SARA developing countries. This makes it even more pertinent to undertake the proposed micro level of analysis in this chapter to examine why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan and what should be done about it.

6.2 PERSONNEL AUTONOMY CONTROLLING MOTIVATIONS FOR CORRUPTION IN FBR

In order to analyze the potential and suitability of adopting Anti-Corruption SARA framework for FBR Pakistan to control corruption in tax administration, the micro level of analysis in this section is aimed to analyze research hypothesis 1 along with its four sub-hypotheses. It is further highlighted here that research hypothesis 1 along with its sub-hypotheses have been adapted to examine tax administration reform in FBR Pakistan. This adaptation is undertaken by replacing the term 'SARA' in these hypotheses with 'FBR'. Hence, in this chapter it is proposed that by preferring personnel autonomy over effective accountability, FBR have been effective against motivations but not opportunities for corruption. Research hypothesis 1 comprises of four sub-hypotheses (1a, 1b, 1c, and 1d), with each one referring to one specific preventive strategy to control motivations for corruption. SARA design component of personnel autonomy is

conceptualized to control motivations for corruption by 1) increases in wages and rewards; 2) increases in the probability of detection; 3) increases in and stricter enforcement of penalties for corruption; and 4) instilling ethics in tax officials. First all four sub-hypotheses will be analyzed and then these analyses will be integrated for the cumulative analysis of research hypothesis 1 in sections below.

The next sections examine how FBR used personnel autonomy to control motivations for corruption by utilizing both primary (semi-structured interviews) as well as secondary literature. The overall proposition is that if FBR has made progress towards ensuring personnel autonomy, then it can also be taken to propose that progress towards controlling motivations for corruption has been made.

6.2.1 Personnel Autonomy Controlling Motivations for Corruption in FBR by Increasing Wages and Rewards

Research hypothesis 1(a) has been adapted for FBR and proposes that by increases in wages and rewards, FBR have been effective against motivations but not opportunities for corruption. Personnel autonomy is operationalized to control motivations for corruption in FBR by affecting implementation of preventive strategy of increases in wages for tax officials and utilization of performance-linked bonuses. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how personnel autonomy is being utilized by FBR to control motivations for corruption by increasing wages and rewards for tax officials.

One of underlying reasons behind entrenched corruption in FBR pre-reform was blamed on below-subsistence level wages for tax officials. For this reason, one of the major focuses of TARP reform project in Pakistan was to improve the Human Resource Management (HRM) at

FBR (FBR, 2008). As a result, major focus of HRM strategy was laid on improved induction, promotion and remuneration packages for tax officials in FBR. Starting from the FBR headquarters, reform in wages for 150 tax officials was introduced in the form of 100% special allowance in December, 2007. These tax officials were hired via a competitive procedure of internal job postings (World Bank, 2004b). As per this increase, an allowance equivalent to 100% of basic pay of tax officials was given, hence doubling the total salary per month. As a result of this reform, these FBR employees saw their monthly wages doubled in comparison to the rest of the civil service. This tactic of increased wages, initially only rolled out for the staff at FBR headquarters, proved very popular among the staff, and was subsequently extended to all other staff of FBR in other wings and field offices (FBR, 2008). In terms of bonuses and rewards, in 2012 a special rewards scheme for tax officials working in the customs department was introduced (Appendix 2). As per this scheme, the customs officials are remunerated with cash rewards equivalent to about 20% of the tax evasion detected. This reward scheme has also proved popular among tax officials, although some tax officials (interviewees) were of the view that this scheme was about to be rolled back on ground of misuse by some officials. No official confirmation about the withdrawal of this reward scheme was available at the FBR headquarter.

One of the major objectives behind increased wages and rewards for tax officials was aimed to curb their motivations for corruption, arising due to non- provision of living wages. But was this strategy effective? Not as per majority of tax officials interviewed. When asked (Appendix 1) if the increase in wages and rewards have been sufficient enough/effective to deter tax officials from committing corruption in FBR? The majority answers were emphatic “No!”. As Tax Official 1 elaborated:

‘You have no idea what is the amount of money they are making from corruption, no amount of increase in salary.....I repeat no amount of increase in salary can be enough to deter them not to do it’.

Another Tax Official 2 added on the similar line:

'How can you expect to raise the salary by Rs. 30,000 per month, and expect them to forgo bribes more than ten times of this amount? It's just not workable. Unless you catch the most corrupt and punish them, maybe then officials will start to see the consequences and be happy with their increased wages, otherwise no chance'.

Another Tax Official 3 had a much stronger opinion:

'I take this increase as a slap on my face for being honest and doing my job properly'.

Upon inquiring what reform effort would make the situation better for the honest tax officials, he replied:

'First stop them making millions every month in front of my eyes, they know they are doing it, I know they are doing it, they know I know they are doing it, everybody higher up knows they are doing it, but nobody can stop it. How can I be content with my double salary with the knowledge that the person sitting in the next office, equal in rank and everything, is making millions, while I am struggling to make ends meet with few more thousands'.

When asked if the wages and reward structure at FBR enough to retain employees with the right skills? One of the Tax Official 4 had an interesting take. He said:

'If you are honest and intends to stay honest, then your best bet is to use FBR as a training ground, get foreign qualifications in the name of capacity building, come back, serve for few years, and venture into private sector as a tax consultant. I know many people who have done this, and are earning much more than what they were getting at FBR. If you are corrupt, this advice does not apply to you. No money in the private sector could match with what you could make here if you are not honest'.

In addition to interviewing tax officials for micro level of analysis, this case study also interviewed multiple other stakeholders of FBR reform who expressed similar concerns when quizzed about role of increased wages and rewards towards controlling corruption at FBR. Notably, MoF Official 1 said:

'See we did everything we could in the book to deter them from being corrupt, we doubled salaries to give them more money because money is what pushes them to do corruption, isn't it? but I guess they wanted lots more of it. Of course we couldn't increase salaries beyond a certain acceptable limit. We doubled salaries but even it was not enough. Guess they were making lots more of money from corruption!'

Similar sentiments were expressed by the other two interviewees at MoF, who were also disappointed that even doubling the salaries did work very well. MoF Official 2 said:

'I think it did deter some of the officers who were not making lots of corruption money and maybe had guilt in their hearts for doing it. See even our religion speaks so openly against corruption. But yes the big fish had no impact what-so-ever'.

One of the businessman in the second stage of interviews had a personal experience regarding the rewards for tax officials for uncovering tax evasion. Businessman 1 said:

'They introduced these rewards for catching evasion, you know what it did to us. Tax official in my area openly threatened me to cooperate with him otherwise he is bound to make money by rewards by falsely declaring my evasion and will make it impossible for me to continue with my business. I had to hire a legal tax consultant to get out of this situation and had to pay him high fees. My friends thought it would have been easier if I had simply bribed the officer in the first place. That's how business is done in Pakistan. But you already must know this'.

In the similar line, Taxpayer 1 also contributed by saying:

Now when I look back, I think it's just a joke in the name of reform. They doubled salaries, gave rewards but simultaneously also let them take bribes. Wasn't it a win-win? They should have tightened ways to catch the corrupt ones and punish them too. Have you ever heard that any tax officer been convicted of corruption. Even if caught, they get free and have all the illegal money to go abroad and enjoy life. Not a bad tradeoff!'

Such sentiments about ineffectiveness of increased wages and rewards towards curbing motivations for corruption were consistent with most interview respondents. The main problem seems to be that in the presence of widespread opportunities for corruption and ineffective oversight mechanisms, the increase in wages and rewards sort of backfired for FBR, even resulting in increased cynicism in tax officials.

The above micro level of analysis was aimed at analyzing research hypothesis 1(a) for FBR. This analysis illustrated that although FBR did utilize personnel autonomy to increase wages and rewards for tax officials, but was not able to effectively control motivations for corruption. Hence, FBR did not lend support to the basic argument behind research hypothesis 1(a) as per micro level of analysis, as the progress against controlling motivations for corruption improved least in FBR, although personnel autonomy in terms of increases in wages and rewards was high. In FBR, personnel autonomy proved ineffective in controlling motivations for corruption by increasing wages and rewards. Hence, research hypothesis 1(a) was not supported for FBR.

6.2.2 Personnel Autonomy Controlling Motivations for Corruption in FBR by Increasing the Probability of Detection

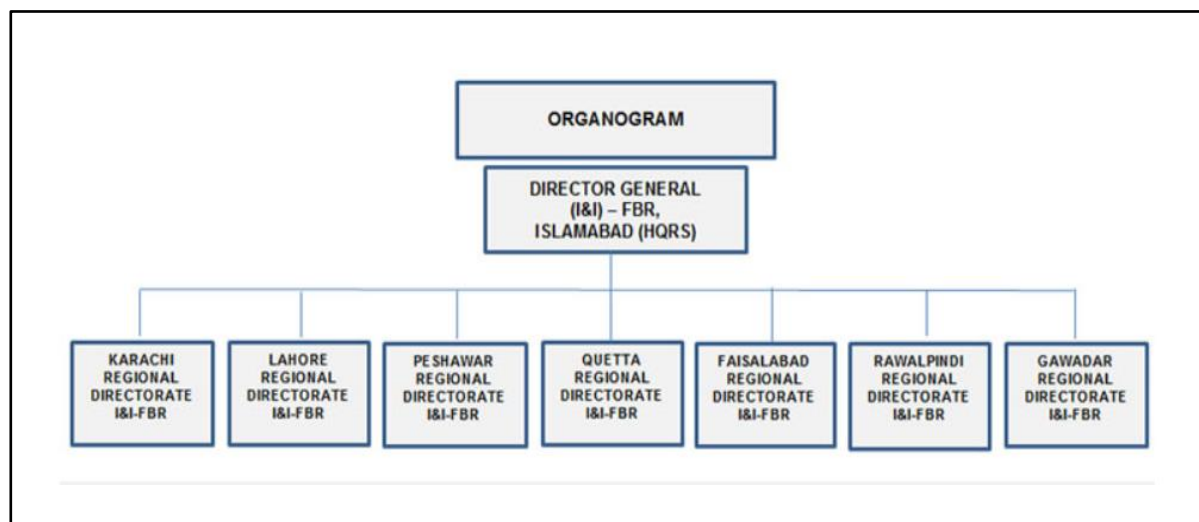
Research hypothesis 1(b) has been adapted for FBR and proposes that by increases in the probability of detection, FBR have been effective against motivations but not opportunities for corruption. Personnel autonomy is operationalized to control motivations for corruption in FBR by affecting implementation of preventive strategy of increases in the probability of detection with the indicators being increases in the quality and frequency of internal audits and probes by establishing internal audit and anti-corruption divisions; increases in the number of supervisory personnel assigned to internal audit and anti-corruption divisions; and statutory condition of declaration of assets by all employees. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how personnel autonomy is being utilized by FBR to control motivations for corruption by increases in the probability of detection.

For increasing the quality and frequency of internal audits and probes by establishing internal audit and anti-corruption divisions, the FBR constituted a 'Directorate General Intelligence & Investigation' as part of tax administration reform. This Directorate was not a newly established entity, and existed in other forms before reform. The origin of this Directorate dates back to 1957, when it was only entrusted with the task of customs intelligence and investigation. By 1974, the Directorate was also entrusted with intelligence and investigation of central excise. In 1995, the Directorate was further entrusted with audit of sales tax fraud as well, hence becoming Directorate General (Intelligence and Investigation) Customs, Sales Tax and Central Excise. As a result of TARP implementation in 2005, the Directorate General (Intelligence and Investigation) Customs, Sales Tax & Federal Excise was re-labelled as Directorate General Intelligence & Investigation of FBR with the job of vigilance and integrity management of both direct and indirect taxes. By 2010, this directorate was also nominated as one of central agencies for investigations into money laundering under the AML Act 2010. One of the basic objectives behind establishment of this Directorate was to investigate accusations against FBR officials and detecting corrupt practices by corrupt officials (World Bank, 2004b). As mentioned in its charter of functions by the FBR, one of the main functions of this Directorate includes:

"To look into and investigate cases of corruption and mal-practices of the revenue collecting agencies working under the FBR received by the Directorate General through public, press or any other source and to propose appropriate corrective or punitive action" (FBR, 2013).

As for increasing the number of supervisory personnel assigned to internal audit and anti-corruption divisions, the FBR has taken concrete steps in this regard by establishing seven regional directorates of the Directorate General Intelligence & Investigation based at FBR headquarters across Pakistan. As depicted in figure 6.4 below, regional directorates with significant number of personnel have been established in all major cities and areas of Pakistan.

Figure 6.4: Overview of Directorate General Intelligence & Investigation at FBR Headquarters in Islamabad, along with regional Directorates



Source: FBR (2013)

Has the establishment of these Directorates improved the probability of corruption detection at FBR, or is it just a name change? When asked if the increase in the quality and frequency of internal audits and probes by establishing Directorate General Intelligence & Investigation along with allied regional Directorates at FBR has deterred tax official from committing corruption?

Tax Official 2 opined:

'You do know this is not an entirely new function? It has been conducted in some form right from the start, even before CBR and FBR. Yes they have got bigger and better offices now, but the mindset is same. Before, people under investigation used to bribe the old office. The only change is it's a new office now and the bribe is higher as well. That's all!'

Another Tax Official 1 added:

'The officers who are corrupt have got connections in the directorates. They are all colleagues after all. While they are at it, they are certain in their mind that even if they get caught or somebody complains, they have got somebody in the directorate who will save them. The taxpayers have no choice but to pay the bribe when asked. They know they can complain, but it will be of no use, just a waste of time, rather they might be implicated

for a bigger tax evasion. This has happened in the past and in the end the taxpayer had to bribe a much bigger amount than initially demanded'.

When asked if the increase in the number of supervisory personnel assigned to Directorate General Intelligence & Investigation along with allied regional Directorates at FBR has deterred tax official from committing corruption? Tax Official 4 reflected on the lack of autonomy exercised by Directorate staff:

'Anybody can be posted and transferred from the directorates at any time to other functions of FBR. They know if they are very tough to a certain colleague, that person might create problems for them in the future, and if they are really well-connected at the right places, they will simply get them transferred. The officials who are working for long time in these intelligence directorates are the one who have learned the tricks of trade. They only do investigations of cases their superiors want them to, and use their discretion to go soft on colleagues whenever they can, to get favors from them in the future'.

Another Tax Official 5 elaborated on the discretionary powers exercised by the supervisory personnel in these Directorates:

'They are supposed to check everyone for tax evasion and corruption, but who is supposed to check them? They operate as they have complete immunity from any action what so ever. I am sure the ones at the top are also involved. Otherwise how could they? Surely people can complain against them for asking for bribes etc. But so far in my career I have never heard of any dismissal of intelligence directorate staff for committing corruption by not detecting corruption'.

As for progress towards establishment of statutory condition of declaration of assets by all employees, FBR has taken important steps. Before reform, under the Government Servants Conduct Rules, 1964, all civil servants, including FBR employees, were already required to disclose information about their assets and liabilities on a yearly basis. The screening of civil servants' assets and liabilities was aimed towards identifying any unjustified wealth as an indicator of corrupt behaviour. After reform, FBR publicizes that the asset declaration system has been revamped, with an automated system now scrutinizing the declarations. For improving the capability of monitoring and ensuring accuracy of asset declarations, the system has been

overhauled by introducing computerized monitoring mechanism. For this reason, all data had been transferred from the old to a new system, along with adoption of new software since 2008 (ADB, 2008). In addition to system overhaul, Pakistan has also made efforts towards improving the quality and quantity of information sought via the Asset Declaration form. As can be seen in Appendix 3, the form is very detailed seeking information not only about income (including income of spouse and children), but also details of utility bills (including mobile bills of all family members), details of international travels of all family members, details of educational institutions attended by children (local as well as foreign), membership of private clubs, details and sources of gifts received, details of moveable as well immovable assets including details of any assets disposed-off during the year, details of all investments, and details of bank accounts (Appendix 3). It is also worthwhile to mention here that FBR also tied the increase in wages for tax officials with mandatory declaration of assets. At the start of reform, only those tax officials saw their wages increased who had submitted all pending asset declaration forms for previous years of service. Anecdotal data suggested that after the initial push, the situation deteriorated and if any tax official did not complied with their responsibility of submitting completed asset declaration form for any particular year, then they were only furnished with reminders to do so, but continued to enjoy increased wages.

When asked if they have noticed any effectiveness of the reformed system of statutory condition of declaration of assets by FBR towards deterring tax officials from committing corruption? Most of the respondents responded negatively. One Tax Official 6 reflected on the ineffectiveness of these forms by adding:

'I submit my asset declaration form every year, most of us do. But we know nobody would bother to have a look at them. They are collected and filed in our records. That's all. Some time ago they used to catch dust. Not anymore, as they are computerized now. There only purpose seems to be that if any FBR tax official is caught up in a big inquiry in any court etc. then, the Directorate can very efficiently furnish the copies of these forms,

and on the instruction of court start looking into these forms. Only after the crime! Why not before? By having these up-to-date forms completed and filed, the Directorate people think their job is done. I can write anything in the form with certainty that if I never get into any trouble; nobody will know what I declared. The directorate people only inquire these declarations when they are asked to do so either by higher-ups at FBR, or FTO, or courts'.

There has been a high profile corruption case of pilferage of containers entering Pakistan under the transit trade pact with Afghanistan. As per FTO's report into the issue, the national exchequer suffered a loss in tune of Rs. 37 billion over four year's period (DAWN, 2011a). Reflecting on this issue of massive corruption in relation to declaration of assets, Tax Official 6 elaborated:

'This case of massive tax corruption by customs officials is in the court. Do you know what has been the response of FBR on this matter so far? They have suspended a number of tax officials alleged to be involved in this scam. They have also promised the Supreme Court that while these officials are suspended, FBR will conduct a detailed inquiry into their asset declarations forms and will duly submit a report to the court. What do they expect to find in the declarations? I hope they are not hoping to find Rs. 37 Billion worth of assets in the declarations, because they'll be disappointed. If I am corrupt, the one thing I will make sure is to keep my asset declarations current and clean. They always are! I don't think they have ever found a corrupt person so naïve to stash everything in his name and then also declare it, because that's the only way they can catch him'.

In addition to interviewing tax officials for micro level of analysis, this case study also interviewed multiple other stakeholders of FBR reform who expressed similar concerns when quizzed about role of increases in the probability of detection towards controlling corruption at FBR.

Notably, Taxpayer 2 said:

'What is the point of these asset declaration forms? We all know that corrupt ones are the smarter ones. They don't even keep their money and assets through corruption in the names of their family members now. They have special friends for these purposes who get favors in return. They keep bribe money in bank accounts of friends and there is no way one can relate them with each other as they are not family. It's a very common practice these days'.

Also Rehman Azhar from Dunya News had interesting take on this issue:

'Not very long ago, the corrupt ones would hide assets either in the names of family members or very close friends. Some even would get caught for doing so. But now times have changed. Look at what happened in Panama leaks about Pakistan. More than 400 Pakistanis had off-shore companies with no trail of how money got out of country. Many of these people are government officials. It tells us they have got innovative in hiding their corrupt money. We won't find any off-shores in Panama decelerated in asset declaration forms'.

MoF Official 3 contributed by highlighting the formal position and saying:

'Well all of us have to do it. It is the requirement by the establishment division of Pakistan that all government officials declare assets annually. As for their effectiveness against deterring corruption, it is at times useful and directs towards money possibly made from corrupt sources'.

Imdad Bhatti from Jang News had an interesting take about asset declaration forms:

I think it is only the very silly ones who sometimes are caught for declaring un-proportionate level of income and then get caught. It's very rare. The first condition to do corruption is that you have to be very smart in your head, after all you have to beat the system in doing so. It's not an easy task. They first understand system fully and then come up with ways to distort them. The corrupt ones are definitely not usually stupid, if are, then get caught quickly'.

These views about ineffectiveness of increases in the probability of detection towards curbing motivations for corruption were consistent with most interview respondents. The main problem seems to be that in the presence of patronage networks and absence of effective checks on discretionary powers exercised by the intelligence Directorate staff, majority of interview respondents remained pessimist about any value addition by dedicated intelligence Directorates. The tool of declaration of assets by tax officials also seems to be utilized only after corruption had been done, and not as an effective preventive tool against corruption.

The above micro level of analysis was aimed at analyzing research hypothesis 1(b) for FBR. This analysis illustrated that although FBR did utilized personnel autonomy to increase the probability of detection, but was not able to effectively control motivations for corruption. Hence, FBR did not lend support to the basic argument behind research hypothesis 1(b) as per micro level of

analysis, as the progress against controlling motivations for corruption improved least in FBR, although personnel autonomy in terms of increases in the probability of detection was high. In FBR, personnel autonomy proved ineffective in controlling motivations for corruption by increasing the probability of detection. Hence, research hypothesis 1(b) was not supported by FBR.

6.2.3 Personnel Autonomy Controlling Motivations for Corruption in FBR by Increases in and Stricter Enforcement of Penalties for Corruption

Research hypothesis 1(c) has been adapted for FBR and proposes that by increases in and stricter enforcement of penalties for corruption, FBR have been effective against motivations but not opportunities for corruption. Personnel autonomy is operationalized to control motivations for corruption in FBR by affecting implementation of preventive strategy of increases in and stricter enforcement of penalties for corruption with the indicators being increases in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how personnel autonomy is being utilized by FBR to control motivations for corruption by increases in and stricter enforcement of penalties for corruption.

For increasingly imposing high levels of penalties including monetary sanctions, job dismissals and prison sentences, the FBR has entrusted this responsibility to Member Administration of the board. Part of his/her job description is to 'deal with disciplinary/litigation cases of FBR employees' (FBR, 2013). In practice, in terms of increasingly imposing high levels of penalties, the situation on the ground seems dismal. FBR seems less than motivated for utilizing high level of penalties as a deterrence tool against corruption. There have been several instances when high level officials in FBR have pushed rules to save their colleagues. In one such instance, a

senior level FBR tax collector was acquitted for corruption committed in 2005 in tune of Rs. 140 million refund case. FBR simply declared the alleged tax collector innocent by moving a summary from the Member Administration to Finance Secretary in MoF, who moved it to the Prime Minister. The Prime Minister agreed with the summary and the alleged tax collector was simply reinstated as Collector Customs in 2010. In this case, despite the hue and cry by the Public Accounts Committee (PAC), the maximum penalty faced by the tax collector was a suspension from service for a limited time (Ghumman, 2010). This incident, along with many others, did not do much to improve the morale of honest tax officials working down the line; and highlighted the existence of powerful network of high level tax officials going to any lengths to save each other.

In addition to the ineffectiveness and non-commitment of FBR towards serious utilization of penalties for corruption, there have been several instances of battles between the courts, FTO office and FBR over jurisdiction for sanctioning penalties. In one such highly publicized case fight broke out between the FTO and FBR over conviction of an additional commissioner income tax on charges of arbitrary assessment of tax and bribe received from two taxpayers. The alleged commissioner was sentenced to three months' imprisonment and fine of Rs. 50,000 for contempt of court by the FTO on account of not presenting himself before the FTO proceedings, in addition to transferring him from his post. In response to this 'first of its kind sentencing' several tax officials in FBR went on strike against the decision, maintaining that the FTO had no authority to pass such judgment. In response to the strike, chairman FBR assured all tax officials that the alleged official will be provided full legal support, in the form of a very expensive legal counsel, by FBR. In addition, FBR made sure that the alleged official would not spend even a night in jail, by duly transferring him to a hospital, immediately after sentencing, on ground of health issues. After these assurances the strike was called off at FBR (Cheema, 2012b). Subsequently, the sentence awarded to the additional commissioner by the FTO was suspended by the Supreme Court on

ground of no jurisdiction of FTO to award such sentence (DAWN, 2013). This incident highlighted the clan mentality of tax officials for collectively going against penalties etc. along with going to extreme lengths to save each other. The classical case of *'you scratch my back now, and I'll scratch yours later'*.

Nonetheless, there have been instances, albeit very few, of penalties for FBR officials including monetary sanctions, job dismissals and prison sentences. In majority of these cases, the judgments were passed by the accountability courts against FBR tax officials, and only due to overwhelmingly strong evidences against the accused, FBR could not save them (as per majority of interview respondents). It is a very rare practice that FBR initiates proceeding for administering penalties against its own employees internally from within the organization. In one case, the commissioner income tax of Sargodha city was convicted of corruption in tune of Rs.180 million. He was sentenced to one year imprisonment along with fine of Rs.10 million, in addition to seizure of all assets and properties by the accountability court (Jang, 2011). In another case, the accountability court convicted a customs superintendent, posted at Islamabad international airport, for corruption. He was sentenced to two year imprisonment along with fine of Rs.17.8 million. He was charged for owning assets worth Rs.17.8 million which were inconsistent with his declared sources of income. He was indicted of making these assets through corruption (DAWN, 2010). In still another case, two customs officials along with police officials were booked for corruption in tune of Rs. 7.239 million. These regional level tax officials were charged with receiving bribes of Rs. 2 million from smugglers for tampering with the quantity of goods seized during a raid. They were sentenced to seven years imprisonment, along with fine of Rs. 2 million each (DAWN, 2011b).

The FBR has tried its hand at job dismissals for purging the tax administration from patronage networks of political appointees. In 2000, under the Removal from Service Ordinance (2000) FBR tried to purge a significant number of suspected tax officials by suspending them from the service. But this exercise failed to get rid of any significant number of suspended officials with majority joining back their jobs without facing any penalties, on account of political connections (Shah, 2011). Similarly, Hors (2001) elaborated corruption purges of customs officials in Pakistan as strategies that failed to took off mainly due to lack of political will and inconsistency in recruitment policies. The FTO has time and again stressed the need to punish offenders to create deterrence in the system against motivations for corruption, and to build ability to prosecute. On one occasion he said:

“High punishments are available in the law but no one is punished, send 20-25 top tax evaders every year behind the bars” (The News, 2013a, p.1).

Chairman FBR on the other, while trying to make a case of a controversial amnesty scheme, confessed that the FBR’s strategy to catch tax evaders has been hindered because of corruption, where no action against the evaders has been taken by tax officials due to bribes received from tax evaders. He admitted dismissing a number of tax officials on account of corruption, but added:

“I can’t fire everyone in the tax collection system” (The News, 2012d, p. 4).

This statement quite clearly portrays not only the extent of corruption at FBR, but also the incapability of penalties for getting rid of corruption from FBR, even by the chairman himself.

One of the major objectives behind increased imposition of high level of penalties for tax officials if they commit corruption was aimed to curb their motivations for corruption, by deterring them through a possibility of severe penalties. Did the interview respondents notice any change and

effectiveness in imposition of high level of penalties for corruption after reform? Was FBR active in pursuing high level of penalties for corruption? When asked if the increases in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences in FBR has deterred tax official from committing corruption? Tax Official 7 responded:

'It is very rare here that someone not only gets caught, but also receives any penalties for corruption. They always do their homework. They always weight the benefits against the costs. They know all the tricks of the trade on how to avoid any penalties. In most cases, they just get suspended from their jobs for a while, till they find the way to get back. You can't consider suspension from service any penalty.'

Another Tax Official 8 had a different take:

'I know someone who uses to boast openly that he always had a target of making at least Rs. 10 million from every posting in different districts. When quizzed what happens if he'll get caught, he responded. So what? The maximum penalty might be removal from service, jail and fine. Although all these three were highly improbable, but it's worth it considering how much he was making at that moment. For him the benefits outweighed the cost and the maximum penalty was not a deterrence.'

Tax Official 8 added:

'If someone does get caught, that usually means they were on the solo flight and were not keeping their superiors happy. They can avoid the penalty by making it up to the superiors and come back without any charge. Everyone has some sort of inquiry going on, but how many get penalties? Very few!'

Tax Official 9 added on the same line:

'If you have been caught and penalized, that simply means you did not had any good connections at the top, or you irritated someone there. It is always possible to avoid penalties if you know how to? Almost everyone does.'

In relation to the interactions between the FBR, the FTO, and accountability courts for administering penalties, Tax Official 9 elaborated:

'The speed of justice is very slow. If someone does gets caught and they are suspended from service till inquiry in FBR, then all they need to do is to find someone willing to collude in judiciary. As a result there suspension is suspended by the courts over some legal loophole, and the result is a time intensive litigation proceedings between FBR and the court. There have been instances where cases remained in courts for decades. They get the judicial proceedings delayed either to buy time or get someone favorable in the court. Justice delayed is justice denied'.

Discussing the non-severity of monetary sanctions, job dismissals and prison sentences, Tax

Official 10 explained:

'The maximum monetary sanction any tax official can get is the total amount of corruption proved. As a result they are fined the total amount corruption, and their total assets are seized for realizing the sanction. If there assets are less than the total sanctioned amount, they are sentenced to maybe a year more to prison. How can one expect that the corrupt officer would have kept everything in their own name? They just don't do it. Not even family. It's either stashed in friends' names or the money is simply laundered to foreign bank accounts. The approach is to survive the sentence for few years and then go abroad with the family and enjoy life. They had probably already made enough money to feed seven generations'.

Tax Official 10 further added:

'If you examine most high profile cases of corruption involving billion of rupees in Pakistan, you will find that the accused simply entered a plea bargain with the government, returned the proved amount of corrupted money and that's it. They were free to go. They were the most corrupt. Corruption was proved. They ran away, they were caught. Money was taken off and they were let go. How is this justice? What if they had made billions more, which I am sure in most cases they have, hidden somewhere else. Surely a corrupt act involving billion of rupees was not there first time. What message does this send to the honest ones?'

MoF Official 2 had a slightly different take favoring FBR:

'You see get rid of corrupt ones is not only the job of the government. The Police and judicial system also gets involved. We cannot also be blamed for the inefficiencies in other systems. We are trying our best to minimize corruption'.

Taxpayer 2 opined:

'Corruption is everywhere but I hardly hear any news in media about them getting caught and punished. Corruption is everywhere because penalties are not strong enough'.

Businessman 4 also responded:

'I think this is also related to the problems with police and judiciary. Corruption is everywhere. We cannot eliminate corruption in governments departments before killing it for police and judiciary. Otherwise they find corrupt ones there and escape punishments'.

As highlighted above, the ineffectiveness of imposition of high level of penalties towards curbing motivations for corruption were consistent with most interview respondents. The main problem seems to be that in the presence of patronage networks in FBR and beyond, majority of interview respondents remained pessimist about effectiveness and fair applicability of penalties on corrupt tax officials to deter them from indulging in malpractices. The inapplicability, delay, and non-severity of penalties for corruption was seemingly failing to deter the corrupt ones, but also sending a demoralizing signal to the honest tax officials. The nexus between the accountability courts, FBR, and FTO also seemed marred with conflicts over encroachment of each other's jurisdictions at certain times, not helping with effective administration of penalties for corruption against tax officials.

The above micro level of analysis was aimed at analyzing research hypothesis 1(c) for FBR. This analysis illustrated that although FBR did utilized personnel autonomy to result in increases in and stricter enforcement of penalties for corruption for tax officials, but was not able to effectively control motivations for corruption. Hence, FBR did not lend support to the basic argument behind research hypothesis 1(c) as per micro level of analysis, as the progress against controlling motivations for corruption improved least in FBR, although personnel autonomy in terms of increases in and stricter enforcement of penalties was high. In FBR, personnel autonomy proved ineffective in controlling motivations for corruption by increases in and stricter enforcement of penalties. Hence, research hypothesis 1(c) was not supported by FBR.

6.2.4 Personnel Autonomy Controlling Motivations for Corruption in FBR by Instilling Ethics in Tax Officials

Research hypothesis 1(d) has been adapted for FBR and proposes that by instilling ethics in tax officials, FBR have been effective against motivations but not opportunities for corruption.

Personnel autonomy is operationalized to control motivations for corruption in FBR by affecting implementation of preventive strategy of instilling ethics in tax officials with the indicators being increases in ethics training and adoption of code of conduct. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how personnel autonomy is being utilized by FBR to control motivations for corruption by instilling ethics in tax officials.

FBR adopted a code of conduct and published it in 2004. It was prepared by the member HRM with help from member Administration and consultants, notwithstanding limited input either by tax officials or external stakeholders of FBR. This code of conduct included the vision, mission, and values of FBR.

The vision statement states:

“To be a modern, progressive, effective, autonomous, and credible organization for optimizing revenue by providing quality service and promoting compliance with tax and related laws”.

The mission statement states:

“To enhance the capability of the tax system to collect due taxes through application of modern techniques, providing taxpayer assistance and creating a motivated, satisfied and dedicated and professional workforce”.

Values include:

“Integrity, Professionalism, Teamwork, Courtesy, Fairness, Transparency, and Responsiveness”. (FBR, 2013).

This code was specifically established to educate and emphasize the code of conduct requirements for tax officials. Before, the conduct of tax officials was already regulated by the Government Servants Conduct Rules, 1964. It was perceived that the tax officials have neither read nor adopted the rules and regulations under the Conduct Rules, 1964. To deal with this, FBR developed its own code of conduct in an easy and simple format, and in the form of a small pocket-sized booklet for easy referencing. It was emphasized in the booklet that the code of conduct by FBR has not replaced the Government Servants Conduct Rules, 1964, rather it has only adapted these rules to FBR context (Mayville, 2005). All FBR tax officials are obligated to read the contents of the code of conduct, and affix a signature on a statement page, declaring that they have not only understood the contents, but will also abide by them. This signed page from the booklet is duly transferred to the personal files of all tax officials.

The code of conduct details standard responses to situations that might lead to unethical conduct. Examples include not receiving gifts/favors from taxpayers, not borrowing money from taxpayers, to avoid conflict of interest between official duties and personal interests. Expected behavioral norms pertaining to dealing with taxpayers' complaints, revelation of official identity, conflict of interest, and off-duty conduct is also outlined in the code. This code also offers guidelines pertaining to conduct in the work environment including hygiene, proper clothing, behavior and attitude, and timekeeping. Personal conduct is also discussed pertaining to receiving gifts, lending and borrowing, employment in the private sector, usage of government housings, political actions, voicing political opinions etc. The code of conduct also includes the definitions of misconduct and types of penalties applicable as per general civil service rules. The tax officials are encouraged to involve senior authorities when facing an ethical dilemma. In

assessment, on paper the code of conduct established by the FBR incorporates all essential features of modern codes, thus illustrating best practice. For increasingly conducting ethics training towards adoption of code of conduct to curb motivations for corruption in tax officials in FBR, the progress is limited. Although FBR publicizes that it conducts ethics training of tax officials not only at inductions, but also many times during their careers, incorporated as essential ingredients of mandatory training exercises compulsory for promotions. These ethics trainings are conducted by the anti-corruption agency (NAB) staff (ADB, 2006).

But what did the interview respondents think about the effectiveness of code of conduct and ethics training in practice in FBR towards controlling motivations for corruption. When asked if the adoption of reformed code of conduct by FBR has deterred tax officials from committing corruption? Tax Official 10 replied:

'I am aware that the code exists; I also read it in excitement when I was given a copy at my induction training. It exists but serves no useful purpose other than for seniors to boast that they have developed a code themselves. If it was any useful, would there be so much corruption?'

Another tax official 11 had a thoughtful instance on the code of conduct:

'There are three categories of officers in FBR. One category is extremely corrupt. They don't care about the code. Second category includes the honest ones, come what may. They also don't need the code as much. The third much bigger category includes majority of tax officers in the middle, who can't be classed as either corrupt or honest as they are still learning about the system. The code might be most beneficial for this category, to convince them to follow the right path. In practice I see the code rarely applied or talked about. I don't think it does much to influence the thinking of those who are in the middle and prone to corruption'.

When discussing the contents of the code of conduct, tax official 12 elaborated:

'It's quite well written and explains all the definitions well. It's a sort of manual about why not to do corruption with all details of penalties etc. But it's definitely no deterrence for the corrupt ones, as they do everything explained in the code including taking gifts and

bribes etc. I think if they combine this with severe penalties for corruption, then officers might start taking it seriously'.

In addition to the code of conduct at FBR, interview respondents had similar opinions about effectiveness of ethics training towards curbing motivations for corruption. When asked if the tax officials are less likely/less motivated to commit corruption in FBR as a result of increased ethics trainings? Tax Official 12 explained:

'I don't think there are any special ethics trainings per se. Sure the generalized trainings have some ethics components in them, but that's all. Nothing new! They mostly repeat what we already know, like definitions etc. and what to? and how to? about corruption. I don't come out of these trainings knowing something new about corruption'.

Tax Official 11 also contributed on the similar line:

'I think FBR is obligated to conduct these trainings with ethics components, so that the seniors can tell the donors in the reform meeting for getting more funds that see we have done so much to educate officers about ethics and corruption. But they don't do much to catch them or to penalize them. Surely I need to know what is corruption etc. but it shouldn't end there. They should do more than only establishing codes and trainings for ethics'.

Tax Official 12 put it well:

'These trainings have done nothing to deter me from committing corruption if I want to. Yes they have made me more aware about corruption and its different forms. Trainings are more about awareness than deterrence against corruption'.

Referring to his experience in his last training exercise, Tax Official 13 explained:

'By the end of training session it became a big discussion group with everyone contributing with stories of corruption from their regions. What was the end result? I came out of training more convinced that nothing could be done about corruption at FBR, and I am really foolish for not being corrupt. That's what everyone suggested anyway. So much for motivation!'

Taxpayer 4 opined:

'Well there goes another way of wasting taxpayer money on arranging ethics trainings for tax officials. What's the point of these trainings? If they were any good, would we see so much corruption everywhere in Pakistan'.

Taxpayer 1 also said:

'I think what would be more effective than these ethics trainings would be to conduct regular name and shame events where they highlight the recent cases of officers getting caught and punished. But wait, first they'll need to catch them, which they aren't!'

MoF official had a different take on this issue:

'Well it's a good thing that we have these trainings and code. If we wouldn't conduct them, people like you would criticize us for not doing so. Yes now the criticism is on their effectiveness against corruption. But at least give the government some credit for having such training exercises. At least we are on the right path'.

These views about ineffectiveness of efforts to instill ethics in tax officials towards curbing motivations for corruption were consistent with most interview respondents. The main problem seems to be that in the absence of backing-up of efforts to instill ethics in tax officials through code of conduct with increased probability of getting caught and penalized, most interview respondents viewed establishment of reformed code of conduct by FBR as a mere adherence to procedures exercise. In addition, most interview respondents did not notice any special emphasis towards increased ethics trainings in FBR, rather they were perceived as compulsory components of generalized trainings. These trainings did not do much to deter against corruption, rather they were more aimed towards creating awareness about corruption.

The above micro level of analysis was aimed at analyzing research hypothesis 1(d) for FBR. This analysis illustrated that although FBR did utilize personnel autonomy to instill ethics in tax officials, but was not able to effectively control motivations for corruption. Hence, FBR did not lend support to the basic argument behind research hypothesis 1(d) as per micro level of analysis, as the progress against controlling motivations for corruption improved least in FBR, although personnel autonomy in terms of instilling ethics in tax officials was high. In FBR,

personnel autonomy proved ineffective in controlling motivations for corruption by instilling ethics in tax officials. Hence, research hypothesis 1(d) was not supported by FBR.

6.2.5 Integration of Sub-Analyses for Research Hypothesis 1

As highlighted at the start of this section, the micro level of analysis was aimed to analyse research hypothesis 1. This research hypothesis comprised of four further sub-hypotheses (1a, 1b, 1c, and 1d), which have already been examined in sections above. As it was proposed at the start of section 6.2, analysis of these four sub-hypotheses will be undertaken with an aim to test main research hypothesis 1, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to research hypothesis 1. Consequently this section aims to integrate all four sub-analyses discussed in sections above for the cumulative analysis of research hypothesis 1. The research hypothesis 1 was adapted for FBR and proposed that by preferring personnel autonomy over effective accountability, FBR have been effective against motivations but not opportunities for corruption. Table 6.4 illustrates the accumulation of all four sub-analyses discussed in sections 6.2.1, 6.2.2, 6.2.3 and 6.2.4 of the micro level of analysis with respect to the link between personnel autonomy and all four preventive strategies to control motivations for corruption, in addition to providing latest CPI rating for Pakistan.

Table 6.4: Overview of FBR concerning Personnel Autonomy and all 4 preventive strategies to control Motivations for Corruption

Country	Research Hypothesis 1 Personnel Autonomy				Corruption Perception Index (CPI) 2012*
	Increases in Wages and Rewards	Increases in the Probability of Detection	Increases in and Stricter Enforcement of Penalties	Instilling Ethics in Tax Officials	
Pakistan	-	-	-	-	27

+ means personnel autonomy resulted in increase in the specific preventive strategy, which led to effectively controlling motivations for corruption, as per micro level of analysis in the sub-hypotheses analyses.

- means personnel autonomy resulted in increase in the specific preventive strategy, which did not led to effectively controlling motivations for corruption, as per micro level of analysis in the sub-hypotheses analyses.

*Source: Transparency International. Available online <http://cpi.transparency.org>

This table presents a snapshot of progress of FBR towards utilizing different preventive strategies to control motivations for corruption by ensuring personnel autonomy. As depicted by the - symbols for all four preventive strategies in table 6.4, FBR did not provided support for research hypothesis 1 by showing that adoption of personnel autonomy (in terms of all four preventive strategies) did not resulted in FBR being effective in controlling motivations for corruption. In other words, FBR did not made an optimal use of personnel autonomy in terms of all four preventive strategies to control motivations for corruption. Table 6.4 also illustrates the findings in terms of individual sub-hypotheses. It highlights that in terms of all sub-propositions (1a, 1b, 1c, and 1d) the micro level of analysis did not provided support for FBR analyzed for all four preventive strategies (signified by - symbols). The discussions in the micro level of analyses in the previous sections showed how FBR made less than optimal use of personnel autonomy to control motivations for corruption by increasing wages and rewards, increases in the probability of detection, increases in and stricter enforcement of penalties for corruption, and instilling ethics in tax officials. This contention for FBR was also supported by Pakistan's latest CPI rating, which is one of the lowest among its regional developing countries and selected SARA developing countries, showing Pakistan not doing well to control corruption over time and placing it as one of most corrupt countries among the groups. How could this finding be explained for FBR? It is suggested that FBR represents a case which on paper made efforts towards ensuring personnel autonomy in terms of all four preventive strategies to control motivations for corruption. But in practice its progress against controlling motivations for corruption has not improved owing to improper implementation of any real personnel autonomy. It was highlighted that FBR remained ineffective towards imparting any real and effective personnel autonomy in terms of all four preventive strategies to control motivations for corruption.

In sum, this section was aimed at analyzing the overall proposition contending that if FBR has made progress towards ensuring personnel autonomy, then it can also be taken to propose that progress towards controlling motivations for corruption has been made. FBR did not supported this contention by showing how adoption of personnel autonomy (in terms of all four preventive strategies) did not resulted in FBR being effective in controlling motivations for corruption. Hence, it is pertinent to conclude that research hypothesis 1 was not supported in case of FBR.

6.3 INEFFECTIVENESS OF ACCOUNTABILITY TO CONTROL OPPORTUNITIES FOR CORRUPTION IN FBR

In order to analyze the potential and suitability of adopting Anti-Corruption SARA framework for FBR Pakistan to control corruption in tax administration, the micro level of analysis in this section is aimed to analyze research hypothesis 2 along with its three sub-hypotheses. It is further highlighted here that research hypothesis 2 along with its sub-hypotheses have been adapted to examine tax administration reform in FBR Pakistan. This adaptation is undertaken by replacing the term 'SARA' in these hypotheses with 'FBR'. Hence, in this chapter it is proposed that FBR has been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. Research hypothesis 2 comprises of three sub-hypotheses (2a, 2b, and 2c), with each one referring to one specific preventive strategy to control opportunities for corruption. Effective accountability is conceptualized to control opportunities for corruption by 1) introduction of oversight mechanisms; 2) de-politicization of tax officials and 3) reduction of discretionary powers of tax officials. First all three sub-hypotheses will be analyzed and then these analyses will be integrated for the cumulative analysis of research hypothesis 2 in sections below.

The next sections examine how FBR used effective accountability to control opportunities for corruption by utilizing both primary (semi-structured interviews) as well as secondary literature.

The overall proposition is that if FBR has ineffective accountability relationships due to interference from MoF, then it would also be ineffective in controlling opportunities for corruption.

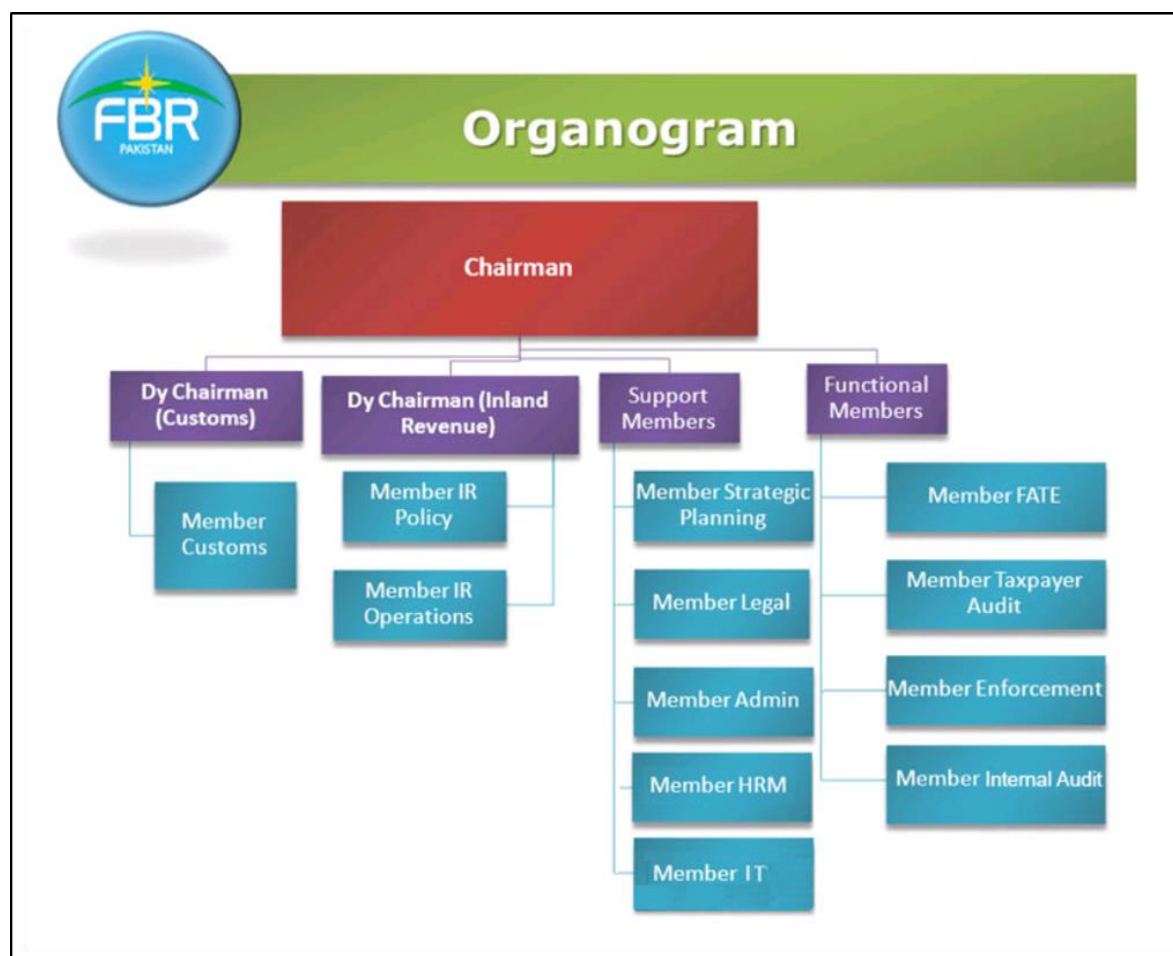
6.3.1 Ineffectiveness of Accountability to Control Opportunities for Corruption in FBR by Failing to Introduce Effective Oversight Mechanisms

Research hypothesis 2(a) has been adapted for FBR and proposes that FBR has been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not introducing effective oversight mechanisms. Effective accountability is operationalized to control opportunities for corruption in FBR by affecting implementation of preventive strategy of introduction of oversight mechanisms with the indicators being effective accountability relationships with all supervising bodies including Ministry of Finance, Revenue Boards/Superintendents (whichever applicable), and Parliament etc. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how effective accountability is being utilized by FBR to control opportunities for corruption by introduction of oversight mechanisms.

To introduce effective oversight mechanisms for tax officials, after reform the FBR was restructured on the model of a revenue board, in contrast to a superintendent or CEO model, and consists of total 13 members. These members include: 1) Member (Facilitation & Taxpayers Education); 2) Member (Inland Revenue – Policy); 3) Member (Enforcement & Withholding Tax); 4) Member (Administration); 5) Member (Inland Revenue - Operations); 6) Member FBR (Portfolio not yet assigned); 7) Member (Taxpayers Audit); 8) Member (HRM); 9) Member (Accounting); 10) Member (Customs); 11) Member (Legal); 12) Member (Strategic Planning, Reforms & Statistics); 13) Member IT (Information Technology) (FBR, 2013). It is worth highlighting here that at the time of writing, two members of the board occupied two portfolios

each, namely Member (Taxpayers Audit) also had the additional charge of HRM. While Member (Customs) had an additional charge for portfolio of Strategic Planning, Reforms & Statistics. This double occupancy by two members, in the presence of many eligible senior tax officials in FBR raised issue of merit in the appointment of members of the board. It is particularly pertinent since the two portfolios each assigned to these members were not even related to each other, and separately demanded full attention by the members. Another issue worth highlighting here involves appointment of members of the board from the open market. FBR (2008) publicized that after reform, FBR hired professional and skilled members from the open market by following a fair recruitment policy. The board composition, as it stands, is made up of all members belonging to the civil service cadre of Pakistan. There does not seem to be any representation of members from the private sector as well, such as members from professional and reputable trade organizations, such as Chambers of Commerce and Industry etc. In essence, the board composition is fairly closed in terms of representing views and interests of the private sector. The organizational structure of FBR is illustrated in figure 6.5 below:

Figure 6.5: Organogram of FBR



Source: FBR (2013)

As per Federal Board of Revenue Act, 2007 (Appendix 4) the board is stipulated to be consisting of at least seven members to be appointed by the Federal Government. The federal government also appoints the chairman FBR with no stipulated details of terms and conditions in the act, and these are generally determined by the government on case per case basis. The chairman FBR, in addition to being the executive head of the board, also occupies the position of Secretary Revenue Division. The chairman FBR in turn appoints the secretary of the board. The board is entrusted with the responsibility of handling internal transfers and postings of employees of FBR; to grant incentives and rewards to employees including board members; to take suitable actions to fight corruption within FBR, and to safeguard integrity of employees through periodic checks;

to undertake inquiries involving tax evasion, fraud, money laundering etc.; to continually monitor performance and conduct of employees; and to assess integrity of employees for promotions and placements, among several other functions (FBR Act, 2007). Other responsibilities of the board include formulation of annual budget of the FBR to be submitted to finance division for approval, in addition to preparing an annual report of progress to be presented to the prime minister, national assembly and senate. The FBR in turn is overseen by Cabinet Committee for Federal Revenue. The federal government is entrusted with the power of constituting the cabinet committee and to nominate its members. This committee is headed by the Minister of Finance along with the Secretary Ministry of Finance included as the *ex officio* member of the Committee.

On paper it seems as if MoF has adopted a hands-off approach towards FBR, but in practice the situation on the ground is quite different. Take for example the case of appointment of chairman FBR. The FBR Act, 2007 stipulates that the federal government appoints chairman FBR. In practice, the MoF in Pakistan exercises significant control over appointment of chairman FBR, so much so that it is not possible that chairman FBR could be appointed against the wishes of minister of finance. The establishment division prepares a summary with generally three prospective names for post of chairman FBR, which is forwarded to the prime minister for approval. In practice, the prime minister does not take decision of appointing chairman FBR without the consent and advice of minister of finance.

More or less the post of chairman FBR is a political one, with practically no security of tenure in Pakistan. It is very commonplace that the chairman FBR is replaced with every change of government in Pakistan, as every new government is generally keen to appoint their own favorites on this important post. In its 66 years of existence, so far Pakistan has seen 41 heads of its central tax agency (Appendix 5). This high figure demonstrates a very poor security of tenure

for this important post. The average tenure of different chairmen over 66 years period has been exactly 1.5 years (18 months), which is quite low. Importantly, since its inception in 2005 after tax administration reform, FBR has seen a total of nine different chairmen changing hats at the helm of affairs. In other words, in its eight years of existence, FBR has already seen nine different heads, with an average tenure of less than a year.

What is the effect of this high turnover rate of chairman FBR in practice? World Bank (2009) noted that one of reasons TARP did not quite got-off the ground was due to frequent changes of FBR leadership at the top during the reform exercise. Khan (2012a) highlighted that during the TARP implementation period, four chairmen and eight project directors were changed. More recently, three project directors were changed in just one year, despite that they were actively involved with preparing for the next TARP-II. This high turnover rate for chairman FBR has not gone un-noticed by the traders and industrialists in Pakistan, who are deeply affected by these changes, and have time and again call for end of political victimization. The All Pakistan Traders Association repeatedly called for making FBR an independent institution which is free from undue influence of the present government (The News, 2012e). The General Secretary of the Association stressed on the government to make constitutional amendment to rules regarding the appointment of FBR with a stipulated tenure of at least four years to aid continuation of revenue policies.

There have also been instances where present governments have hired their favorites as chairman FBR without following the laid down procedures, rules and merit. In one such case, the matter went to court and the chairman was subsequently removed from the post on account of non-adherence to at least 10 essential requirements of the appointment procedure, including failing to follow a competitive process by not advertising the post, and no examination of the

candidature by the selection committee. It was argued against the present incumbent that the post of chairman FBR and Secretary Revenue Division was mainly a civil service cadre position, too crucial to be open for private sector persons. It was also criticized that the appointment was made by the prime minister on a summary forwarded by the establishment division containing just one name, although the standard practice was a choice among three names. The counsel defending chairman surprised everyone in the court by trying to defend the case on the ground that there is no specific criterion or set procedure for the appointment of chairman FBR. The appointment was termed illegal by the court and the chairman, who was from the private sector, was removed from the post (Asad, 2013). It is also worth highlighting here that the removal of chairman was swiftly followed by the removal of one of his close aides, working not only as senior member of the board, but also the official spokesperson of FBR. His contract with FBR was also terminated, thus also demonstrating poor security of tenure of board members as well. While commenting on the nexus between the bureaucrats and politicians in Pakistan resulting in mega cases of corruption, the chief of Pakistan's central anti-corruption agency NAB commented:

"There are only two pillars, and not three, of the state now in the country - one consists of legislators and executives and the other is judiciary. The legislators appoint the executives of their choice and this is happening at the federal as well as provincial levels" (Raza, 2012, p. 1).

But what did the interview respondents think about the steps taken by FBR to introduce effective oversight mechanisms for tax officials? When asked if FBR failed to introduce effective oversight mechanisms for tax officials due to ineffective accountability due to interference from MoF? Most of the interview respondents agreed. Tax Official 14 explained:

'It is just not possible that the Prime Minister would appoint the chairman FBR without the agreement of finance minister. Otherwise if something undesirable would happen in FBR in the future, then minister would just raise hands and say 'told you'. Who would prime minister blame? The minister of finance runs the whole finance team and FBR is a very important component'.

Tax Official 16 elaborated in a different dimension:

'Just look at the history of chairmen FBR, how many do you find from either the customs or IRS groups. Almost non-existent! Most of chairman FBR are appointed from the District Management Group (DMG) cadre of the civil service. Now again have a look at how many former secretaries of MoF have been from DMG group. Too many! It all explains, isn't it? It all comes down to clan mentality in DMG'.

He added:

'The board is accountable to Cabinet Committee for Federal Revenue. Who heads this committee? It's the minister of finance, how can chairman FBR go against his wishes?'

Also, Businessman 5 responded:

'The post of chairman is very important for us. They bring with them a certain mindset and we have to adjust our business practices accordingly. But they are abruptly changed. This is not good for our business as the new chairman comes and immediately nullifies previous decisions. There should be security of tenure for chairmen, at least five years I would say'.

Another Businessman 2 said:

'The chairmen have to follow whatever the politician says and the minister of finance is very powerful anyways. I always try to find links to establish rapport with the minister. The chairmen come and go frequently'.

These views about ineffectiveness of oversight mechanisms of FBR towards curbing opportunities for corruption were consistent with most interview respondents. The main problem seems to be that in the absence of any real autonomy granted to chairman FBR to introduce effective oversight mechanisms along with poor security of tenure, MoF continued to interfere with the accountability relationships of FBR along with other oversight bodies such as Cabinet Committee for Federal Revenue. In practice, this committee was supposed to replace the control by MoF, but due to continued interference from the ministry, the committee did not seem to help with curbing opportunities for corruption, especially due to spillage of corruption networks from

MoF to FBR. In practice, the MoF emerged as the main overseer of FBR, despite projecting a more hands-off approach on paper.

The above micro level of analysis was aimed at analyzing research hypothesis 2(a) for FBR. This analysis illustrated that FBR made less than optimal use of effective accountability to introduce effective oversight mechanisms, due to interference from MoF, and was less effective in controlling opportunities for corruption. Hence, FBR lend support to the basic argument behind research hypothesis 2(a) as per micro level of analysis. In FBR, effective accountability proved ineffective in controlling opportunities for corruption by failing to introduce effective oversight mechanism for tax officials. Therefore, research hypothesis 2(a) was supported by FBR.

6.3.2 Ineffectiveness of Accountability to Control Opportunities for Corruption in FBR by Failing to De-politicize Tax Officials

Research hypothesis 2(b) has been adapted for FBR and proposes that FBR has been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not de-politicizing tax officials. Effective accountability is operationalized to control opportunities for corruption in FBR by affecting implementation of preventive strategy of de-politicization of tax officials with the indicators being effective accountability relationships with all supervising bodies *especially* Revenue Boards/Superintendents (whichever applicable), and Parliament etc., in addition to Ministry of Finance. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how effective accountability is being utilized by FBR to control opportunities for corruption by de-politicizing tax officials.

Politicization of civil servants is very common in Pakistan, with every change of government signaling across-the-board major shuffle at all levels. Especially the civil servants at the top are

changed by the new governments to bring in their own favorites and team. FBR, being the central tax collection agency also bears the brunt of these political appointments. As already highlighted in the section above, the post of chairman FBR is a political one and practically has no security of tenure. In addition to the high turnover rate of chairman FBR, every such change also brings a lot of shuffling down the line in FBR as well. In practice, many new incumbents in the office follow their arrival with a lot of changes in FBR, in the form of transfers and postings to bring in their own teams. In one such instance, one newly inducted chairman FBR transferred 16 top officials within a month of assuming charge. This shuffle included members of the board and senior officials in tax collectorates and units (Khan, 2011). This was followed by another 100 senior level tax officials shuffled across FBR within the next month at key collectorates and large taxpayer units. According to tax officials these large-scale shuffling in the mid fiscal year significantly hampered efforts to achieve the set revenue target for the year, and to plug loopholes and unearth tax evasion, on account of time taken by transferred tax officials to make adjustments with the new setups.

The change of the last government in Pakistan also saw a major re-shuffling of bureaucracy, more severe at the federal level. As a result all major heads of institutions, including FBR, were changed to bring in their own favorites (The News, 2013e). This situation makes sense about why federal government has chosen to stipulate appointment of chairmen FBR with no details of terms and conditions in the Federal Board of Revenue Act, 2007, which are determined by the government on case per case basis. These clauses of the act unquestionably aid towards changing chairmen FBR at the whim of the politicians as and when they deem fit, hence making this post very political one.

In order to de-politicize tax officials the FBR has tried its hand at job dismissals for purging tax administration from patronage networks of political appointees. In 2000, under the Removal from Service Ordinance (2000) FBR tried to purge a significant number of suspected tax officials by suspending them from the service. But this exercise failed to get rid of any significant number of suspended officials with majority joining back their jobs without facing any penalties, on account of political connections (Shah, 2011). He also noted that operational level tax officials in FBR, especially in customs, are very often inducted merely on the basis of patronage networks based on familial or ethnic grounds, which enable them to work with complete immunity from any adverse action. Accusing FBR of promoting institutionalized corruption, the FTO noted:

“FBR promotes and posts corrupt officers at key posts deepening the perception of institutionalized corruption in the department” (Rana, 2013b, p. 3).

But what did the interview respondents think about the steps taken by FBR to de-politicize tax officials? When asked if FBR failed to de-politicize tax officials due to ineffective accountability due to interference from MoF? Most of the interview respondents agreed. Tax Official 14 explained:

‘I will not say that everyone uses political connections to get good postings, because everyone does not have good political connections. But those who do, they are the ones who are always posted at best posts, money-making wise, and they are the ones who always get out-of-turn promotions. You just need to know the right person in the ministry’.

While commenting on the across-the-board transfers with the change of government, Tax Official 13 noted:

‘Yes most of us are transferred, but not the powerful ones. If they are happy where they are, and they have some friends at the ministry, then they’ll remain at the post. They only move if they have somewhere better to go’.

Tax Official 15, while commenting about the politicization of the post of chairman FBR added:

'All the chairmen have to make sure that they keep the minister of finance to their sides. It is essential if they want to remain in the post. There have been few cases when the finance minister simply got the chairman removed without any notice. But it's very rare. When you do get to such a high place in the system, you are well aware how to play in it. Otherwise you would not have got there in the first place. In most cases chairman and minister are friends or good colleagues. They know each other for years and that's why they are there!'

Tax Official 16 added:

'It's almost impossible to depoliticize tax officials. How can you de-politicize them? They are here because they are politicized, and they work as if it's their birth right to be in FBR. They believe nobody can touch them. Mostly it's right. How can you take any disciplinary action against such politically well-connected employees?'

While recalling a personal experience, tax official 12 detailed:

'One of my colleagues has recently been transferred three times in three months. Why? Because he helped to recover Rs. 4 billion worth of taxes from the textile lobby. The lobby tried to bribe him but he did not agree. Their next step was to bribe someone in ministry to get him transferred. It's as simple, like following steps. This would not have happened to him if he was not honest or if he was politically aligned'.

Also, Rehman Azhar from Dunya News commented:

'Due to my job nature, I see these connections every day. All prominent politicians have favourite officers. If the politician assumes office, in no time they'll bring their blue-eyed boys to serve them even if they are not the best people for the job. Recently, I have seen the emergence of these 'celebrity' bureaucrats, who are the favourites of the ruling politicians, occupy major positions and would appear all the time in news and TV to openly support the actions of their political masters. Gone are the days of impartial bureaucrats, its partiality what keeps them at prized postings'.

Such sentiments about failure to de-politicize tax officials in FBR towards negatively affecting control of opportunities for corruption were consistent with most interview respondents. The main problem seems to be that in the absence of any real autonomy granted to FBR to de-politicize tax officials, MoF continued to interfere with the accountability relationships of FBR with other

oversight bodies, not helping with curbing opportunities for corruption, especially due to spillage of corruption networks from MoF to FBR.

The above micro level of analysis was aimed at analyzing research hypothesis 2(b) for FBR. This analysis illustrated that FBR made less than optimal use of effective accountability to de-politicize tax officials, due to interference from MoF, and was less effective in controlling opportunities for corruption. Hence, FBR lend support to the basic argument behind research hypothesis 2(b) as per micro level of analysis. In FBR, effective accountability proved ineffective in controlling opportunities for corruption by failing to de-politicize tax officials. Therefore, research hypothesis 2(b) was supported by FBR.

6.3.3 Ineffectiveness of Accountability to Control Opportunities for Corruption in FBR by Failing to Reduce Discretionary Powers of Tax Officials

Research hypothesis 2(c) has been adapted for FBR and proposes that FBR has been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF by not reducing discretionary powers of tax officials. Effective accountability is operationalized to control opportunities for corruption in FBR by affecting implementation of preventive strategy of reduction of discretionary powers of tax officials with the indicators being *balancing* effective accountability relationships between all supervising bodies especially between Ministry of Finance and other supervising bodies including Revenue Boards/Superintendents (whichever applicable) and Parliament etc. This section aims to analyze evidence on tax administration reforms in FBR Pakistan with particular focus on if and how effective accountability is being utilized by FBR to control opportunities for corruption by reducing discretionary powers of tax officials.

As per Federal Board of Revenue Act, 2007, the powers and functions of the board includes:

“The Board may, where appropriate, issue statutory rules and orders (SROs), orders, circulars and instructions for the enforcement of any of the provisions of fiscal law and the provision of this Act” (FBR Act, 2007, p. 7).

As per the act, the board is empowered to exempt any products from tax by issuing a SRO and thus superseding the approval of the parliament. The SROs are issued at the discretion of FBR to benefit the interests of few, to make changes to the tax structures which were approved by the parliament, thus overriding acts and finance bills. In practice, the board is severely criticized for using the discretionary powers of issuing SROs immensely for granting favors of tax exemptions to different powerful lobbies probably to either win friends or for rent-seeking (The Economist, 2012).

In 2008, Pakistan went for another \$11.3 billion IMF program. One of the major conditions of this IMF program included a tax reform especially targeted towards elimination of SRO powers of the board. Pakistan vowed to remove board's discretionary powers to issue SROs. This program collapsed in 2010 with Pakistan failing to keep up with its promise and eliminating use of SROs. This program failed due to strong resistance from FBR administration refusing to let go of rent-seeking opportunities. The major failure was attributed to resistance by those in powers in Pakistan, corrupt politicians and tax administrators alike, unwilling to abandon opportunities for corruption. According to finance minister of Pakistan between four year period of 2008-2012 the total amount of tax exemptions granted to some sectors via SROs exceeded the total amount of funds borrowed from IMF during the same period (Kiani, 2013a). In other words, if these sectors were not exempted from taxes via issuance of SROs, their contribution to Pakistan economy, in the form of duties and taxes paid, would have been adequate to escape the expensive loan from IMF. Ironically, one of the conditions of this IMF loan included removal of board's discretionary powers to issue SROs, which remained undone.

This issuance of SROs causes the national kitty almost Rs.180 billion every year in terms of customs duties. The imports under the SROs blanket are equal to about 45% of the total imports of the country. In 2011-12, the imports under SROs totaled to Rs. 1.8 trillion out of Rs. 4 trillion total imports (Akhter, 2013). These figures were given by a special study conducted by customs in FBR. It highlighted preferentialism in the issuance of SROs by the board, beneficial for only certain individuals and sectors including protected managers in the industry and public sector, and political decision makers. The SRO culture has not only lead to exemptions which deprives the government of billion worth of duties, but also abolishes the level playing field for all sectors, especially hitting the small businesses and exporters with no exemptions, thus creating distortions in the economy. The use of discretionary powers for issuing SROs not only causes loss of revenue, but also adds to the cost of doing business, promoting corruption by encouraging ineffective businesses to develop on rent-seeking, pushing out efficient, professional businesses, and costly but poor quality products for customers (Kiani, 2013a). Despite this, the board is content with retaining powers to grant exemptions, beneficial to only selective individuals and sectors of the economy.

The situation got so worse that the Public Accounts Committee (PAC) not only took strong notice of issuance of SROs, but also summoned top officials of the MoF, FBR, and the Planning Commission to explain why parliament was being sidestepped in this manner. The chairman PAC while referring to issuance of almost 4500 SROs by the FBR for either increasing or decreasing tax tariffs termed it as an encroachment on parliament's authority by FBR towards levying or increasing/decreasing any taxes. While highlighting the entitlement of parliament towards imposing taxes, he noted:

"The FBR is doing the job of Parliament through issuance of the SROs and so far 4,500 SROs were issued, which is not fair. It seems the country's taxation system is running on the SROs" (Yasin, 2012, p. 1).

But what did the interview respondents think about the steps taken by FBR to reduce discretionary powers of tax officials? When asked if FBR failed to reduce discretionary powers of tax officials due to ineffective accountability due to interference from MoF? Most of the interview respondents agreed. Tax Official 13 elaborated:

'See what is happening with SROs, everybody seems to criticize it, but it's still happening. Obviously these exemptions are not fair. People are right to think that the importers simply collude with the higher ups in FBR and ministry to get SROs issued in their favors. With one SRO, they save billions worth of duty. How can it be fair for other businesses?'

Tax official 14 added:

'It's just about simple math. If you import without any concession or exemption, then you pay so much in duties and taxes. If you pay them for the issuance of SRO in your favor to get your specific industry exempted from duty, you will import without any duties and taxes. If you are a businessperson and willing to collude, where would you go? Obviously where there is more profit!'

He added:

'I know many businessmen who are very honest otherwise. They are religious, pray five times every day, give charity, help needy etc. but they also pay for the issuance of SROs. That's just the norm, that's how business is done. If they won't do it, they won't be able to compete against the ones who already have exemptions. The government has not created a level playing field for them. They have just created it themselves'.

Tax Official 12 added on the same line:

'For the business community paying bribes for SROs etc. is no longer shameful. It's just how business is done here. They know officers at the top want their share in the profits. Otherwise why would the board still keep the power of issuing SROs to itself, despite so many hue and cries by everyone including the donors'.

In the similar line, Businessman 4 noted:

'The issuance of these SROs is making our economy hemorrhage. This is very bad business by people of FBR but as long as I have been in business, it's happening. I don't think so anybody is even seriously trying to stop it'.

Businessman 2 opined:

'Issuance of SROs to favor certain businesses happens at the very high level and takes a lot of money. Only very successful businessmen are able to get SROs in their favor from FBR. Small traders like me can do nothing but to curse and keep on trying to making ends meet. They don't even pay all of their taxes because they have friends at FBR'.

These views about failure to reduce discretionary powers of tax officials in FBR towards negatively affecting control of opportunities for corruption were consistent with most interview respondents. The main problem seems to be that due to ineffective accountability of FBR due to interference from MoF, tax officials seem to abuse their discretionary powers to use issuance of SROs as a rent-seeking tool. This was happening in collusion with MoF and in the absence of any sufficient checks by the oversight bodies on the discretionary powers of tax officials in FBR, not helping with curbing opportunities for corruption.

The above micro level of analysis was aimed at analyzing research hypothesis 2(c) for FBR. This analysis illustrated that FBR made less than optimal use of effective accountability to reduce discretionary powers of tax officials, due to interference from MoF, and was less effective in controlling opportunities for corruption. Hence, FBR lend support to the basic argument behind research hypothesis 2(c) as per micro level of analysis. In FBR, effective accountability proved ineffective in controlling opportunities for corruption by failing to reduce discretionary powers of tax officials. Therefore, research hypothesis 2(c) was supported by FBR.

6.3.4 Integration of Sub-Analyses for Research Hypothesis 2

As highlighted at the start of this section, the micro level of analysis was aimed to analyse research hypothesis 2. This research hypothesis comprised of three further sub-hypotheses (2a, 2b, and 2c), which have already been examined in sections above. As it was proposed at the start of section 6.3, analysis of these three sub-hypotheses will be undertaken with an aim to test main research hypothesis 2, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to main research hypothesis 2. Consequently this section aims to integrate all three sub-analyses discussed in sections above for the cumulative analysis of research hypothesis 2. The research hypothesis was adapted for FBR and proposed that FBR has been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. Table 6.5 illustrates the accumulation of all three sub-analyses discussed in sections 6.3.1, 6.3.2, and 6.3.3 of the micro level of analysis with respect to the link between effective accountability and all three preventive strategies to control opportunities for corruption, in addition to providing latest CPI rating for Pakistan.

Table 6.5: Overview of FBR concerning Effective Accountability and all three preventive strategies to control Opportunities for Corruption

Country	Research Hypothesis 2 Effective Accountability			Corruption Perception Index (CPI) 2012*
	Introduction of Oversight Mechanisms	De-politicization of Tax Officials	Reduction of Discretionary Powers of Tax Officials	
Pakistan	-	-	-	27

+ means effective accountability resulted in increase in the specific preventive strategy to control opportunities for corruption, with no interference from MoF, as per micro level of analysis in the sub-hypotheses analyses.

- means effective accountability did not result in increase in the specific preventive strategy to control opportunities for corruption, due to interference from MoF, as per micro level of analysis in the sub-hypotheses analyses.

*Source: Transparency International. Available online <http://cpi.transparency.org>

This table presents a snapshot of progress of FBR towards utilizing different preventive strategies to control opportunities for corruption by ensuring effective accountability. As depicted by the -

symbols for all three preventive strategies in table 6.5, FBR provided considerable support for research hypothesis 2 by showing that ineffective accountability (in terms of all three preventive strategies) resulted in FBR being ineffective in controlling opportunities for corruption. In other words, FBR did not made an optimal use of effective accountability in terms of all three preventive strategies, due to interference from MoF, and was not able to effectively control opportunities for corruption. Table 6.5 also illustrates the findings in terms of individual sub-hypotheses. It highlights that in terms of all sub-hypotheses (2a, 2b, and 2c) the micro level of analysis provided considerable support for all three preventive strategies (signified by - symbols). The discussions in the micro level of analyses in the previous sections showed how FBR did not made good progress in terms of ensuring effective accountability due to interference from MoFs undermining introduction of oversight mechanisms, de-politicization of tax officials, and reduction of discretionary powers of tax officials, leading to ineffectiveness in controlling opportunities for corruption. This contention for FBR was also supported by Pakistan's latest CPI rating as illustrated in tables 6.2 and 6.3 above, which is one of the lowest among its regional developing countries and selected SARA developing countries, showing Pakistan not doing well to control corruption over time and placing it as one of most corrupt countries among the groups.

In sum, this section was aimed at analyzing the overall proposition contending that if FBR has ineffective accountability due to interference form MoF, then it would also be ineffective in controlling opportunities for corruption. FBR fully supported this contention by showing how ineffective accountability (in terms of all three preventive strategies), due to interference form MoF, resulted in FBR being ineffective in controlling opportunities for corruption. Hence, it is pertinent to conclude that research hypothesis 2 was supported in case of FBR.

6.4 SUMMARY AND CONCLUSION

As highlighted at the start of this chapter, the micro level of analysis was aimed to analyse research hypotheses 1 and 2 for FBR. The research hypothesis 1 comprised of four further sub-hypotheses (1a, 1b, 1c and 1d), and research hypothesis 2 comprised of three further sub-hypothesis (2a, 2b, and 2c), which have already been examined in sections above. As it was proposed at the start of section 6.2 and 6.3, analysis of all sub-hypotheses will be undertaken with an aim to test main research hypotheses 1 and 2, and any answers or findings as per analysis of these sub-hypotheses will mean to respond to research hypotheses 1 and 2. Consequently this section aims to integrate all seven sub-analyses discussed in sections above for the cumulative analysis of research hypotheses 1 and 2. Next, Table 6.6 illustrates the accumulation of all sub-analyses discussed in sections 6.2.5 and 6.3.4 of the micro level of analysis for research hypotheses 1 and 2, in addition to providing latest CPI ratings for Pakistan.

Table 6.6: Overview of FBR accumulating sub-analyses of the micro level of analysis for research hypotheses 1 and 2

Country	Research Hypothesis 1 Personnel Autonomy				Research Hypothesis 2 Effective Accountability			Corruption Perception Index (CPI) 2012*
	RH 1(a) Increases in Wages and Rewards	RH 1(b) Increases in the Probability of Detection	RH 1(c) Increases in and Stricter Enforcement of Penalties	RH 1(d) Instilling Ethics in Tax Officials	RH 2(a) Introduction of Oversight Mechanisms	RH 2(b) De- politicization of Tax Officials	RH 2(c) Reduction of Discretionary Powers of Tax Officials	
Pakistan	-	-	-	-	-	-	-	27
+ means personnel autonomy resulted in increase in the specific preventive strategy, which led to effectively controlling motivations for corruption, as per micro level of analysis in the sub-hypotheses analyses. - means personnel autonomy resulted in increase in the specific preventive strategy, which did not led to effectively controlling motivations for corruption, as per micro level of analysis in the sub- hypotheses analyses.					+ means effective accountability resulted in increase in the specific preventive strategy to control opportunities for corruption, with no interference from MoF, as per micro level of analysis in the sub- hypotheses analyses. - means effective accountability did not resulted in increase in the specific preventive strategy to control opportunities for corruption, due to interference from MoF, as per micro level of analysis in the sub- hypotheses analyses.			

RH = Research Hypothesis

*Source: Transparency International. Available online <http://cpi.transparency.org>

This table presents a snapshot of progress of FBR towards utilizing different preventive strategies to ensure personnel autonomy and effective accountability for controlling motivations and opportunities for corruption. Table 6.6 also illustrates the findings in terms of individual sub-hypotheses. In terms of individual sub-hypotheses, research hypothesis 1 was not provided support by any of the individual sub-hypotheses (indicated by – symbols for 1a, 1b, 1c and 1d). Hence, as per individual sub-hypotheses, research hypothesis 1 was not supported in case of FBR. Conversely, in terms of individual sub-hypotheses, research hypothesis 2 was provided considerable support by all individual sub-hypotheses (indicated by – symbols for 2a, 2b, and 2c). Hence, as per individual sub-hypotheses, research hypothesis 2 was fully supported in case of FBR.

By referring to the - symbols for 4/4 preventive strategies of personnel autonomy for research hypothesis 1, and - symbols for 3/3 preventive strategies of effective accountability for research hypothesis 2 in table 6.6, FBR provided considerable support for research hypothesis 2 but not 1. The micro level of analysis for both research hypothesis 1 and 2 showed that FBR made less than optimal use of personnel autonomy to control motivations for corruption by increasing wages and rewards for tax officials, increasing the probability of detection, increasingly and strictly enforcing penalties for corruption, and instilling ethics in tax officials (indicated by - symbols for all four preventive strategies in table 6.6). In addition, FBR's progress against controlling opportunities for corruption remained poor, due to persistent ineffective accountability, due to continued interference from MoF, undermining introduction of oversight mechanisms, de-politicization of tax officials, and reduction of discretionary powers of tax officials (indicated by - symbols for all three preventive strategies in table 6.6). This poor progress against corruption by not effectively controlling either motivations or opportunities for corruption led to worsening of FBR's progress against corruption. This finding for FBR is also supported by Pakistan's latest

CPI rating as illustrated in tables 6.2 and 6.3 above, which is one of the lowest among its regional developing countries and selected SARA developing countries, showing Pakistan not doing well to control corruption over time and placing it as one of most corrupt countries among the groups. FBR showed how adoption of personnel autonomy did not resulted in tax administration reform being effective in controlling motivations for corruption, in addition to ineffective accountability, due to interference form MoF, resulted in FBR being ineffective in controlling opportunities for corruption. Hence, FBR remained ineffective in controlling both motivations and opportunities for corruption. This section highlighted that there was a positive finding for FBR for research hypothesis 2, but a negative finding for research hypothesis 1.

In a nutshell, the specific contribution of chapter six to the overall thesis argument lies in conceptually testing the Anti-Corruption SARA framework for FBR by analyzing individual design components in their separate contributions towards controlling motivations and opportunities for corruption. This was to contribute towards filling a gap in literature for research on the practical side of designing and implementing SARA reform against controlling corruption. This chapter tried to contribute towards filling this gap by doing a practical work of designing an Anti-Corruption SARA framework (chapter three) and applying it to FBR in this chapter.

In particular, this case study for the micro analysis also aimed to confirm if the findings reached for SARA countries in the macro analysis in chapter five are also applicable to FBR Pakistan. It is concluded that although FBR, like many SARAs, preferred adoption of personnel autonomy over ensuring effective accountability for controlling corruption. But such preference did not led to even partial progress against controlling motivations for corruption, and FBR remained ineffective in controlling both motivations and opportunities for corruption.

This chapter also examined why FBR was unable to adopt effective accountability? Similarly to many SARAs, in case of FBR as well, it was found that presence of MoF in the accountability arrangements rendered FBR ineffective in controlling opportunities for corruption. Continued interference from MoF was found to undermine not only the effective oversight mechanisms of FBR, but also lead to continuation of politicization of tax officials, and resulting in increases in discretionary powers available to tax officials in the face of ineffective accountability mechanisms.

In sum, by conducting the micro level of analysis, progress was made towards a two part answer to the main question of this study. To explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan? It was found that FBR remained ineffective in controlling both motivations and opportunities for corruption despite focusing more on controlling motivations for corruption (through personnel autonomy) and lesser focus on controlling opportunities for corruption (through effective accountability). Continued interference from MoFs was found to undermine not only effective accountability for FBR, but also undermining control of opportunities for corruption. Based on the findings obtained in macro analysis in chapter five, in case of FBR it was expected that opportunities for corruption might not be controlled effectively, but it was unexpected that motivations for corruption were not being controlled as well. So it was surprising in case of FBR that the situation against corruption was so bad that motivations for corruption were not being controlled despite employing personnel autonomy to curb them.

Chapters five and six have provided the results in the form of macro and micro level of analyses examining SARA reforms in developing countries with special reference to Pakistan. The next chapter reviews and discusses the key findings arising out of macro and micro level of analyses and concludes.

CHAPTER SEVEN

DISCUSSION AND CONCLUSION

7.0 INTRODUCTION

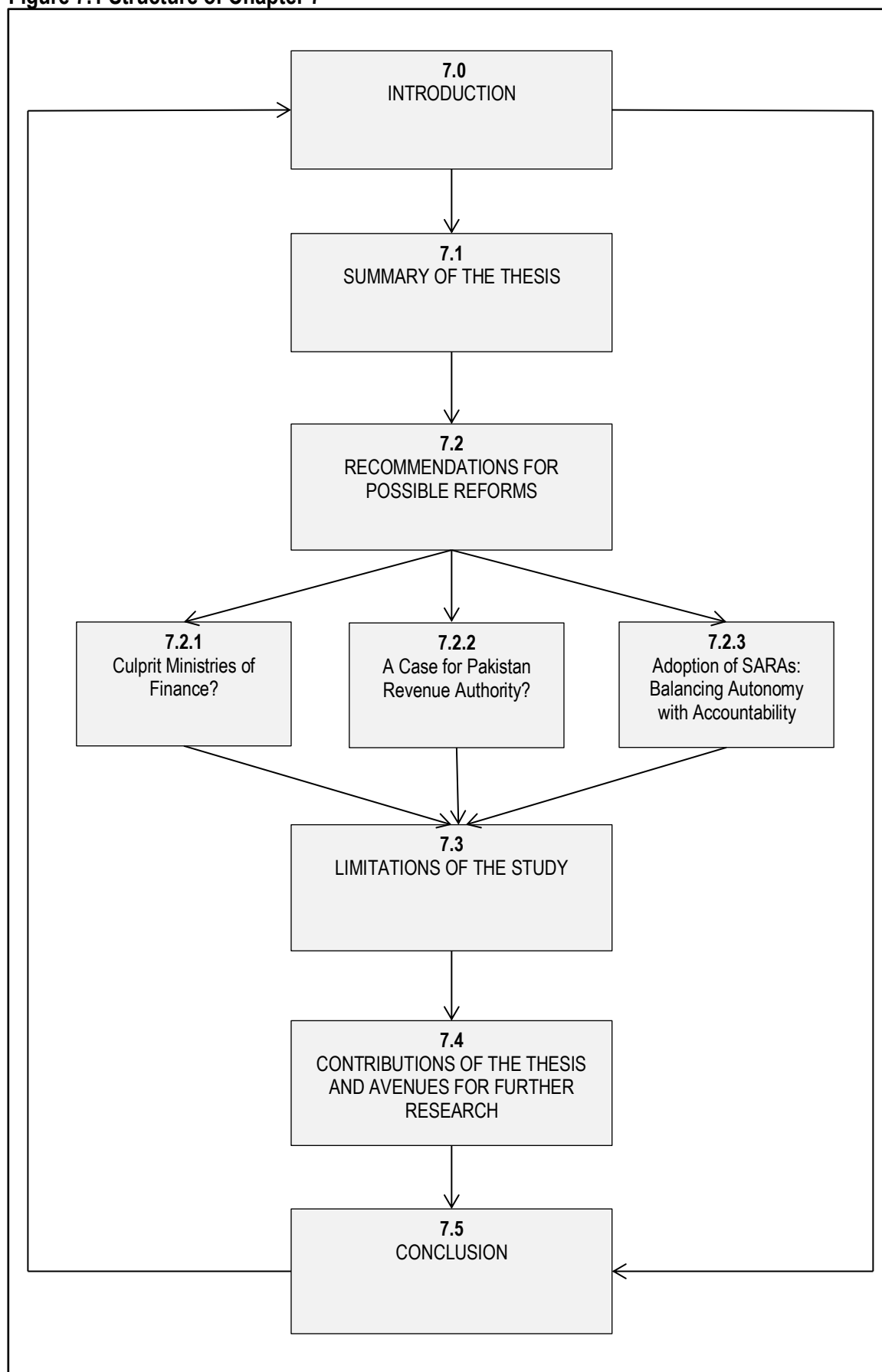
The aim of the thesis has been to examine why some SARAs have failed to effectively control opportunities for corruption. To explore this question this thesis set out an Anti-Corruption SARA framework by analyzing individual SARA design components towards controlling motivations and opportunities for corruption in tax administrations in developing countries. This analytical framework was developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004). This thesis tried to contribute towards filling a gap in literature for research on the practical side of designing and implementing SARA reform against controlling corruption, by doing a practical work of designing an Anti-Corruption SARA framework (chapter 3) and applying it to SARAs (Chapter 5) and FBR Pakistan (Chapter 6).

In order to analyze the validity of the framework, a two-staged analysis of SARAs was conducted in chapters five and six of the thesis. In chapter five, a detailed mapping of SARA cases, labelled as the macro level of SARA analysis, helped to conclude that SARAs preferred adoption of personnel autonomy over ensuring effective accountability for controlling corruption. In other words, SARAs preferred adoption of autonomy-enhancing design components over accountability-enhancing design components for controlling corruption. This imbalance led to some progress in controlling motivations for corruption, but failing to effectively control opportunities for corruption. It was also found that presence of MoFs in the accountability arrangements rendered SARAs ineffective in controlling opportunities for corruption. Continued interference from MoFs was found to undermine not only the effective oversight mechanisms of

SARAs, but also lead to continuation of politicization of tax officials, and resulting in increases in discretionary powers available to tax officials. In chapter eight, a detailed case study of tax administration reforms in Pakistan, labelled as the micro level of analysis, was conducted to explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan? It was found that FBR remained ineffective in controlling both motivations and opportunities for corruption despite focusing more on controlling motivations for corruption (through personnel autonomy) and lesser focus on controlling opportunities for corruption (through effective accountability). Continued interference from MoFs was found to undermine not only effective accountability for FBR, but also undermining control of opportunities for corruption.

This chapter summarises and discusses the analyses presented in previous chapters of the thesis, in addition to making concluding remarks. This chapter is further organised into five sections. Section 7.1 presents a summary of the thesis. Section 7.2 presents recommendations for possible reforms and is sub-divided in three sections. Section 7.3 analyzes the limitations of the study. Section 7.4 considers the contribution of the thesis to public management literature, in addition to presenting suggestions for further research in the thesis area. Section 7.5 presents concluding comments. The structure of Chapter seven is illustrated in Figure 7.1 below.

Figure 7.1 Structure of Chapter 7



7.1 SUMMARY OF THE THESIS

In recent years, there has been an increasing adoption of SARA reform model in developing countries to achieve dual objectives of improving efficiency and controlling corruption in tax administrations (McCourt, 2002; Fjeldstad, 2003, 2005a, 2005b; Kidd & Crandall, 2006; Mann, 2004; Martinez-Vazquez *et al.*, 2004; McCarten, 2006; Taliercio, 2004; Zuleta, 2007). Although review of literature in chapter two succeeded in improving our understanding of the reform model at a conceptual level, it also pointed towards a theory-practice paradox. Literature highlighted that experience of SARAs against corruption has not always been as expected or explained by conceptual models' consequences. This observation pointed to a need to closely analyse the theory behind SARA reform, and try to find out why the literature is suggesting that practice deviated from theory. In order to achieve this objective, this thesis analysed prominent frameworks and strategies to control corruption in tax administrations, not only to throw some light on theories behind SARA reform idea, but to look for answers to the theory-practice paradox (See Chapter 2). The over-arching objective of this exercise was to further discussion on how to better control opportunities for corruption in SARAs by analyzing prominent conceptual frameworks in this field, resulting in development of analytical framework.

The development of analytical framework resulted in formulation of two research hypotheses (See Chapter 3). Research hypothesis 1 proposed that by preferring personnel autonomy over effective accountability, SARAs have been effective against motivations but not opportunities for corruption. Also, research hypothesis 2 proposed that SARAs have been ineffective in controlling opportunities for corruption due to ineffective accountability by MoF. With an aim to add focus and specificity to both research hypotheses, so as to make the forthcoming analysis of SARA cases more focused and to the point, sub-hypotheses were also developed. All sub-hypotheses, with each one referring to one specific preventive strategy to control motivations and

opportunities for corruption, helped to logically break down both research hypotheses. The specific contribution of chapter three to the overall thesis argument lies in conceptually developing an Anti-Corruption SARA framework by drawing on literature reviewed in chapter two.

To explore why some SARAs have failed to effectively control opportunities for corruption, a detailed mapping of SARA cases, labelled as the macro level of SARA analysis, was undertaken for conceptually testing the Anti-Corruption SARA framework for multiple SARA countries (See Chapter 5). This was to contribute towards filling a gap in literature for studies on SARAs differentiating between motivations and opportunities for corruption. The macro level of SARA analysis was aimed at theorizing what is going wrong with practice by approaching old evidence (secondary literature on SARAs) in a new way (i.e., analytical framework). The macro level of analysis found that SARAs have made partial progress to control corruption by focusing more on controlling motivations for corruption (through autonomy-enhancing design components) and lesser focus on controlling opportunities for corruption (through accountability-enhancing design components). Continued interference from MoFs was found to undermine not only effective accountability for SARAs, but also undermining control of opportunities for corruption.

To explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan, a detailed case study of tax administration reforms in Pakistan, labelled as the micro level of analysis, was conducted for conceptually testing the Anti-Corruption SARA framework for FBR by analyzing individual design components in their separate contributions towards controlling motivations and opportunities for corruption (See Chapter 6). The micro level of analysis for FBR was aimed at theorizing what is going wrong with practice by approaching both new and old evidence (semi-structured interviews and secondary literature) in a new way (i.e., analytical framework). It was concluded that although FBR, like many SARAs, preferred

adoption of personnel autonomy over ensuring effective accountability for controlling corruption. But such preference did not lead to even partial progress against controlling motivations for corruption, and FBR remained ineffective in controlling both motivations and opportunities for corruption. It was also questioned why FBR was unable to adopt effective accountability? Similarly to many SARAs, in case of FBR as well, it was found that presence of MoF in the accountability arrangements rendered FBR ineffective in controlling opportunities for corruption. Continued interference from MoF was found to undermine not only the effective oversight mechanisms of FBR, but also lead to continuation of politicization of tax officials, and resulting in increases in discretionary powers available to tax officials in the face of ineffective accountability mechanisms.

Having detailed the summary of the thesis, the next section discusses recommendations for possible reforms emerging out of findings of macro and micro analyses.

7.2 RECOMMENDATIONS FOR POSSIBLE REFORMS

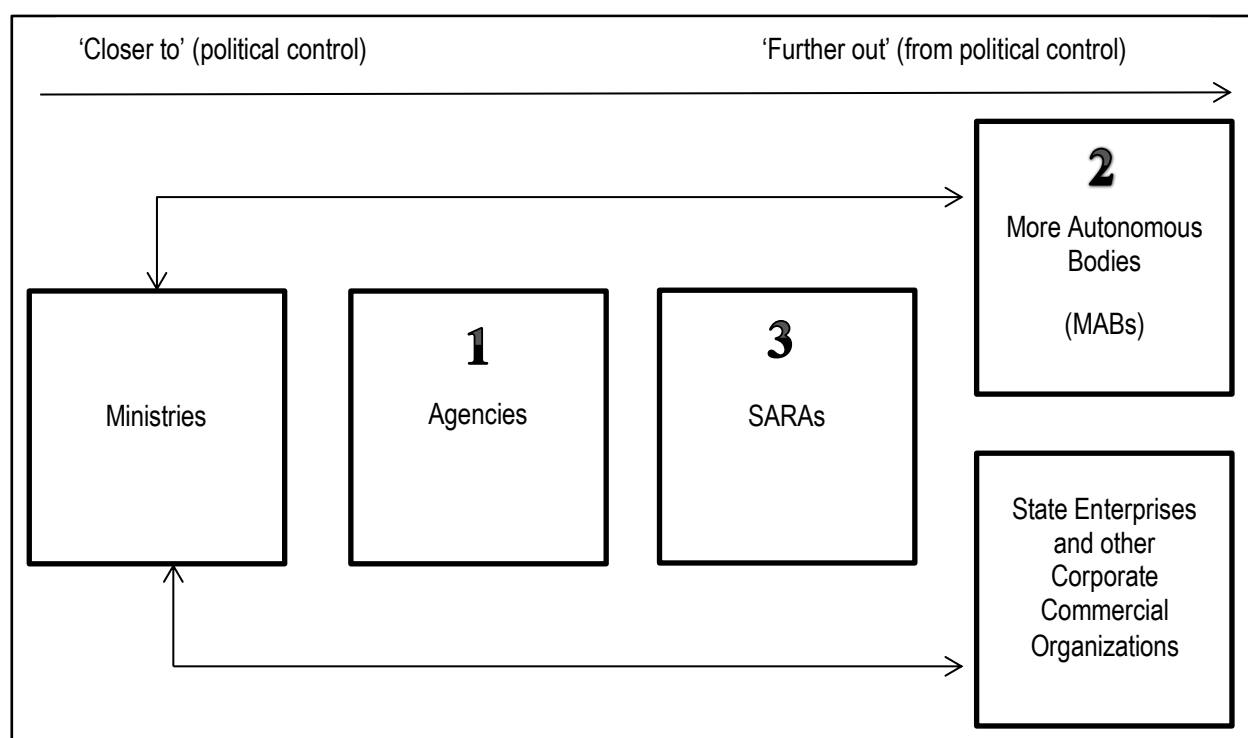
The following section elaborates three major recommendations for SARA reform.

7.2.1 Culprit Ministries of Finance?

The first recommendation is related to findings coming out of macro level of SARA analysis and is applicable to SARA developing countries. In chapter five, the macro level of SARA analysis helped to conclude that presence of MoFs in the accountability arrangements rendered SARAs ineffective in controlling opportunities for corruption. Continued interference from MoFs was found to undermine not only the effective oversight mechanisms of SARAs, but also lead to continuation of politicization of tax officials, and resulting in increases in discretionary powers available to tax officials. Findings suggesting how SARAs' accountability mechanisms were

undermined due to interference by MoFs, leading to ineffectiveness in controlling opportunities for corruption, pointed towards a case of not keeping SARAs directly accountable to MoFs, in the presence of other effective oversight bodies including Revenue Boards/Superintendents and Parliament etc. These findings pointed towards a SARA reform design loophole, arising due to insufficient level of disaggregation from MoFs, leading to ineffective accountability mechanisms of SARAs with oversight bodies, and hence making it ineffective against opportunities for corruption. The proposed solution to tackle opportunities for corruption lies in reforming SARAs into an organizational form which are far more disaggregated from the parent ministry, such that SARAs have no accountability link with MoFs. Furthermore, the oversight of SARAs can be replaced by other suitable oversight bodies, such as parliament select committees. To elaborate this recommendation further, three different organizational forms are illustrated on the disaggregation continuum in figure 7.2 below.

Figure 7.2 Nomenclature for Solving SARAs Ineffectiveness against Corruption



Source: (Adapted from Pollitt *et al.*, 2004)

This figure illustrates that the basic difference between agencies and (further out from ministries) MABs is the level of disaggregation granted by parent ministries to both organizational forms. As illustrated above, agencies enjoy more disaggregation, in comparison to government departments working under ministerial control, hence the gap between ministry and agency in box 1. But in comparison to MABs, agencies remain under ministerial control, and hence are put closer to ministerial control on the disaggregation continuum in box 1. In contrast, MABs enjoy complete disaggregation from ministerial control, and have far more independence than agencies. In terms of level of disaggregation granted, MABs are put further away from ministerial control than agencies on the disaggregation continuum in box 2. As per discussion in paras above, to be effective against opportunities for corruption, SARAs are recommended to be designed not like agencies or MABs, but in the middle of these organizational forms without accountability link to parent MoFs, with such oversight replaced by other suitable oversight bodies. The point is SARAs should have more disaggregation from parent ministries than available to agencies, but still they should not be free from any sort of democratic control as MABs, hence the appropriate position of SARAs on the disaggregation continuum is recommended to be at box 3 as illustrated in Figure 7.1.

This recommendation is aimed at improving, revising and re-forming the existing SARA reform model, to make it more robust against corruption, by incorporating changes in existing SARA model as identified by analyses. SARAs are recommended to be more disaggregated from parent ministries than agencies on account of findings obtained in this thesis which highlighted not-enough disaggregation from MoFs made SARAs ineffective against corruption. This recommendation comes with a caveat that SARAs should not be completely disaggregated from any governmental control such as MABs, hence making them wholly democratically unaccountable, as it could be very dangerous for the central tax collection agency not being

answerable to the parliament in developing countries. Therefore, in order to improve SARAs' effectiveness against corruption, it is recommended that influence of parent ministries such as MoFs should be removed from accountability arrangements of SARAs, and replaced by other suitable oversight bodies. SARAs are recommended to be conceptualized unlike both agencies and MABs, such that they are more disaggregated from MoFs than agencies, but a little short of complete disaggregation as in the case of MABs.

7.2.2 A Case for Pakistan Revenue Authority?

The second recommendation is related to findings coming out of micro level of analysis and is applicable for reforming tax administration in FBR Pakistan. The micro level of analysis was aimed to explore the reasons behind why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan and what should be done about it. In addition, this analysis also aimed to examine if there is potential and suitability of adopting Anti-Corruption SARA framework for FBR to control corruption in its tax administration. It is pertinent to conclude here that findings suggesting how FBR's accountability mechanisms with oversight bodies were undermined due to interference by MoF, leading to ineffectiveness in controlling opportunities for corruption, point towards a case of not keeping FBR directly accountable to MoF, in the presence of other effective oversight bodies such as parliament select committee in the form of Cabinet Committee for Federal Revenue. MoF is perceived as so strong in Pakistan that one senior official of the Planning Commission of Pakistan noted:

"The Finance Ministry, precisely the finance secretary, is running a mini-government"
(Kiani, 2013b, p. 1).

In terms of disaggregation, the status of FBR lies in between a revenue authority and a centralized government department working under close supervision of the ministry. FBR is neither a SARA nor a conventional government department. Officially FBR is thought of an

organizational arrangement, which after reform has remained under governmental control, but with significant autonomy in terms of recruitment, compensation, and promotions etc. But as highlighted by the micro analysis, FBR in its present form, is only autonomous on paper and in practice remains in the clutches of the parent ministry. It is high time that the 'confused' form of organizational arrangement of FBR, i.e., 'under governmental control but autonomous', should be done away by granting it a more clearer status of a SARA in the form of Pakistan Revenue Authority, such that it is free from any direct oversight by the MoF, and in contrast should be subjected to effective oversight by other oversight bodies, such as already existing Cabinet Committee for Federal Revenue. Moreover, the Cabinet Committee for Federal Revenue, which has been formed for oversight of FBR, should be free from any influence/control of MoF as well. There is no point in having a Cabinet Committee for oversight of FBR in place of MoF, if it is still heavily influenced by MoF.

It is recommended that there is a case for making FBR more autonomous in Pakistan to reduce political meddling in its affairs, especially by the MoF. As pointed out by the World Bank (2000) SARAs can be employed by developing countries to react to particular political problems, especially to protect important activities from conflicting political influences. As highlighted in the micro analysis, FBR was not robust enough to effectively deal with political influence and corruption in tax administration. Owing to this reason, there is an argument for considering the case of appropriateness of SARA reform model for Pakistan in the form of creation of Pakistan Revenue Authority to make its tax administration fair. It is recommended that there is potential for adopting Anti-Corruption SARA framework for Pakistan to control corruption in its tax administration. In other words, in terms of components of agencification (Talbot, 2004) it is recommended that FBR should be entrusted with more autonomization (by law) and more disaggregation from MoF. Therefore, it is recommended that there is a case to be considered for

the creation of Pakistan Revenue Authority to protect priority activity of collection of taxes from opposing political influences.

7.2.3 Adoption of SARAs: Balancing Autonomy with Accountability

The third recommendation is related to findings coming out of macro level of analysis and is applicable to not only existing SARAs but also developing countries contemplating SARA model to reform tax administration. One of the findings emerging out of macro level of SARA analysis related to balancing both autonomy and accountability-enhancing SARA design components to effectively control both motivations and opportunities for corruption. The macro level of SARA analysis highlighted that SARAs preferred adoption of personnel autonomy over ensuring effective accountability for controlling corruption. In other words, SARAs preferred adoption of autonomy-enhancing design components over accountability-enhancing design components for controlling corruption. This imbalance led to some progress in controlling motivations for corruption, but failing to effectively control opportunities for corruption. These findings also highlight the issue of improper implementation of SARAs in developing country context due to imbalance in ensuring both autonomy and accountability mechanisms. In other words, SARAs made a half-hearted attempt by utilizing more of autonomy than accountability. As a result when SARA reforms are criticised for increasing opportunities for corruption, then it is a case where SARAs has been adopted with more focus on ensuring autonomy, rather also balancing it with proportionate effective accountability.

It seems as if SARA countries have failed to fully comprehend the importance of balancing autonomy with accountability. There seems to be lack of understanding that if strong effective accountability mechanisms are employed then they are not supposed to lessen autonomy in any way, as both autonomy and accountability mechanisms are supposed to be ensured through

separate design features, and hence are not contradictory in nature. This observation is consistent with both Taliercio (2004) and Schick (1998). As Schick (1998) pointed out, the underlying principle behind the creation of agencies is a combination of '*letting managers manage*' and '*making managers manage*', which in essence is about granting increased autonomy in operations in exchange for greater accountability for results. It is concluded that SARA countries have undergone a paradox of autonomy-accountability mechanisms, where autonomy features have been adopted more and given preference over accountability features. As a result SARAs have made only partial progress against corruption with some progress against controlling motivations, but not opportunities for corruption. It is recommended that SARA countries should develop this understanding about importance of balancing both autonomy and accountability mechanisms to be fully effective against corruption by controlling both motivations and opportunities for corruption. Efforts should be made towards developing this understanding by SARAs, especially by reformers/donors, of how importance it is to adopt SARA model in its essence to be fully effective against corruption.

Having outlined some recommendations for making SARAs more effective against corruption, it is appropriate to recognize that this research, like most researches of this nature, has some limitations, as discussed in section below.

7.3 LIMITATIONS OF THE STUDY

The macro level of SARA analysis entailed analyzing SARA cases which have not performed well against corruption. Although quite a few SARA cases fitted this purpose, but were geographically dispersed all around the globe. Since the researcher lacked resources of time and money to carry out in-depth case studies of selected SARA cases in pursuit of primary data to analyze research question, the researcher was left with no other choice but to rely on secondary literature

available to conduct macro level of SARA analysis. Also this research, especially the macro level of SARA analysis, relying heavily on use of secondary literature, is limited by the lack of publicly available literature. Therefore, the macro level of SARA analysis can only be as good as the quality and quantity of the secondary sources on which it has relied. As is common in such research, individuals and corporate organisations alike seldom offer information on how to pay bribes or engage in corruption (Johnston, 2002).

Some of the issues discussed in this thesis were based on reports of international donor organizations readily available from the internet. Their acquisition proved quite straightforward. But same cannot be said about obtaining internal documents and reports of FBR, such as cases of pending inquiry on account of corruption charges against tax officials. The secrecy and lack of access to reports and documents in FBR constrained the comprehensive micro level of analysis examining progress of FBR towards corruption. Therefore, non-availability of such secondary literature significantly limited the analyses of tax administration reform in FBR. Moreover, the evidence in this thesis has unavoidably been constrained by what is available in the public sphere. Although, a detailed analysis of criminal court proceedings might have led to provision of more information, leading to better understanding of the topic of this thesis, but resources of time and finances as well as secrecy in the public sectors in Pakistan acted as major constraints in doing so.

The study conducted interviews with a number of respondents to explore why tax administration reform failed to effectively control opportunities for corruption in FBR, and gathered the opinions of interviewees who shared their own personal experiences and perceptions, leading to some significant findings. In this study limited numbers of respondents were interviewed (31 semi-structured interviews) owing to problems of access and the duration of fieldwork. Due to this

reason, this study does not claim to offer a comprehensive account, rather only providing some illustrations from a limited number of cases, representing the views of some of the respondents about the main topic of this thesis. In addition, most interviewees shared their experiences about corruption but none of the respondents, for obvious reasons, agreed to have personally engaged in corruption. To solicit views of actors having engaged in corruption could have been obtained by interviewing those having received punishments for corruption in FBR Pakistan, but such access has not been possible. Lack of access to this important fragment of participants has therefore limited this study. Moreover, although this study interviewed 16 tax officials, but interviews of tax officials of very high level such as Members of the Board and Chairman FBR could not be conducted on account of access issues. Same is true of interviews of high level officials in MoF such as Secretary Finance and Minister of Finance. Hence their views are not represented in this study about why tax administration reform failed to effectively control opportunities for corruption in FBR and limited the findings of the micro level of analysis. Nonetheless, an effort was made towards tackling this limitation, by represented their views, as available in media outlets, in the micro level of analysis by conducting newspaper analysis for an extended period of three years (2011-2013).

It is hoped that this study examining SARAs' progress against corruption will generate prospects for further research into wider issues relating to corruption in tax administration not only in Pakistan but generally in developing countries. In this setting, the next section discusses the contributions this study has made to the literature, in addition to proposing avenues for further research.

7.4 CONTRIBUTIONS OF THE THESIS AND AVENUES FOR FURTHER RESEARCH

This thesis has contributed towards filling a gap in literature for research on the practical side of designing and implementing SARA reform against controlling corruption, by doing a practical work of conceptualizing an Anti-Corruption SARA Framework (chapter 3) and testing it for SARA developing countries (Chapter 5) and FBR Pakistan (Chapter 6). This analytical framework was developed by utilizing two SARA frameworks including SARA design components proposed by Taliercio (2004) and control of corruption framework for tax administrations by Martinez-Vazquez *et al.* (2004). Another important contribution behind developing this framework lies in bringing together ideas by Taliercio (2004) and Martinez-Vazquez *et al.* (2004), which have previously remained separate. The novel contribution of this thesis lies in developing the new lens (analytical framework) which causes us to see the topic of SARAs against corruption quite differently (due to differentiating between motivations and opportunities for corruption).

One of the contributions of this research lies in critiquing Taliercio's (2004) SARA framework. This critique rested on the ground that Taliercio's framework might be effective in achieving one of the objectives behind SARA reform adoption of improvement in revenue performance, but displays a weakness when applied to achieve control of corruption, by failing to convince taxpayers about insulation of SARAs from politics, due to persistent accountability link with politicians in MoFs. It was proposed that politicians in MoFs needed to completely disaggregate themselves from SARAs' operations to enable taxpayers to perceive meaningful insulation from politics. It is stressed that the proposed solution to identified weakness in Taliercio's framework is conceptualized to improve SARA reform's robustness against corruption, in addition to revenue improvement. Also, another contribution of this research lies in not only analyzing Klitgaard's (1988, 1997) corruption framework from a different lens to understand how corruption might be controlled in centralized tax administrations. But more importantly Klitgaard's corruption

framework was also adapted to make it suitable to analyze how to control opportunities for corruption in decentralized tax administrations after SARA reforms.

One of the significance of macro level of SARA analysis lies in analyzing relevant secondary literature sources on SARAs under a new lens and for a different purpose than originally envisaged. The contribution of the macro level of SARA analysis lies in expanding on previous research on SARAs by expanding interpretation of previous findings on autonomy and accountability of SARAs towards controlling motivations and opportunities for corruption in SARAs. While an effort was made towards an optimum use of secondary literature towards analyzing the analytical framework in different developing countries, nonetheless it would be worthwhile to revise and test this framework by applying it in the form of detailed case study in different SARA developing countries and collect primary data. In addition, this analytical tool can also be employed by reformers and analysts in developing countries which are contemplating to adopt SARA reform to improve tax administration. The application of the analytical framework before adopting reform might highlight the need and suitability of SARA reform model to the specific developing country context.

The analytical framework in this study concentrated on conceptualizing the effect of SARA design components of personnel autonomy and effective accountability towards controlling motivations and opportunities for corruption. The future research can benefit by adapting the analytical framework for other SARA design components/ types of autonomy such as financial autonomy, legal autonomy, structural autonomy towards analysing their effect on controlling motivations and opportunities for corruption.

Also, another important area of future research involves specifically examining SARA success stories, to analyse what they have done differently to succeed against corruption. Based on the

logic of convenience sampling, in terms of quality and quantity of secondary literature available, this thesis analysed a group of SARA cases, most of which underperformed against corruption. It would be worthwhile to apply the analytical framework of this thesis on SARA success stories against corruption, to analyse if they have adopted the SARA reform model in a way experiencing no interference from MoFs in SARAs operations, which neither undermined their autonomy nor accountability. This proposed area of research would further enhance the validity of hypotheses developed in the analytical framework.

7.5 CONCLUSION

The aim of the thesis has been to examine why some SARAs failed to effectively control opportunities for corruption. To explore this question, this thesis set out an Anti-Corruption SARA framework and analyzed the validity of the framework by conducting a two-staged analysis of SARAs in chapters five and six of the thesis.

In chapter five, a comprehensive mapping of existing SARA cases, labelled as the macro level of SARA analysis, helped to conclude that SARAs have made partial progress to control corruption by focusing more on controlling motivations for corruption (through autonomy-enhancing design components) and lesser focus on controlling opportunities for corruption (through accountability-enhancing design components). Continued interference from MoFs was found to undermine not only effective accountability for SARAs, but also undermining control of opportunities for corruption. In other words, SARAs, conceptualized as islands of 'integrity' failed to expand in 'archipelagos' due to not-enough disaggregation from MoFs affecting corruption control by undermining both autonomy and accountability. Findings suggesting how SARAs' accountability mechanisms were undermined due to interference by MoFs, leading to ineffectiveness in controlling opportunities for corruption, pointed towards a case of not keeping SARAs directly

accountable to MoFs, in the presence of other effective oversight bodies including Revenue Boards/Superintendents and Parliament etc. The proposed solution to tackle opportunities for corruption lies in reforming SARAs into an organizational form which are far more disaggregated from the parent ministry, such that SARAs have no accountability link with MoFs. Furthermore, the oversight of SARAs by MoFs can be replaced by other suitable oversight bodies, such as parliament select committees. These findings also highlight the issue of improper implementation of SARAs in developing country context due to imbalance in ensuring both autonomy and accountability mechanisms. In other words, SARAs made a half-hearted attempt by utilizing more of autonomy than accountability. It is concluded that SARA countries have undergone a paradox of autonomy-accountability mechanisms, where autonomy features have been adopted more and given preference over accountability features. As a result SARAs have made only partial progress against corruption with some progress against controlling motivations, but not opportunities for corruption. It is recommended that SARA countries should develop this understanding about importance of balancing both autonomy and accountability mechanisms to be fully effective against corruption by controlling both motivations and opportunities for corruption.

In chapter six, a detailed case study of tax administration reforms in Pakistan, labelled as the micro level of analysis, was conducted to explore why tax administration reform failed to effectively control opportunities for corruption in FBR Pakistan? It was found that although FBR, like many SARAs, preferred adoption of personnel autonomy over ensuring effective accountability for controlling corruption. But such preference did not led to even partial progress against controlling motivations for corruption, and FBR remained ineffective in controlling both motivations and opportunities for corruption. It was also questioned why FBR was unable to adopt effective accountability? Similarly to many SARAs, in case of FBR as well, it was found that

presence of MoF in the accountability arrangements rendered FBR ineffective in controlling opportunities for corruption. It is pertinent to conclude here that findings suggesting how FBR's accountability mechanisms were undermined due to interference by MoF, leading to ineffectiveness in controlling opportunities for corruption, point towards a case of not keeping FBR directly accountable to MoF, in the presence of other effective oversight bodies such as parliament select committee in the form of Cabinet Committee for Federal Revenue. The proposed solution lies in converting FBR into a SARA in the form of PRA or Pakistan Revenue Authority, such that it is free from any direct oversight by the MoF, and in contrast should be subjected to effective oversight by other oversight bodies, such as already existing Cabinet Committee for Federal Revenue. Moreover, the Cabinet Committee for Federal Revenue, which has been formed for oversight of FBR, should be free from any influence/control of MoF as well. Therefore, it is recommended that there is a case to be considered for the creation of Pakistan Revenue Authority to protect priority activity of collection of taxes from opposing political influences.

Appendix 1

Semi-Structured Interview Schedule

Research Proposition 2(a) Wages and Rewards

Indicators: *Increases in wages for tax officials and utilization of performance-linked bonuses*

1. Has there been any increase in wages and rewards for tax officials in FBR?
2. If yes, do you think increase in wages and rewards have been sufficient enough/effective to deter tax officials from committing corruption in FBR?
3. Is the wages and reward structure at FBR enough to retain employees with the right skills?

Research Proposition 2(b) Increases in the Probability of Detection

Indicators: *Increases in the quality and frequency of internal audits and probes by establishing internal audit and anti-corruption divisions;
Increases in the number of supervisory personnel assigned to internal audit and anti-corruption divisions;
Statutory condition of declaration of assets by all employees*

4. Has there been any increase in the quality and frequency of internal audits and probes for tax officials by establishing Directorate General Intelligence & Investigation along with allied regional Directorates at FBR?
5. If yes, do you think the increase in the quality and frequency of internal audits and probes by establishing Directorate General Intelligence & Investigation along with allied regional Directorates at FBR has deterred tax official from committing corruption?
6. Has there been any increase in the number of supervisory personnel assigned to Directorate General Intelligence & Investigation along with allied regional Directorates at FBR?
7. If yes, do you think the increase in the number of supervisory personnel assigned to Directorate General Intelligence & Investigation along with allied regional Directorates at FBR has deterred tax official from committing corruption?
8. Are you aware about reformed system of statutory condition of declaration of assets by tax officials in FBR?
9. If yes, have you noticed any effectiveness of the reformed system of statutory condition of declaration of assets by FBR towards deterring tax officials from committing corruption?

Research Proposition 2(c) Increases in and Stricter Enforcement of Penalties for Corruption

Indicators: *Increases in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences.*

10. Has there been any increase in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences for tax officials in FBR?

11. If yes, do you think increase in imposition of high levels of penalties including monetary sanctions, job dismissals and prison sentences in FBR has deterred tax official from committing corruption?

Research Proposition 2(d) Instilling Ethics in Tax Officials

Indicators: *Increases in ethics training and adoption of code of conduct.*

12. Are you aware about adoption of reformed code of conduct by tax officials in FBR?

13. If yes, do you think adoption of reformed code of conduct by FBR has deterred tax officials from committing corruption?

14. Has there been any increase in ethics training for tax officials in FBR?

15. If yes, do you think tax officials are less likely/less motivated to commit corruption in FBR as a result of increased ethics training?

Research Proposition 4(a) Introduction of Oversight Mechanisms

Indicators: *Effective accountability relationships with all supervising bodies including Ministry of Finance, Revenue Boards/Superintendents (whichever applicable), and Parliament etc.*

16. Has FBR taken any steps to introduce effective oversight mechanisms for tax officials?

17. If No, has FBR failed to introduce effective oversight mechanisms for tax officials due to ineffective 'accountability relationships with oversight bodies' due to interference from MoF?

Research Proposition 4(b) De-politicization of Tax Officials

Indicators: *Effective accountability relationships with all supervising bodies especially Revenue Boards/Superintendents (whichever applicable), and Parliament etc., in addition to Ministry of Finance.*

18. Has FBR taken any steps to de-politicize tax officials?

19. If No, has FBR failed to de-politicize tax officials due to ineffective 'accountability relationships with oversight bodies' due to interference from MoF?

Research Proposition 4(c) Reduction of Discretionary Powers

Indicators: *Balancing effective accountability relationships between all supervising bodies especially between Ministry of Finance and other supervising bodies including Revenue Boards/Superintendents (whichever applicable) and Parliament etc.*

20. Has FBR taken any steps to reduce discretionary powers of tax officials?

21. If No, has FBR failed to reduce discretionary powers of tax officials due to ineffective 'accountability relationships with oversight bodies' due to interference from MoF?

Appendix 2

Government of Pakistan
(Revenue Division)
Federal Board of Revenue

Islamabad, the 26th November, 2012.

NOTIFICATION (CUSTOMS)

S.R.O. 1326 (I)/2012. In exercise of the powers conferred by section 202B of the Customs Act, 1969 (IV of 1969), the Federal Board of Revenue is pleased to make the following rules, namely:-

1. Short title and commencement.- (1) These rules may be called the Customs Reward Rules, 2012.

2. They shall come into force at once.

2. Definitions.- In these rules, unless there is anything repugnant in the subject or context,-

- (i) "Act" means the Customs Act, 1969 (IV of 1969);
- (ii) "Board" means the Federal Board of Revenue established under the Federal Board of Revenue Act, 2007;
- (iii) "duty" means all types of customs duties levied and collected under the Act;
- (iv) "informer" means any person, or a group of persons, who provide any vital or significant information or evidence leading to successful inquiry, audit, investigation or prosecution in cases involving evasion of duty and other taxes, and confiscation of goods resulting in recovery of such duty and taxes;
- (v) "meritorious services" means-
 - (i) making original contribution in any field relating to the Customs and displaying extraordinary devotion to duty;
 - (ii) exceeding budgetary targets through extraordinary planning and efforts; and
 - (iii) displaying exceptional overall results in the detection of evasion of duty and other taxes, anti-smuggling operation or recovery of arrears; and
- (vi) "other taxes" means the duty and taxes collected at the import stage in the manner as if these were duty of customs payable under the Act.

3. Eligibility for reward.- (1) Cash reward shall be sanctioned under these rules to the following categories of persons in cases involving evasion of duty and other taxes, and confiscation of goods, namely:-

- (a) officers and officials of Pakistan Customs Service for their contribution in such cases; and
- (b) Informer providing credible information leading to such confiscation or detection, as the case may be.

(2) Cash reward may also be sanctioned to the Officers of Pakistan Customs Service and staff, for rendering meritorious services in normal course of duty, not exceeding three years' basic salary.

4. Determination of reward.- (1) The amount of reward, in cases involving evasion of duty and other taxes, and confiscation of goods shall be determined in the following manner, namely:-

Amount of customs duty and other taxes realized	Amount of Reward
Rs.500,000/- or less	Twenty <i>per cent</i> of the customs duty and other taxes
More than Rs.500,000/- but not more than Rs.1,000,000/-	Rs.100,000/- plus ten <i>per cent</i> of the customs duty and other taxes in excess of Rs.500,000/-
Over Rs.1,000,000/-	Rs.150,000/- plus five <i>per cent</i> of the customs duty and other taxes in excess of Rs.1,000,000/-

(2) The amount of reward under sub-rule (1) shall be sanctioned after realization of the whole of the duty and other taxes involved:

Provided that in cases where more than half of the amount of duty and other taxes have been realized, reward may be sanctioned proportionate to the realized amount of duty and other taxes involved.

(3) In cases where the goods are disposed of through auction, sale or by any other means after completion of appellate and judicial process, fifteen *per cent* of the sale proceeds deposited in the exchequer as a result of that disposal shall be disbursed as reward to Customs Officers, Staff and informers, if any.

(4) The amount of redemption fine and penalty shall not be taken into account for reward purposes.

(5) In cases where confiscated goods cannot be disposed of, such as prohibited and restricted items in terms of the prevalent Import and Export Policy Orders, narcotics, drugs, arms, intellectual property items etc., the amount of reward shall be determined in the following manner, namely:-

Value of confiscated goods	Amount of Reward
Rs.20,000/- or less	Thirty <i>per cent</i> of the value of goods.

More than Rs.20,000/- but not more than Rs.500,000/-	Rs.6,000/- plus twenty five <i>per cent</i> of the value of goods in excess of Rs.20,000/-
Over Rs.500,000/-	Rs.126,000/- plus ten <i>per cent</i> of the value of goods in excess of Rs. 500,000/- The reward amount shall, however, not exceed Rs. 1,000,000/-

(6) The amount of reward under this sub-rule shall be sanctioned only after final decision of the case involving confiscation of the goods, and expiry of the limitation period.

(7) In cases of confiscation of tampered smuggled vehicles, the total amount of reward to be disbursed in one case shall not exceed Rs. 30,000/- in case engine capacity of the vehicle exceeds 1800 cc, and Rs.12,000/- in case of other vehicles. The welfare fund shall receive an equivalent share in these cases.

(8) The amount of reward to a serving officer of Pakistan Customs Service or staff shall not normally exceed his three years' basic salary in a single case.

5. Establishment of welfare fund.- (1) A fund shall be established for welfare of the officers of Pakistan Customs service and staff. This fund shall be operated by the Customs Wing of the Board or the Collectorate, as the case may be.

(2) The welfare fund established under sub-rule (1) shall be utilized for the general welfare of the officers of Pakistan Customs Service and staff, as prescribed by the Board under the Common Pool Fund (CPF) Rules.

6. Payment of reward.- (1) The total amount of reward specified in sub-rules (1) and (5) of rule 4 shall be disbursed to officers of Pakistan Customs Service and staff, and the informers as forty *per cent* and fifteen *per cent* of the total, respectively.

(2) The welfare fund shall receive forty five *per cent* of the amount of reward specified in sub-rules (1) and (5) of rule 4. The welfare fund shall also receive its share of reward in accordance with rule 4(7). In cases where no informer is present, share of the informer shall be deposited in the welfare fund.

7. Reward sanctioning authorities.- The authorities for sanctioning of reward under these rules shall be as under:-

(a) In the cases specified in sub-rules (1), (5) and (7) of rule 4:

Officers of Pakistan Customs Service and Staff	Sanctioning Authority
BS-1 to BS-18 in field formations	Collector or Director, as the case may be
BS-19 in the field formations	Chief Collector or Director General, as the case may be

BS-20 and BS-21 in field formations	Member (Customs), Federal Board of Revenue
BS-1 to BS-21 in FBR HQ	Member (Customs) Federal Board of Revenue

(b) in the cases specified in rule 3(2):

Officers of Pakistan Customs Service and Staff	Sanctioning Authority
BS-1 to BS-16 in field formations	Chief Collector or Director General, on the recommendation of Collector or Director, as the case may be
BS-17 to BS-21 in field formations	Member (Customs), Federal Board of Revenue
BS-1 to BS-21 in FBR HQ	Member (Customs), Federal Board of Revenue

8. Sanction of reward amount.- (1) The Reward Sanctioning Authority in the field formations shall constitute a committee consisting of at least one BS-19 and two B-18 officers to examine the cases and recommend for sanction of reward:

Provided that the beneficiary of reward shall not become member of the committee entrusted with examination of reward cases and formulation of recommendations thereof.

(2) On the basis of these recommendations, the sanctioning authority shall decide the eligibility of reward to be sanctioned.

(3) The reward sanctioning authority shall ensure that the reward amount is apportioned equitably amongst the case instituting team as well as the Officers and Staff who made meaningful efforts in the case till such stage that recovery of the duties and other taxes was effected:

Provided that the Departmental Representative shall be sanctioned Rs. 5000/- as reward against each case decided in favor of the department by the Appellate Tribunal.

(4) If the reward sanctioning authority considers any particular individual to have been instrumental in instituting the case or have made special efforts during adjudication, appellate or recovery stages, then for reasons to be recorded in writing, such an individual may be sanctioned a higher proportion of the reward amount within the permissible limit.

9. Redressal of grievances.- (1) Any officer of Pakistan Customs Service, official or informer who has claimed a reward under these rules and is aggrieved by a decision of the Reward Sanctioning Authority, may request for copy of the said decision in writing, which shall be provided within fifteen days.

(2) The aggrieved person may thereafter appeal in writing, within sixty days, for redressal of the grievance to the Chief Collector concerned, who shall decide the appeal within thirty days, through an order in writing.


(3) If the aggrieved person is not satisfied with such an order or in case the appeal is not decided within thirty days for any reason, the aggrieved person may appeal in writing to the Member (Customs), FBR, who shall decide the matter within thirty days and this decision shall be final.

(4) In cases where the Reward Sanctioning Authority is the Member (Customs) of the Board, the aggrieved person may submit a revision application within sixty days of the decision, to the Member (Customs) FBR, who shall decide the matter within thirty days and such a decision shall be final.

(5) An officer of Pakistan Customs Service can file an application to the Member (Customs), FBR for review of reward sanctioned in any Collectorate or Directorate, on the basis of material evidence, indicating violation of these rules or sanction of reward to undeserving individuals. The Member (Customs), FBR shall decide the matter after inquiring it through appropriate means.

10. Periodic review of reward sanctioning process and allied matters.-The Board shall, every two years, invite suggestions, opinions and proposals from the officers of Pakistan Customs Service and staff for improvement in the reward sanctioning process to make it more just, fair, transparent and equitable. This periodic review shall be publicized, in order to have the widest participation for value addition through the review process.

[C. No.7(3)AS&C/09]


(Najeeb R. Abbasi)
Chief (F&C)

7. **Children's Education** (inland & abroad) **Name(s) of children** **Educational Institutions** attended during F.Y. _____
-
-
-
8. **Club Membership** **Name of Club(s)** **Membership No.**
- _____ _____ _____

ASSETS & LIABILITIES

9. **Immoveable Assets** (Agri. & Non-Agri Lands, House properties, Commercial & Industrial properties, Open plots of all types)

	Identification & nature of Asset(s)	Mode of acquisition/year	Cost of acquisition
a)			
b)			
c)			
d)			
e)			
f)			
g)			
h)			
i)			
j)			
k)			
l)			
m)			

10. **Moveable Assets** (Cash in hand, Motor vehicles, Jewelry, Household items, Equipment, Business capital etc.)

	Identification & nature of Asset(s)	Mode of acquisition/year	Cost of acquisition
a)			
b)			
c)			
d)			
e)			
f)			
g)			
h)			
i)			
j)			
k)			
l)			
m)			

	Identification & nature of Asset(s)	Date of disposal	Amount received as sale proceed (Rs.)
a)			
b)			
c)			
d)			

11. Assts held as Attorney

	Identification & nature of Asset(s)	Nature of Power of Attorney (Recoverable/ Irrecoverable)	Name & Address of the Legal Owner.
a)			
b)			
c)			

12. Assets disposed off during year

13. Investments (Bonds, Shares, Certificates, deposits/Advances, Loans granted etc.)

	Details of Bonds held		Investments	
	Bond No(s)	Denomination Rs.		Rs.
a)				
b)				
c)				
d)				

14. Bank Accounts (Current, Saving, Deposit A/C & F.C. A/C)

	A/c No. & Bank Branch	Year of opening	Main Source of deposit	Balance on 30.6 (Rs)
a)				
b)				
c)				
d)				

15. Total Assets (9-14)

16. Liabilities (Departmental/Bank loans, Over drafts, Mortgages secured, private loans etc.)

	Outstanding Liabilities (A)		Liabilities paid off during the year (B)	
a)				Rs.
b)				Rs.
c)				Rs.
d)				Rs.

[15-16 (A)] Net worth Rs. _____

As on 30.6 _____

Net worth declared previously Rs. _____

Signature_____

Name _____

Designation_____

Name of the Organization/Dept.

Place_____

Date_____

INSTRUCTIONS

1. If the space provided in the form is found inadequate or some explanation is required, a separate page may be attached / annexed.
2. All assets should be valued at cost and in the cases of assets acquired through gift name, address of the donor and donees relationship with him is to be declared.
3. Income declared at Serial 4 must include income earned by the spouse & children as well.
4. Information requested must be completed. No column should be left blank. Columns which are not applicable should be crossed.
5. All assets owned by the officer & his family members (family as defined in Rule-3 (1) (c) of conduct Rules, 1964) should be declared. Assets acquired by major children dependents & others where funds have been provided by the officer are also to be declared.
6. Assets owned partly or acquired on “Hire purchase Agreement” or installments should also be declared.
7. If any exact figure cannot be inserted an estimated/approx figure may be given.
8. Sale proceeds of assets disposed off during the relevant Financial Year must be declared under the head “other sources” (Serial 4).
9. If there is no change in assets over the previous year (for which the declaration had been filed) relevant column (serial 9, 10 & 11) may be marked “**As Before**”.
10. At serial 11 assets held by others as attorney on behalf of declarant, his spouse or dependent children are also to be declared.
11. Expenses against utilities (Serial 5) should include bills paid against all meters (Gas & Electricity installed on the residence) and Telephone collections (including Mobile) in use of the officer, spouse & dependent children.
12. Notwithstanding the applicability of any other law for the time being in – force, this declaration is being filed under Conduct Rules, 1964 and any breach thereof

(including concealment of assets or giving wrong information) **is punishable under RSO, 2000.**

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Appendix 4

Islamabad, the 1st November, 2007

NOTIFICATION

1064

S.R.O. 1/ (1)/2007. – In exercise of the powers conferred by sub-section (3) of section 1 of the Federal Board of Revenue Act, 2007, the Federal Government is pleased to appoint the 1st day of November, 2007, to be the date on which the remaining provisions of the aforesaid Act shall come into force.

[No. 1/2319-M(L) FBR/07]


(M. Abdullah Yusuf)
Secretary General

AN ACT

*to provide for the establishment of Federal Board of Revenue and for
matters connected therewith or ancillary thereto*

WHEREAS it is desirable to enhance the capacity of the tax system to collect due taxes through application of modern techniques, providing assistance to tax payers and creating a motivated, satisfied, dedicated and competent professional work force that is required to perform at an enhanced efficiency levels;

WHEREAS the Federal Board of Revenue must pursue its objective and vision to be a modern, progressive, effective, autonomous and credible organization by providing quality services and promoting compliance with tax related laws, while being mindful of upholding values such as integrity, professionalism, teamwork, courtesy, fairness, transparency and responsiveness;

WHEREAS it is expedient to regulate the matters relating to the fiscal and economic policies; administration, management; imposition, levy and collection of taxes and duties;

AND WHEREAS it is necessary to re-organize the Board of Revenue to enhance the scope of activities and operations and to have appropriate autonomy and reconstituting Central Board of Revenue as the Federal Board of Revenue;

It is hereby enacted as follow:-

1. Short title, extent and commencement.-(1) This Act may be called the Federal Board of Revenue Act, 2007.

(2) It extends to the whole of Pakistan.

(3) This section shall come into force at once and the remaining provisions shall come into force on such date as the Federal Government may, by notification in the official Gazette, appoint and different dates may be appointed for different provisions.

Appendix 5

The names of Secretaries/Ex-officio Chairmen, full time Chairmen Secretary, Revenue Division/Chairmen and Vice Chairman, who headed the FBR/ Revenue Division from August 14, 1947 are given below:

Chairmen, FBR

1) Mr. Tariq Bajwa	02.07.2013	Till Date
2) Mr. Ansar Javed	10.04.2013	30.06.2013
3) Mr. Ali Arshad Hakeem	11.07.2012	09.04.2013
4) Mr. Mumtaz Haider Rizvi	13.02.2012	11.07.2012
5) Mr. Mehmood Alam (Member SP&S)	25.01.2012	13.02.2012

Secretary Revenue Division/ Chairman, FBR

1) Mr. Salman Siddique	24.12.2010	21.01.2012
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Chairman, FBR

1) Mr. Sohail Ahmad	18.05.2009	24.12.2010
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Secretary Revenue Division/ Chairman, FBR

1) Mr. Ahmad Waqar	23.07.2008	18.05.2009
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Secretary General Revenue Division/ Chairman, FBR

1) Mr. M. Abdullah Yusuf	14.06.2006	23.07.2008
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Secretary Revenue Division/ Chairmen, CBR

1) Mr. M. Abdullah Yusuf	12.03.2004	14.06.2006
2) Mr. Riaz Ahmad Malik	03.07.2001	11.03.2004
3) Mian Iqbal Farid	07.11.1998	06.11.1999
4) Mr. Riaz Hussain Naqvi	08.11.1999	02.07.2001

Vice Chairmen, Chairman CBR

1) Mr. Moinuddin Khan	02.01.1998	06.11.1998
2) Mr. Hafeezullah Ishaq	11.11.1996	02.01.1998
3) Mr. Shamim Ahmed	28.08.1996	11.11.1996
4) Alvi Abdul Rahim (Remained vice Chairman of CBR before becoming Chairman CBR)	13.07.1995	28.08.1996

Secretary Revenue Division/ Chairmen, CBR

1) Mr. A.R. Siddiqi	11.07.1994	11.01.1995
2) Mr. Javed Talat	26.07.1993	01.07.1994
3) Qazi M. Alimullah	03.05.1993	17.07.1993
4) Mr. M. Mubeen Ahsan	03.11.1992	03.05.1993

5) Mr. Sajjad Hassan	03.10.1991	03.11.1992
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Chairmen, CBR

1) Mr. Sajjad Hassan	24.07.1991	03.10.1991
2) Mr. Ahadullah Akmal	16.08.1990	24.07.1991
3) Mr. Ghulam Yazdani Khan	22.01.1989	11.08.1990
4) Syed Aitezazuddin Ahmed	20.08.1988	02.01.1989
5) Mr. I. A. Imtiaz	11.08.1985	20.08.1988
6) Mr. Fazlur Rahman Khan	14.12.1980	11.08.1985
7) Mr. N. M. Qureshi	12.11.1975	14.12.1980
8) Mr. M. Zulfiqar	01.10.1974	12.11.1975
9) Mr. Riaz Ahmad	17.11.1973	30.09.1974
10) Mr. M. Zulfiqar	11.10.1971	17.11.1973

Finance Secretaries/ Ex-Officio Chairmen, CBR

1) Mr. A.G.N. Kazi	08.09.1970	10.10.1971
2) Mr. Ghulam Ishaq Khan	31.05.1966	08.09.1970
3) Mr. M. M. Ahmed	06.03.1963	30.05.1966
4) Mr. Mumtaz Mirza	19.06.1961	06.03.1963
5) Mr. M. Ayub	29.07.1960	19.06.1961
6) Mr. H. A. Majid	01.11.1958	29.07.1960
7) Mr. Mumtaz Hassan	25.02.1952	01.11.1958
8) Mr. Abdul Qadir	01.02.1950	25.02.1952
9) Sir Victor Turner	14.08.1947	01.02.1950

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