



**State-Building in South Africa after
Apartheid: The History of the National
Treasury**

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Public Affairs Research Institute (University of the
Witwatersrand) / working paper

PARI Public Affairs
Research Institute

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Public Affairs Research Institute
19.02.2016**

Introduction:

The National Treasury is a pivotal institution in South Africa's governance landscape. Portrayals of the Treasury are often polarized: where some see an exceptional institution that stands "head and shoulders" above other government departments and which has long held the line against reckless state expenditure, others see an elitist institution which imposes top-down austerity and restricts a genuinely developmental agenda. What is less often interrogated is the institutional history of the National Treasury, and how it came to occupy such a powerful position in the post-apartheid era. In this paper, we look to contextualize the emergence of the Treasury, beginning a study into the institution's longer history. We examine the emergence of a strongly centralised Treasury within the particular exigencies of South Africa's transition to democracy. These circumstances have shaped the modes of coordination undertaken by the Treasury since, although it has attempted to adapt and recalibrate its tools to changing realities.

In the first section, we examine how the Treasury, as opposed to another state entity, came to occupy a central, coordinating role in the post-apartheid governance framework. We argue that the Treasury rose to the authoritative position it did primarily as a result of its particular Constitutional imperatives, the internal bureaucratic strength it was able to forge over the transition, and the continuing political support that the Treasury received, which was tied to certain fundamental macroeconomic beliefs. These beliefs found resonance with predominant international orthodoxies that emphasised, among other things, fiscal austerity and "value for money" – what a number of authors have characterised as tenets of neoliberalism. The purpose of this study is not to assess the merits of the policies of fiscal austerity pursued by Treasury, or the wisdom of the ideological underpinnings of macroeconomic policy. These debates have attracted significant scholarship elsewhere (see, for instance, Bond, 2000, 2004; Natrass, 2014; Padayachee & Habib, 2000; Rustomjee, 2006; Terreblanche, 1999). We aim to enrich these debates by looking at the particular institutional configuration that came with post-apartheid macroeconomic policy.

Next, we show how the Treasury's centrality was maintained with the construction of a new system of "cooperative governance", which emphasised a degree of autonomy for subnational governments. Treasury played a key role in developing this

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intergovernmental system, and coordinating fiscal and financial management reforms through, for instance, the adoption of a multi-year budgeting framework from 1998 and the passage of the Public Finance Management Act (PFMA) in 1999. These reforms represented a continuing negotiation of centralised control and decentralised autonomy. We show that the success of these measures has been mixed and contested.

In the 1990s and into the new millennium, the National Treasury was a key flag-bearer of central-state building. It helped to forge a unified state from the fragmented apparatus it inherited from the apartheid state, and achieved broadened capacities for intergovernmental coordination. It helped to forge a particular vision of a national state. The kind of hierarchical, technocratic coordination Treasury undertook was central to Thabo Mbeki's approach to state-building. And just as Mbeki's centralised approach came to attract stringent criticism, the Treasury's role was highly contested. These contestations played themselves out with dramatic effect at the ANC's 52nd Annual Conference in Polokwane. We highlight perceptions amongst senior Treasury officials which suggest that the institution has encountered growing challenges to its mandate of central fiscal control since the rise of the administration of Jacob Zuma. We argue that the recent abortive attempt to fire the Finance Minister, Nhlanhla Nene, should be considered a reaffirmation of Treasury's position within an established hierarchy of state. Yet because of the pivotal role it occupies in controlling the flow of public finances, and determining some of the very basic facts of life in South Africa, we argue that the institution will nonetheless remain a site of contestation, as it has been since the earliest years of the democratic state.

The analysis that follows is drawn from insights we have collected from a broad range of existing secondary literature in which the National Treasury is mentioned. Official state documents have also been consulted. Significantly, a range of interviews conducted with senior Treasury officials and others who were involved in public finance structures has helped enrich the study.¹ This is an early report of what is anticipated to be a sustained project into the history of the Treasury. We hope to deepen this analysis further by studying the documents constituting the National Treasury archives, which are at present fragmented.

¹ In the course of 2015, PARI researchers conducted interviews with Trevor Manuel, Neil Cole, Andrew Donaldson, Ismail Momoniat, Kuben Naidoo, and Tania Ajam.

I. The Rise of an Authoritative National Treasury

(A) The Apartheid Inheritance

The post-apartheid National Treasury finds its genesis in the negotiated decisions around governance and fiscal institutions under the Government of National Unity (GNU) during the transition to a post-apartheid state (Momoniat, 2002). The role that the Treasury came to fulfill emerged in response to the stark economic and institutional realities of the transitioning state and enormous expectations of redistribution.

The ANC came to power with an ambitious service delivery mandate in the form of the Reconstruction and Development Programme (RDP). Yet in 1994, it inherited an economy still reeling from a prolonged depression, (see, for instance: Abedian *et al*, 1995; Ajam & Aron, 2007; Folscher & Cole, 2007; Green, 2008; Hirsch, 2005; Naidoo, 2006). In the midst of a global economic recession and intense political strife at home, the closing years of apartheid rule had seen a massive increase in the deficit, spiralling inflation, high interest rates and capital flight. The government-in-waiting watched as the national debt and the costs of servicing it ballooned. According to Folscher and Cole (2006:2), the main budget net borrowing requirement had reached 8.7% of GDP in the 1992/93 fiscal year, and in the 1994/95 fiscal year, public debt had risen to nearly 47% of GDP from a level of approximately 30% ten years earlier. Debt problems were most acute in the notionally sovereign states – the “independent” bantustans which were an integral part of the apartheid strategy of breaking up the territorial integrity of the state.

The ANC also inherited a highly fragmented bureaucracy. There was disarray in the key institutions in charge of public finances, the Department of Finance and Department of State Expenditure, which contributed directly to the worsening economic situation (Ledger, 2015). There was little coordination between the two Departments. State revenue collection, expenditure controls and financial administration were splintered across all of the various apartheid state structures with little monitoring or oversight (Hogan, 1996). The budget process was archaic, based around annual planning for inputs (such as salaries and purchases of goods and services), and not for outputs (the actual delivery of government goods and services) (Ledger, 2015). There was no requirement to spell out the details of the impact of spending (Nkoana and Bokoda, 2009). There was thus effectively no thoroughgoing system for evaluating the performance of the various organs of governance. Secretive practices developed during South Africa’s prolonged isolation - for instance, a host of hidden spending categories, such as illegal sanctions-busting purchases - evaded requisite accounting practices. The new government faced challenges in securing revenue. The Department of Finance was responsible for revenue collection, through two separate directorates – Inland Revenue and Customs and Excise. South Africa’s

tax laws were complex, containing numerous exemptions and loopholes, and bantustan states each had their own tax systems (Doherty, 2014).

When the first democratic government took over the reins of the state, it would set about overhauling these Departments, leading to their eventual unification in the form of a new National Treasury. Yet there are some indications that moves towards greater centralised control of government finances on a national scale find earlier precedents in decisions undertaken by officials within the apartheid Departments of Finance and Foreign Affairs in the late 1980s. Andrew Donaldson (2015), Deputy-Director General of the Government Technical Advisory Centre in the Treasury, confirms that important reforms were already being undertaken by government technocrats in the Departments of Finance and Foreign Affairs, under the leadership of so-called “verligte” officials. At some distance from the rhetoric of separate development, Donaldson believes these officials had undertaken initiatives which suggested a conscious acknowledgment of South Africa as a unitary state: “[officials were] dealing with the logic of an interconnected state, in spite of the fiction of a divided one”. He cites the example of the drought relief provided by the state in the 1980s, in which Transkei was implicitly regarded as a part of South Africa and thus eligible for relief. He describes the situation as an increasingly “postcolonial” one, in which South Africa functioned much like the metropole in regard to its post-colonies. In her role as Deputy Director General of Finance in 1996, Barbara Hogan posited that the Departments of Finance and of Foreign Affairs had sought to consolidate state spending during the 1980s as one of a number of last-ditch policy attempts to “soften” apartheid (Hogan, 1996). This indicates that a range of decisions were being taken in Pretoria by the Presidency, and various new intergovernmental fora and mechanisms were established to roll out and enforce these decisions throughout Bantustan territories (Donaldson, 2015). This ushered in greater centralised control over fiscal allocation and project finance of Bantustans and self-governing territories (Hogan, 1996). By the early 1990s, it seems that moves were already underway towards a consolidated fiscus and a new kind of proto-Treasury structure was coalescing in anticipation of a unified state. This longer history of institutional moves towards a unitary state, and the factors which influenced these developments, deserves further study.

In the early 1990s, Department of Finance officials would also undertake far-reaching moves which laid the foundation for a unified fiscus. They helped facilitate the process of reabsorbing the Bantustans and “self-governing territories” into the South African state. It was in these nominally independent areas where financial management systems had especially broken down and important financial records were missing (Hogan, 1996). The 1993 Interim Constitution set early mandates for fiscal consolidation and restructuring - particularly in Chapter 12 on finance (sometimes referred to as the “fiscal constitution”). Department of Finance officials were tasked with combining the budgets of all of South Africa’s splintered administrations into a single coherent revenue and expenditure framework. Annual Budget Reviews from 1993 onwards detail progressive steps made each year: the withdrawal of the capacity

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for revenue collection by homeland and old provincial administrations, the phasing out of these administrations altogether, the establishment of new provincial governments with limited financial and fiscal responsibilities, and the allocation of powers to these new administrations through capacitating legislation (Department of Finance, 1993, 1994, 1995). Officials were also required to combine the debts of the homelands into a single account. Andrew Donaldson, who had joined the Department of Finance's Unit of Fiscal Analysis in 1993, noted that an obstacle to this process was the absence of accurate data to determine the actual extent of these debts (in Green, 2008:377). It would take 18 months before this process was complete. In 1994, the Budget Review indicated that the Minister of Finance had been authorised to take over homeland debts of R15 billion and refinance it through securities issued by the National Government (Department of Finance, 1994). These undertakings were crucial in laying the groundwork for a Treasury of national scope.

(B) Constitutional Mandate

In 1996, the mandate for the establishment of the National Treasury was set in stone. Apart from the Presidency, the Treasury was the only government department specifically mentioned in the 1996 Constitution. Unlike the Interim Constitution, which prescribed fiscal consolidation but did not specifically mention the Treasury's formation, Section 216 of the 1996 Constitution explicitly outlined the need to establish a National Treasury (Constitution of the Republic of South Africa, 1996). This was to be achieved by the merging of the apartheid Departments of Finance and State Expenditure, a process which was formally completed in 1999.²

While providing the legislative legitimacy that secured Treasury's central embeddedness in the South African state, Section 216 of the Constitution also outlines the broad legal powers and responsibilities of the National Treasury in the new intergovernmental system (Ajam and Fourie, 2014: 50; Republic of South Africa, 1996; Hirsch, 2015). This constitutional lineage was key to legitimating the Treasury's coordinating role in the South African state (Segatti & Pons-Vignon, 2013; Ajam & Fourie, 2014).³

² With the passage of the Public Finance Management Act (PFMA) in 1999, the merging process was completed. It was at this point that the National Treasury was formally constituted, although structures in the Department of Finance had received this appellation for many years prior.

³ It should be noted that the task of overhauling the country's tax regime would fall to a new autonomous South African Revenue Services (SARS), formed in 1998. SARS is a creature of statute. With Pravin Gordhan as its first commissioner, SARS succeeded in dramatically improving tax collection and broadening the tax base while resisting massive rate hikes. Manuel could boast in 2008 that in the space of ten years, tax revenue had grown from R184 billion to R558 billion (Manuel, Budget Speech, 2008). The task of disciplining the way that government spent public finances fell to the Treasury.

The Constitution envisaged a significant measure of decentralisation in government structures - a crucial negotiated political compromise between South Africa's key political parties in the transition to democracy and a unitary state (Momoniat, 2002). This commitment to a "unitary but decentralised" system of government prescribed the establishment of national, provincial and local governments which would interact according to a framework of "cooperative governance" (Momoniat, 2002). Rather than an intergovernmental system premised on hierarchical *levels* of government, the notion of cooperative governance emphasises differing *spheres* of government; that is, local and provincial governments are not merely administrative extensions of the center, but enjoy a significant degree of fiscal autonomy. Treasury is not meant to dictate how every cent is spent in a government entity. In areas where a sub-national government has either exclusive or concurrent legislative and executive authority, state institutions have increased latitude to allocate funds towards these specific functional areas (Ajam, 1998:68). Although devolving fiscal powers in South Africa appears to have been motivated considerably by political considerations, it also aligned with a broad international trend of public-sector decentralisation (Ajam, 1998: 55-56).

Coordinating and building processes of budgeting and financial management in this new intergovernmental system became a crucial task of the National Treasury. It was constitutionally mandated to "prescribe measures to ensure both transparency and expenditure control in each sphere of government" (Republic of South Africa, 1996: S.216). As Ajam and Fourie note, "in decentralised unitary states, such as South Africa, the central government - and the National Treasury in particular - has to fulfill a supervisory role over subnational counterparts" (Ajam & Fourie, 2014: 46). The Treasury was thus constitutionally endowed with an authoritative oversight function over the expenditure of all spheres of government, and became a crucial formulator of policy. The Treasury was also made responsible for distributing the state's centralised revenue to the subnational governments through a system of equitable share and conditional grants. The 1996 Constitution's chapter on Finance introduces the concept of "equitable share" as a means towards fairly dividing South Africa's newly centralised revenue between the three spheres of government, and within the highly unequal terrain of provincial and municipal governments (Republic of South Africa, 1996; Momoniat, 2002). The formulation of this "equitable" division of revenue is informed by the recommendations of the independent Fiscal and Financial Commission (FFC) (Republic of South Africa, 1996). Additionally, conditional grants impose specific, centrally-determined spending allocations on identified areas, preventing their use for other priorities. The powers of provincial treasuries, are, moreover, essentially delegated by the National Treasury (Ajam, 2014).

While signaling a degree of devolution, therefore, "cooperative governance" always maintained a strong coordinating role for the Treasury at the heart of the intergovernmental system, cementing its position as a preeminent institution in building

the new national state. Yet this role, as we will discuss, has attracted a great deal of contestation.

(C) Internal Institutional Restructuring

This intergovernmental vision would not be realised overnight, requiring gradual phasing in. In these formative years, Treasury was required to function while simultaneously transitioning - dealing with pressing demands of formulating budgets and managing state debts while entrenching its own institutional capacities (Hogan, 1996). However, the ANC government did inherit crucial functional apparatus for central fiscal coordination. There was an annual budget, and there was both an auditor general and an accountant general (and associated uniform standards of auditing and accounting). Nevertheless, shaping the new Treasury into the form intended to meet its new mandate in a democratic state required far-reaching internal institutional restructuring.

From 1997, the Treasury's functional divisions were delineated and formalised. Department of Finance documents point to constant organisational restructuring within the Treasury from 1997 to the early 2000s (Department of Finance, 1998, 1999; National Treasury 2002, 2003). Despite regularly shifting and renaming functional divisions, programmes, and units, the Treasury's core functions look to have remained constant: budget management, intergovernmental relations, macroeconomic policy, and asset and liability management (Department of Finance, 1998, 1999, 2001; 2002). This is indicative of continuity in the Treasury's institutional mandates and areas of expertise. Segatti and Pons-Vignon note that Treasury's internal reorganisation which yielded specialised directorates helped it gain ascendance (2014:549).

Within the nascent Treasury, the Budget Office emerged as a particularly prominent actor in shaping post-apartheid fiscal consolidation reforms. It was born from the reshuffling that saw the state's expenditure control moved from the Department of State Expenditure to the Department of Finance. The Budget Office had a great deal of responsibility at the time, concerned with macroeconomic policy, financial planning, taxation policy, and intergovernmental relations (Department of Finance, 1998). As the organisation of Treasury developed, these significant portfolios were later performed by separate Treasury divisions. The early Budget Office thus became the nexus of what was to evolve into the National Treasury. The Office staffed some of the Treasury's key roleplayers, including participants in this study: Andrew Donaldson, who became head of the later streamlined Budget Office, his successor, Kuben Naidoo, and Ismail Momoniat, who spearheaded the Treasury's unit of intergovernmental relations. The Budget Office later took on the specific role of coordinating the budgetary processes, and producing the budget (Department of Finance, 1999). Kuben Naidoo (2015) sees the Budget Office as having played a pivotal role in leading Public Finance Management (PFM) reforms. The Intergovernmental Relations Unit, initially under the Budget Office, was also crucial to

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formulating and implementing reforms that came to epitomise the “new” centralised Treasury.

Unlike many government departments, the Treasury has been characterised by low turnover in senior management positions, earning a reputation as being a government institution characterised by institutional continuity and stability (Vollgraaff, 2015). Tania Ajam notes that many people with a strong academic background got involved in Treasury (Ajam, 2015). Segatti and Pons-Vignon further note that along with Treasury attracting a high level of skilled personnel, it is characterised by low vacancy and high levels of internal promotion. Additionally, its staff operates at a “distance from ANC politics” (2014:549). Individuals from the Treasury have gone on to hold high-ranking private sector positions, including Maria Ramos and Trevor Manual, or have taken on other senior roles in the national fiscal and monetary apparatus, such as Lesetja Kganyago, Pravin Gordhan, Nhlanhla Nene, and Tito Mboweni.

Von Holdt (2010) suggests that the Treasury – alongside SARS – is a rare “pocket of highly efficient Weberian bureaucracy” in the South African state - where a Weberian bureaucracy (drawing on Evans, 1995) is distinguished by meritocracy, a high premium placed on skills and expertise, and corporate cohesion. As a perceived “pocket” of efficient bureaucracy, a common refrain is that the Treasury stayed immune from political tampering (Vollgraaff, 2015). However, this is complicated by that fact that, as Von Holdt notes, the Treasury is not simply a value-free bureaucracy, but the site of a particular economic ideology backed by powerful political interests. In the discussion that follows, we show how the Treasury has always been highly enmeshed in politics, and that its increasingly centralised position in the state apparatus was enabled by the particular technocratic vision of governance supported by the leadership of the ruling party.

(D) Treasury’s Political Backing and Ideological Resonance

Both the Constitutional mandate which placed Treasury at the centre of the South African intergovernmental system and its internal dynamism are crucial to understanding how the institution came to exercise the significant centralised capacity it did in the post-apartheid era. However, both of these factors are premised on a third, perhaps more foundational element: strong political support, particularly from the executive of the ANC. In what follows, we examine both the nature and motivations behind this support.

According to Gumede (2009 in Kraak 2011), the central coordinating machinery of developmental states “succeed because they are steered by the political ‘chief executive’ and in so doing acquire the necessary legitimacy”. Treasury officials had early on attracted the support of the most powerful figures in the ANC’s executive. The first post-apartheid Finance Minister, Chris Liebenberg, told Green that when he expressed the need to reduce the deficit - a highly unpopular stance in 1994 - “Mbeki

and Mandela really held their hand over me” (Green, 2008:420). Alan Hirsch also affirms that support from the President was crucial: “It was absolutely critical for the minister to ensure that he had the full political backing from the President and other senior members of the executive. Manuel was able to obtain that” (Hirsch in Southey, 2015). Andrew Donaldson (2015) notes the particular importance of the personal relationship that emerged between Manuel as Minister of Finance and Thabo Mbeki in his successive roles as Deputy President and President. Thabo Mbeki, a trained economist, would nurture strong ties with both Trevor Manuel and the team he came to lead.

Constituting the core of this team were members of the ANC’s internal Department of Economic Planning (DEP), many of whom would rise to be key leaders in the Treasury, spearheading institutional restructuring and reforms. Ismail Momoniat, now Deputy Director General of Tax and Financial Sector Policy, affirms the centrality of the DEP in giving shape to the post-apartheid Treasury. Originally established in exile by Max Sisulu, staffers of the DEP would play a leading role in the new South African economic landscape. Both Maria Ramos, the future Director-General of the National Treasury, and Tito Mboweni, the future Governor of the Reserve Bank, helped to establish the DEP’s first South African-based office at the ANC’s Shell House headquarters in Johannesburg at the close of the 1980s (Green, 2008 p.337). A host of other figures who came to play pivotal roles in the post-apartheid government were also part of the DEP, including Zavareh Rustomjee, Ketso Gordhan, Vivien McMenamin, Paul Jourdan, Derek Hanekom and Alistair Ruiters (Green, 2008; Hirsch, 2005:49-50). These ANC economists and academics came to constitute an important and influential network for developing the ideological underpinnings of the post-apartheid state’s fiscal institutions. Collectively they formed the core of ‘Team Finance’.

Mbeki’s influence on the DEP was prominent. In 1991, following his history of political organisation under the banner of the United Democratic Front (UDF), Trevor Manuel was appointed to lead the DEP. According to Gevisser, Manuel “quickly became Mbeki’s protégé; with Mbeki’s support, Manuel wrested ANC economic policy away from a group of illustrious left-wing London academics who advocated for a strong state role and inevitable deficit spending, and quietly set about writing a policy in accordance with the conventional wisdoms of the World Bank and IMF” (Gevisser, 2009:249). He asserts that Mbeki was the DEP’s “quiet guru”, who “worked quietly with Manuel and his team below the radar”. Mbeki was also the DEP’s “entrée into the world of international financial institutions”, leading the ANC delegation to Washington to meet the World Bank and IMF in 1992 and organising for many DEP staffers to be trained at Goldman Sachs in New York (Gevisser, 2009:249).

Despite fierce contestation during the transition around the ANC’s official macroeconomic policy, by 1994 it was clear that the vision espoused by key figures in the DEP had ultimately gained ascendancy. The rise of the DEP in influencing the new ruling party’s macroeconomic stance was accompanied by the sidelining of the Macro-

Economic Research Group (MERG) (Segatti & Pons-Vignon, 2013; Freund, 2013). Formed in 1991 by a collection of international economists, former exiles, and trade union affiliated thinkers, MERG's macroeconomic recommendations diverged from the orthodox economic paradigm at the time in advocating for a protectionist, inward-looking developmental approach by the state (Freund, 2013). Freund (2013) argues that key among the reasons MERG failed to dominate the ANC's macroeconomic agenda was that it lacked key figures aligned with the balance of power in the party at the time.

By 1996, it was clear that the policy perspective promoted by the DEP and Mbeki had gained the upper hand. In June of this year, the Growth, Employment and Redistribution (GEAR) policy was introduced. The introduction of GEAR signalled the ascendance of global macroeconomic orthodoxy which, *inter alia*, prioritised fiscal restraint and a reduction of the deficit. In the process, alternative voices were marginalised, voices which would continue to contest the government's macroeconomic stance - and the National Treasury along with it.

(i) The Closure of Institutional Alternatives

For many, the introduction of GEAR represented a significant diversion from Reconstruction and Development Programme (RDP) with which the ANC entered government. While the differences between GEAR and the RDP has attracted significant scholarship (see, for instance, Terreblanche, 1999; Nattrass, 2014) what has perhaps received less emphasis is the differing *institutional* vision that came to accompany each of these policies. According to a number of authors, the introduction of GEAR did not simply signal a new macroeconomic framework, but also the ascendancy of a particular institutional arrangement with the National Treasury at its helm.

In June 1994, the RDP came to be institutionally embodied in the RDP Office, housed within the Presidency and headed by Jay Naidoo ("Minister Without Portfolio") (Masilela & Mthiyane, 2014:63). The RDP Office represented an experiment in a kind of "super-ministry", which would coordinate planning and funding across departments. As Kraak (2011:351) highlights, the RDP's founding policy document envisaged expanded horizontal coordination by broadening interdepartmental and -governmental cooperation and expanding mechanisms for consultation. It prescribed the creation of an RDP Fund, a central pool specifically earmarked for RDP projects which would be collected by "top-slicing" departmental budgets (Kraak, 2011:351). The RDP Office had been empowered, with the collaboration of other departments, to spearhead the creation of a range of public service and financial management reforms.⁴

⁴ According to the 1995 Budget Review, the RDP Office, "in association with the Department of State Expenditure and other agencies" was tasked with realising "budgetary reprioritisation process and a longer term expenditure planning initiative", introducing "new planning,

According to Everatt and Gwagwa, “it became clear that new ANC ministers, supported by bureaucrats from the old and new regimes, as well as traditional centres of power in government such as Treasury, were unwilling to submit their expenditure plans to a ‘super-ministry’ that held an effective veto by deciding whether or not plans and budgets were sufficiently aligned to the goals of the RDP” (quoted in Masilela & Mthiyane, 2014:63). Similarly, Kraak argues the RDP office never attained “hegemony across government”, failing to assert “a level of collective authority higher than that exercised by individual line-function Ministries” (2011:351). And crucially, the RDP Office did not receive the backing that the Treasury had from the ANC’s executive. Nattrass and Seekings (1998:219) argue that the attempt at imposing central direction represented by the RDP Office “was unlikely to succeed unless backed by powerful actors in government—which did not happen”.

The death knell of this institutional experiment was rung with the introduction of GEAR in 1996, which was, according to Kraak, “driven by Treasury” (2011:351). Key members of Treasury were involved in the formulation of the policy, including Manuel, Gill Marcus, Maria Ramos, Andrew Donaldson and Andre Roux (South Africa, 1996). The National Treasury took over many of the responsibilities of the RDP Office when it closed in 1996, reclaiming predominance over the budget process. After its closure, RDP project funds were transferred directly to national departments or provincial votes via the normal budget process, mediated by the Treasury (National Treasury, 2007: 4.3). Treasury not only subsumed all of the RDP’s budgeting processes, it also took over its broader mandate of governmental reform.

The GEAR years represent the high watermark of the Treasury’s power in the post-apartheid period; it was a moment in which the macroeconomic framework and Treasury’s core institutional mandate - fiscal discipline, allocative efficiency and operational efficiency - were virtually identical. Just as the RDP had been placed within its own ministry, so GEAR came to be located within Treasury: “the harder edged fiscal prudence that [GEAR’s] advocates hoped to achieve was more successfully pursued by locating coordinating responsibility within an existing ministry which enjoyed authoritative standing in Cabinet, and whose core business corresponded with the aims of GEAR” (Naidoo & Maré, 2015).

According to Kraak, GEAR not only heralded the end of the RDP Office, but also the kind of coordination that the ministry had embodied. With the introduction of GEAR, the kind of experimental attempt at greater cross-cutting, horizontal coordination represented by the RDP Office fell away and “governance patterns returned to more

budgeting and evaluation processes as key elements in effective government expenditure management”, and establishing greater monitoring and accountability capacities through developing “critical performance indicators within various policy arenas” and “an information management system” (Department of Finance, 1995). After the closure of the RDP Office, the responsibility for this reform agenda was shifted towards the National Treasury.

orthodox patterns of institutional politics”, while “horizontal coordination (entailing several government departments cooperating around the big socio-economic issues) took a back seat in this period” (Kraak, 2011:351). Thus, according to Kraak, the rise of GEAR not only represented the triumph of fiscal conservatism, but also the dominance of a *hierarchical mode of governance*.⁵ Similarly, Naidoo and Maré argue that “GEAR dispensed with the creation of auxiliary coordinating structures within the state by being spearheaded by key ministerial actors in Cabinet and the bureaucracy, led by the Ministry of Finance and the National Treasury” (Naidoo & Maré, 2015). Although GEAR highlighted the need for “effective coordination of economic policy at Cabinet level”, the “pre-eminence of the Treasury in this process was clear” (Naidoo & Maré, 2015).

Treasury thus came to represent the institutional embodiment of the macroeconomic paradigm, an association which resulted in the institution attracting the same criticism unleashed on GEAR. Both came to attract stinging criticism, especially from those within the ANC’s alliance structures, in the South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu). Mbeki’s public defence of GEAR, in which, for instance, he provoked his detractors to call him a “Thatcherite”, and the new alliances he forged in his own back garden to promote GEAR - the “Under the Tree” sessions (Gevisser, 2009:250-251) - were the kind of executive maneuvers that simultaneously helped affirm Treasury’s ascendance in the emerging hierarchy of post-apartheid governance. A strong, centralised Treasury was emblematic of Mbeki’s mode of “vanguardist” state-building - a conception of social change that emphasises the pivotal role of a technocratic elite at the center of state. The authority of Treasury and the macroeconomic stance it spearheaded would be criticised throughout Mbeki’s presidency, factors which we explore in greater depth later.

(ii) The Outward Orientation of GEAR and the National Treasury

In 1996, as the ANC symbolically took the reins of financial decision-making with the appointment of the first ANC Finance Minister, Trevor Manuel, it faced a baptism of fire by global markets. A sharp decline of the rand in the second quarter of 1996 showed with great force the capriciousness of international financial sentiment. A few months later, GEAR would be introduced which broadly accorded with global economic prescripts and which made overtures to international markets, seeking to woo foreign direct investment.

⁵ In some ways, the differences in approach between the RDP Office and the Treasury is mirrored in the way in which these macroeconomic frameworks were formulated. According to Naidoo and Maré, “GEAR’s approach to policy co-ordination, in contrast to the RDP, may be described as pragmatic and authoritative” (Naidoo & Maré, 2015:17). Gelb echoes this: “while the RDP was constructed after lengthy consultation and debate and sought to entrench community participation and widespread consultation in service delivery and policy-making, GEAR was a clear example of top-down policy-making” (Gelb in Naidoo & Maré, 2015:12)

GEAR was one shaped by a keen sensitivity to the fact that South Africa had to reckon with its recent re-emergence into the international economic community under the scrutiny of global financial markets. The new democratic state was forged against the backdrop of a global macroeconomic paradigm which disapproved of deficit financing. Instead, fiscal restraint and “good fiscal governance” were emphasised (see Abedian, 1998a p.18). According to a 1998 World Bank handbook, the key pillars of Public Expenditure Management (PEM) framework are (i) *Fiscal Discipline*, (ii) *Allocation of resources* in accordance with priorities, and (iii) *Efficient and Effective* use of resources in the implementation of priorities (World Bank, 1998). What this advocated in the context of developing economies was a reduction in deficit, to spend within their means, and to “spend better” (Abedian, 1998 p.16).

In achieving these three goals - presented as the hard parameters within which state building was to take place - doyens of international financial wisdom emphasised the integral role that a centralised treasury was to play through “modernised” budget coordination (see Schick, 2001). This included prescriptions about the broader state fiscal apparatus, including an autonomous Reserve Bank and revenue collection service – machinery which would work alongside Treasury as core institutions of fiscal governance⁶ (Segatti & Pons-Vignon, 2013). South Africa’s fiscal policy emerged under a context where the globalisation of capital markets imposed real pressure for fiscal policy convergence, with credit worthiness tied closely to deficit finance and levels of public debt (Abedian, 1998a p.18).

GEAR emphasised these imperatives of fiscal discipline, allocative efficiency and operational efficiency - principles which became the core mandate of the new Treasury (Department of Finance, 1998, 1999; National Treasury 2002, 2003). Key figures in the Treasury refute the claim sometimes made that these imperatives were simply imposed upon the new state by international capital, however (see, for instance, Klein, 2007). Maria Ramos is insistent that the macroeconomic approach of the new government was not drawn up by experts in Washington, but was of a truly home-grown variety (Green, 2008). Those like Ramos who drove macroeconomic policy argued that it was not the World Bank and IMF who dictated South Africa’s stance, but rather the choices made were significantly drawn from the desire to maintain South Africa’s economic sovereignty. This is a sentiment that Manuel and Mbeki consistently expressed. The examples of other developing nations, especially neighbouring African states, who had undertaken expansive spending programmes and had then been forced to borrow from international lenders with stringent conditionalities, weighed heavily on government’s fiscal decisions (Green, 2008; Hirsch, 2004).

The vagaries of the international market also featured prominently in GEAR. While international sentiment was generally positive about the “new” South Africa, investors

⁶ One should add to this the integral role of the Auditor-General and Accountant General – crucial institutions for realizing Treasury’s responsibilities of oversight.

were uncertain about exactly what the details of the ANC's economic policies might be, and thus reluctant to make any big financial commitments - especially in the midst of a growing domestic economic crisis and mounting apartheid debt. The power of what Manual called the "amorphous" market was one of the founding narratives that shaped the macroeconomic choices of the new government - and Treasury's evolution as a central authority in the new governance landscape. The predominance of concerns about international sentiment has remained an overwhelming element in bolstering both the central power of the Treasury and its modes of governance. The threat of exchange rate crises, credit rating downgrades by international agencies, and stock market collapse have served as a powerful force in maintaining the Treasury's predominance and relative autonomy in the post-apartheid landscape - a fact which was demonstrated in the wake of the recent removal of Nhlanhla Nene as Minister of Finance.

The preceding discussion has shown the interplay of factors which resulted in the ascendancy of the Treasury within the structures of state. During the early years of democracy, Treasury emerged as a strong and authoritative force in the post-apartheid governance landscape. In the next section, we examine how the Treasury negotiated its authority through budget and financial management reforms that devolved power to different spheres of government. We argue that despite imperatives to devolve significant decision-making capacities, the institution has retained powerful top-down instruments for the realisation of its mandate that reaffirmed its authoritative position. The way that Treasury has exercised its authority has, however, been a site of contestation.

II. Negotiating Treasury's Authority

Endowed with strong capacity in the new South African state, the Treasury was tasked with undertaking a complex coordinating role in a fledgling intergovernmental system. In this section, we argue that the Treasury could not simply impose its central authority. We demonstrate that in forging a new national state, the Treasury had to constantly negotiate its role *vis-a-vis* the rest of government through a number of mechanisms. We look at the measures introduced by Treasury to open up the budgeting process - specifically through the introduction of the Medium Term Expenditure Framework (MTEF) and associated intergovernmental fora - and its attempts to devolve managerial responsibility to state institutions, especially through the Public Finance Management Act (PFMA) of 1999. We argue that these initiatives sought to give form to a particular kind of "cooperative governance" which attempted to balance central coordination with network-type budgetary decision-making and devolved resource management.

Yet we argue that the particular form of coordinating power promoted by the Treasury has given rise to contradictory circumstances amongst South Africa's provincial and local powers: despite gestures towards genuine autonomy, sub-national governments have, in practice, exercised low levels of *de facto* fiscal autonomy. While yielding some significant improvements, measures introduced by the Treasury to give life to a system of "cooperative governance" have come to attract a great deal of criticism. Moreover, these initiatives have failed to engender rigorous accountability amongst public servants, have fostered "silo-ization" in state entities, and potentially even emboldened forces pulling away from the Treasury's mandate of fiscal discipline. The Treasury has had to recalibrate its tools of coordination to reaffirm top-down control in an environment of constant contestation and political flux. Nevertheless, as the recent about-turn on President Jacob Zuma's decision to sack the Finance Minister demonstrates, Treasury remains a powerful and authoritative institution in the governance landscape.

(a) The Multi-Year Expenditure Framework (MTEF)

(i) Aims:

Reforming budgeting in the new unitary state required the upheaval of an inherited system that was fragmented, opaque, and outdated. Overhauling the budget process was integral to cooperative governance, and translating government's ambitious policy goals into public services (Department of Finance, 1998). The means by which the Treasury was to undertake this overhaul were crucial.

The consolidation and centralisation of South Africa's fiscal machinery was an inherently hierarchical exercise; strong, top-down intervention was required to phase

out the old apartheid administrations, the rationalisation of new provinces, and the creation of rules of engagement with provincial treasuries. Yet it soon became clear that rule-based inputs were not sufficient to ensure the smooth running of the intergovernmental system, and the limits of this approach became evident in the early results of provincial budgeting.

The 1997/98 financial year was the first in which provinces had discretion over drawing up their budgets (Department of Finance, 1999; National Treasury, 2001: A10). This early exercise in provincial autonomy proved disastrous. By the end of 1998, provincial overspending had reached between R6 and R7 billion. The Treasury was forced to intervene, placing both the Eastern Cape and KwaZulu-Natal under the Department of Finance's control in terms of Section 100 of the Constitution, to "impose stringent measures in provinces, such as spending controls, freezing employment, and cutbacks in non-social security expenditure" (Green 2008, p.469–470; Momoniat, 2001). The Ncholo Report of 1997 had warned that the national government policies had been devised "without due consideration to the organisational, financial and service delivery implications in provinces" (Department of Public Service and Administration, 1997). Ismail Momoniat argues that "much of this problem was due to the lack of coordination between policy-making and budgeting, and the rapid creation of a decentralised system compounded this problem" (Momoniat 2001).

For the provincial system to operate effectively, the Treasury employed mechanisms for broader-based coordination which took on board the perspectives of all government stakeholders involved - what Verhoest *et al* would categorise as "Network-type Mechanisms (NTMs)" based on

mutual interdependence and trust [and building] common knowledge, common values and common strategies between partners [through, for example] the creation of common information systems, collective decision-making structures, or even common partnership organizations. Interorganizational learning instruments like culture management may foster common knowledge and values (2007:332).

Decisive moves towards establishing network-type mechanisms for coordination were undertaken in what Tania Ajam identifies as the "second wave" of public finance management reforms (2015). The centrepiece of this wave was the Medium-Term Expenditure Framework (MTEF), a multi-year budgeting framework which established three-year rolling expenditure plans for all national and provincial departments, basing budgets on departmental plans, and linking delivery to affordability (Rantete, 1997; Rustomjee, 2006). Implementing the MTEF in the 1998/1999 national budget constituted a seminal moment in South Africa's financial management history. The implementation of the MTEF represent the "cornerstone of a broader process of budget reform" (Department of Finance, 1998), and the processes that lead to the adoption and implementation of the MTEF across the intergovernmental system were important in shaping the Treasury's subsequent approach to coordinating reforms.

A form of multi-year budgeting had first been piloted by the RDP Office in 1995, but it had failed to achieve the necessary political input (Rantete, 1997; Rustomjee, 2006; Department of Finance, 1997). Upon the dissolution of the RDP Office, the implementation of this new expenditure framework was picked up the National Treasury. The first attempt by the Treasury to implement the MTEF, however, was rejected by Parliament. This proved to be an important formative lesson in the Treasury's approach to negotiating its centralised authority. Officials within the Treasury had at first attempted to centrally coordinate the implementation process by producing a technical framework based on their own calculations and estimations, which was presented to parliament as the new MTEF (Cole, 2015; Ledger, 2015). The confounding and inaccessible spreadsheet was dismissed unequivocally by parliament (Cole, 2015). According to a senior Treasury official, the top-down imposition of the MTEF crucially neglected to build mechanisms to build consensus among Cabinet as well as other actors within the governance system - the national and provincial departments who would implement this policy (Cole, 2015; Ledger, 2015). The Treasury was forced to adapt its strategy to one that was more inclusive and collaborative.

A host of new intergovernmental fora were established. The Medium Term Expenditure Committees (MTECs), for instance, sought to facilitate collaborative decision-making in the budget process by bringing together officials from the National Treasury, with officials from national and provincial departments, worked closely to formulate the medium expenditure frameworks (Ledger, 2015; Department of Finance, 1997; Ajam & Mkhize, 2004). The Budget Council⁷ sought to build intergovernmental consensus and understanding around fiscal decentralisation and division of revenue (Department of Finance, 1997). The Minister-MEC (MinMEC), Ministers' Committee on the Budget (MinComBud) and Budget Forum sought to bring coordination between senior managers in government departments, provincial MECs and the Finance Minister, across provincial treasuries, and even actors in local government finance (Ajam, 2008; Ajam & Fourie, 2014; Department of Finance, 1999). Rather than a simple coercive imposition, the Department of Finance heralded the MTEF as a "cooperative process" (Department of Finance, 1998).

In addition to the fora, Treasury's Intergovernmental Relations unit aimed, according to the Treasury's 1999 Annual Report, to "...develop the cooperative spirit and constructive working relationship which guides the regular interactions of 'Team Finance'" (Department of Finance, 1999: 27). "Team Finance" was idealised as a cooperative network of actors across, and within, intergovernmental spheres. Momoniat (2001) suggests that provinces used these networks to assist peers and

⁷The budget council comprised of MECs of Finance, the minister and deputy minister of Finance, officials from the Department of Finance and State Expenditure, and officials from Provincial Treasuries (Department of Finance, 1997).

share best practices. Treasury had implemented a kind of network-based coordination that Verhoest *et al.* (2007) would characterise as “interorganisational learning instruments”. Gestures towards this network approach came to characterise the Treasury’s coordination of new systems and policies under the early budget reform period.

(ii) Results:

According to Folscher and Cole, the MTEF signalled a “shift in budget preparation practices from central decision making to discretion resting with spending departments for programme choices within spending ceilings” - the ceilings established by the Treasury under its mandate of strict fiscal discipline (Folscher & Cole, 2006:80). Through multiple fora, budget reform and decision-making was opened up to a range of key actors in the intergovernmental system. This proved a foundational tool with which the national government sought to align sub-national government budgeting with national policy (Momoniat, 2001; Wildeman & Jogo, 2012). South Africa’s budgeting system also attracted international acclaim, consistently ranking highly in terms of openness and transparency. As of 2015, South Africa’s budgeting system ranked third out of 102 countries in the 2015 release of the Open Budget Index by the International Budget Partnership - an index it regularly topped in the late 2000s (National Treasury, 2015a).

Yet while representative of more decentralised coordination, some argue that the MTEF and its forums saw the budget process only nominally opened to collective decision-making. For instance, under both the Mandela and Mbeki presidencies, there appears to have been a wariness of parliamentary influence on the budget, instead favouring executive budgetary control. Wehner (2009: 32), characterises this as the executive perceiving parliament as “a fiscal threat.” Although section 17 of the 1996 Constitution gave Parliament the power to amend money bills, this was not enabled by legislation under the terms of Mandela nor Mbeki. Centralised executive coordination of the budget process was justified on the basis of fiscal discipline, and preventing special interest claims and “budget games” (Cole, 2015; Wehner, 2009). This form of hierarchical coordination by the executive was emblematic of the Mbeki presidency.

The sidelining of parliamentary influence saw Cosatu boycott hearings on the budget until “parliament received meaningful powers of amendment” (Wehner, 2009: 33). The People’s Budget Campaign was born in 2000, a collective effort by Cosatu, the South African Council of Churches, and South African NGO Council, the campaign released alternative budget proposals annually and demanded legislation to amend money bills (Wehner, 2009). This call for legislative and citizen oversight in the budget process questioned the Treasury’s bias towards executive control, and its claims of opening up the budget process. The debate around legislative control over budget allocations caused an internal rift within the ANC, hinting to internal party contestation around the

executive's role in coordinating cooperative governance - contestation that would be surface with the demise of the Mbeki presidency (Wehner, 2009).

Wildeman and Jogo (2012: 9) moreover note that civil society organisations (CSOs) and citizens are glaringly absent from debates on allocative decisions, operational matters, as well as in monitoring of outcomes. In their study, the involvement of citizens in financial management decisions was largely seen as onerous and time-consuming by officials, and occurred largely as a formality (Wildeman & Jogo, 2012: 36). The kind of top-down control which Treasury has pursued limits democratic engagement in the budget process. Those within the technical apparatus of financial decision-making may argue that this is in the interest of fiscal discipline and efficiency in the face of pressing developmental challenges (Wildeman & Jogo, 2012; Wehner, 2009). Experienced alongside persistent operational inefficiency of local and provincial governments, however, this is likely contributing to a growing perception that budgeting and fiscal allocation is an inaccessible and exclusionary process, with Treasury at its helm.

Another core challenge identified by Wildeman and Jogo is the limited fiscal autonomy that provinces exercise in practice – an important critique of Treasury's approach to cooperative governance. They argue that provinces do not exercise the kind of autonomy mandated by the constitution, but rather function primarily as administrative extensions of the central government. Their research findings question the continuing effectiveness of the intergovernmental fora and the autonomy of provinces in allocating resources. They encountered a prevalent perception amongst officials in provincial Treasuries that allocative decision making is out of their hands (2012:9). Given "weaknesses at provincial level in deploying resources where they are most needed", and "the reality of large spending shifts" determined by national government, Wildeman and Jogo argue:

intergovernmental fora have simply taken the place of the Function Committees that existed prior to 1997/98 and are, in fact, the most decisive places where resource allocation decisions are made... for provincial governments intent on influencing provincial outcomes, this reality is devastating and questions the true role and import of provincial governments. The oft-repeated saying that provincial governments have been turned into provincial administrations finds powerful support in this account of allocative efficiency (2012:18).

The intergovernmental fora are credited for coordinating spending at provincial level in the interest of national priorities, namely social services (Wildeman & Jogo, 2012; Mkhize & Ajam, 2004). However, some argue that the dominant influence of national policy, coordinated by a highly centralised Treasury, may be limiting the extent to which provinces are efficiently allocating funds to their own context-specific priorities (Jogo & Wildeman, 2012; Makgetla, 2007). This view is supported by Ajam and Fourie (2014: 49) who note that, although national government does not prescribe how provinces

should spend their equitable share, provincial spending should be largely “consistent with norms and standards of service delivery set by the national government”.

The influence that the National Treasury continues to exert over provinces is not simply shaped by the “soft-power” of coordinating mechanisms across the intergovernmental system; it is also shaped by the very real constraint of provinces being fiscally dependent on national government (Wildeman & Jogo, 2012). This imbalance in fiscal power is embedded into the very system of centralised revenue and decentralised expenditure that was adopted during the transition (Ajam, 1998):

Despite the ostensible fiscal autonomy conferred to the provinces constitutionally, *de facto* their autonomy is extremely limited. As far as revenue is concerned, there exists a high degree of centralization. Although there is a greater degree of decentralisation in expenditure, especially in terms of social-service delivery, override clauses still permit a substantial degree of intervention to ensure provinces are in line with national objectives and frameworks (Ajam, 1998: 77).

More recently, Calitz and Essop (2013) argue that the South African fiscal scene has come to be “characterised by a steady and gradual reduction of the fiscal autonomy of sub-national governments”. They, along with Makgetla (2007), demonstrate that due to limited revenue raising potential, sub-national governments - especially the provinces and poorer municipalities - have become increasingly dependent on grant funding from the central government (2013:146). They conclude that, contrary to the kind of autonomy prescribed by the notion of “cooperative governance”, the country has become more fiscally centralised, “thus strengthening the *de facto* erosion of the federal state”. They assert that provincial governments have been reduced to the “administrative offices of the central government” (Calitz & Essop, 2013:149).

(b) The Public Finance Management Act (1999)

(i) Aims:

While the MTEF laid the foundation for multi-year budget reform, the Public Finance Management Act (PFMA) provided the official framework to integrate planning and budgeting, and inputs with outcomes (Ajam, 2008, Ajam & Mkhize, 2004). The passage of the PFMA in 1999 signalled a decisive move towards the greater decentralised management of finances. It shifted “the onus of managing the use of resources from central control to the managers of spending departments and agencies” (Folscher and Cole, 2006:80-81; PARI, 2014). The Explanatory Memorandum of the PFMA indicates that the Act aimed to “modernise” financial management in national and provincial government, and to put in place an effective fiscal governance framework which would “break from the past regime of opaqueness, hierarchical systems of management, poor information and weak accountability”

(Quoted in Ajam, 2014). First implemented in provinces, these reforms were later introduced at municipal level through the Municipal Finance Management Act (MFMA) legislated in 2003.

The PFMA focuses on accountability, transparency, and effectiveness of public spending. Its key objectives were to establish a managerial ethic in government departments, ensure that financial and performance information was regularly and well reported, and link budgeting to plans and performance (Momoniat, 2015; Nkoana and Bokoda, 2009: 52; Ajam 2008; Ajam & Mkhize, 2004). The PFMA gave increased decision-making power to public sector managers and heralded the ascendance of the “accounting officer” (AO) as the primary figure of accountability within state institutions (Nkoana & Bokoda, 2009: 52). A managerial ethic was particularly central to implementing PFMA reforms. Managers were granted flexibility in achieving their programme objectives in order to adapt to the inevitability of changing contexts and plans. It was informed by the idea that, as Ismail Momoniat puts it, “managers must be allowed to manage”. Leading the Intergovernmental Relations Unit within the Treasury in 1999, Momoniat was a key figure behind the PFMA, and he portrays the Act as an attempt to change the very circuits by which the government is organised (2015). The Act may thus be considered a profound gesture towards what Kraak identifies as “structural devolution” which seeks to “free senior managers from bureaucratic red tape and devolve a greater degree of decision-making authority to them” (Kraak, 2011:345).

This managerial ethic, along with increased devolved discretionary power and emphasis on “value for money”, bore a close resemblance to the principles of New Public Management (NPM), gaining traction globally as a means toward improved efficiency in the public sector. Chipkin calls the introduction of the PFMA “one of the first signs that the New Public Management was gaining in influence” (2011:46; see also Chipkin & Meny-Gibert, 2012:109). NPM aimed to “give managers greater discretionary power, reducing, in particular, procedural constraints on the handling of contracts, cash and staff” (Chipkin, 2011:46). Officials are accorded greater freedom “to introduce more market-based forms of service delivery so as to downsize the traditional Weberian bureaucracy and create a leaner, flatter and more autonomous organisation” (Kraak, 2011:345). In the South African context, where procurement has been decentralised and service delivery is increasingly undertaken by outside contractors hired by public institutions (PARI, 2014), the job of public sector managers has become tied with to the management of contracts.⁸

⁸ The 1990s saw the dismantling of the centralised tender board system and the decentralisation of procurement processes, with service delivery increasingly undertaken by outside contractors hired by public institutions (PARI, 2014). National Treasury statistics show that approximately 42 percent of the South African government’s budget is spent in and through the Supply Chain Management (SCM) system rationalised by the PFMA (Cited in PARI, 2014:7).

Managers were to be made accountable for their actions through the PFMA's expansion of standardised reporting requirements to central government authorities. The Act stipulated a new system of annual reporting which required departments to report not only on what had actually been achieved with their allocated funds, but also how that compared to what had been planned (Mkhize & Ajam, 2004: 768). The Treasury facilitated the rollout of PFMA reporting reforms in provinces through carefully devised information templates, and detailed circulars to minimise levels of subjectivity in reporting (Jogo & Wildeman, 2012: 3). A new kind of hierarchical relationship was established through expectations of regular information flow to a "panoptical" Treasury - the stringent reporting framework would be the means by which the devolution of power to state departments and sub-national governments would be balanced by centralised oversight (Ajam, 2008).

(ii) Results:

There has been a profound shift in the availability of financial management information, and practices of reporting in the public service compared to under the apartheid state (Wildeman & Jogo, 2012). Provincial departments submit financial statements and reports regularly, document formats are standardised at a provincial level, measurable objectives feature in budgets, and performance measures have been introduced (Ajam & Mkhize, 2004: 771). According to Wildeman and Jogo, this has contributed to two major successes, "more budget information (financial and non-financial), which is now freely available to parliamentarians and the general public" and increasing transparency (2012:32-33).

Yet, they show that there is "widespread acceptance" that the quality of the annual and quarterly service delivery reports was highly variable and often divorced from actual service delivery trends amongst the provincial and departmental officials they interviewed (2012:29). Their findings echo previous research suggesting that capacity constraints and skills shortages are enormous obstacles to the production of accurate financial information (Folscher & Cole, 2006; Wildeman & Jogo, 2012:24; Ajam & Fourie, 2014). Wildeman and Jogo (2012) note the "poor quality of the indicators, their arbitrariness, and the fact that these indicators do not meaningfully measure the service in question" (2012:34

The extent to which PFMA reforms more generally have materially improved service delivery remains contested (Folscher and Cole, 2006; Wildeman & Jogo, 2012; von Holdt, 2010; Jacobs, 2007; Koelble & Lipuma, 2010). This is particularly pertinent considering that its fiscal and budget reforms have been emphasised as key to improving service delivery outcomes (Department of Finance, 1999; Ajam & Mkhize, 2004; Ajam, 2008; Abedian, 1998b). As Folscher and Cole (2006:91) capture:

All in all, the South African system has reformed fast, up to a point, but has been struggling to deepen the reforms in order to further enhance service delivery. It

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can be argued that whereas fiscal discipline has been achieved, and the allocation of scarce resources to spending priorities improved, addressing efficiency issues is the greatest challenge remaining.

Some argue that onerous reporting requirements have fostered a kind of financial “compliance mentality”, with officials submitting documents to avoid penalties and to adhere to budget responsibilities (Wildeman & Jogo, 2012:45; Ajam, 2008, Ajam & Mkhize, 2004; Von Holdt, 2010). There is evidence to suggest that, in some cases, heavy reporting requirements are deviating valuable capacity from the actual job of service delivery (see PARI, 2015). Von Holdt (2010) discusses this effect of “rituals of budgetary discipline” in provincial health departments and hospitals. With the pressures of “good fiscal management” espoused by Treasury, resources are not always allocated in ways that are cognisant of or responsive to experienced and real challenges and constraints. Von Holdt suggests these “rituals of budgetary discipline” are not only a feature of health departments and hospitals, but of the post-apartheid bureaucracy at large:

Budgetary discipline is of course important in any effective state apparatus. However, where discipline is imposed on the basis of budgets that bear no meaningful relationship to reality this is liable to convey messages that have little to do with discipline. The impact on service delivery is profound, because the signals that these budget rituals convey is that service delivery is of secondary importance” (Von Holdt, 2010: 255)

Commentators also note the failure of state institutions to establish thoroughgoing internal mechanisms for monitoring and evaluation, as stipulated by the PFMA (Folscher & Cole, 2006; Wildeman & Jogo, 2012). Ismail Momoniat expresses disappointment at the audit committees established in line with PFMA prescriptions: rather than fulfilling the robust internal monitoring intended, he believes they have instead become overwhelmingly dominated by accountants simply performing an accounting function (2015). His views are supported by earlier work by Ajam & Mkhize (2004) who suggest that provincial internal audits were often inappropriately conducted, ineffective tools for measuring operational efficiency. This is echoed by a report by the Auditor-General, which pointed to cases of financial misconduct as indicative that internal controls are not working as they should, or, alternatively, these internal controls are overridden (2010:18). Without employing effective monitoring and evaluation mechanisms, incremental budget practices have persisted with little connection to strategic-level planning and budgeting – impacting service delivery (Jogo & Wildeman, 2012).

The Treasury’s attempts at reforming local government finance have faced particular challenges that have lead to a notable lag behind provincial reforms (National Treasury, 2001; Momoniat, 2002). Intergovernmental fora were not as successful at a local level, multi-year rolling budgets were only implemented at municipal level in 2001-

2002, the MFMA was only legislated in 2003, and standard accounting and reporting practices are only currently being implemented through the rollout of a municipal Standard Chart of Accounts (mSCOA) from mid-2016 (National Treasury, 2002; National Treasury, 2014). Many of the challenges noted with the PFMA are similarly experienced at a local government level through the MFMA. Many municipalities face dire capacity constraints, high vacancy rates, and limited resources – which undermine their ability to implement financial management reforms and achieve expected social outcomes (Makgetla, 2007; Koelble & LiPuma, 2010). Further, sanctions against corruption and financial mismanagement remain rare – particularly in small, non-urban administrations (Koelble & LiPuma, 2010: 585-586). In their analysis of the financial situation of 18 municipalities in the Eastern and Western Cape, Koelble & LiPuma (2010) found that “mechanisms of oversight, accountability and enforcement of rules are at best rudimentary, and at worst, non-existent across the spectrum of municipal government” (Koelble & LiPuma, 2010: 586). Municipalities represent most starkly the limitations of the Treasury’s centralised coordination, and the unevenness of the decentralised system – and the impact this has on ensuring operational efficiency (see PARI, 2015; Chipkin & Meny-Gibert, 2012)

Internationally, Verhoest *et al* point to a broad trend that has accompanied the introduction of New Public Management techniques in a number of OECD countries: “Allocating autonomy in a disconnected organizational framework, linked only through contracts, triggers a centrifugal system in which autonomy is further expanding, responsibility becomes rhetorical, and accountability becomes symbolical. There was a general loss of macro control over the whole system, requiring corrective reaction” (2007:329). This contention has local resonance, and is compounded by the unevenness of the South African state.

Chipkin and Meny-Gibert (2012:109) assert that NPM inspired reform initiatives like the PFMA “took too little cognisance of recent history, especially the nature of former homeland administrations”. They point to continuities in homeland and provincial administrations, arguing that with their absorption of homeland officials, provincial governments became caught up in long-standing “patrimonial networks”. Hyslop supports this, arguing that in the nine new provinces “there was a clear correlation between the level of systematic corruption and the degree of administrative continuity with the old homeland administrations” (Hyslop 2005:785). New Public Management reforms may have worked to embolden these networks by giving increased managerial autonomy to the provincial leaders implicated in them, thereby unwittingly reproducing apartheid-era governance logics (Chipkin & Meny-Gibert, 2012). More generally, the decentralisation of procurement has played a fundamental role in fostering the loss of “macro control over the whole system”. Research undertaken by PARI concludes that “the system of awarding contracts is today so decentralised and fragmented that it is difficult to coordinate activities between departments and tiers of government and/or to exercise oversight over the system as a whole.” (2014:9).

With questionable gains in operational efficiency, monitoring and evaluation capacities and the limited use of accountability mechanisms, critics argue that the PFMA may have resulted in expanded political autonomy among state organs, especially at the provincial level, which has contributed to greater financial mismanagement and fragmentation of the South African state. The recent case of the Limpopo provincial government offers an instructive example of how far “silo-isation” in a provincial state institution was allowed to proceed, despite PFMA reporting innovations and its performance management imperatives. The provincial administration oversaw virtually unfettered financial mismanagement with strong suggestions of growing political factionalism. Ajam and Fourie (2014:54) note that the Limpopo provincial government accumulated enormous unauthorised expenditure, which grew from R1,5 billion in 2009 to R2,7 billion in 2011. Yet, in the previous 2010/2011 financial year, the Limpopo Provincial Treasury had received an unqualified financial audit, with findings related only to Information Technology (IT) governance and IT control weaknesses. They note that it is a matter for concern that the external audit conducted by the Auditor-General did not detect the crisis, “although it is possible (but very unlikely) that the systemic collapse of the provincial treasury manifested only in the nine months of the 2011/2012 financial year” (Ajam & Fourie, 2014:56). The Auditor General’s tools of monitoring may thus be an inadequate guide to institutional functionality. The financial crisis stands as an indictment of the effectiveness of existing oversight mechanisms in South Africa’s intergovernmental system, and starkly displays the insularity with which government organs have often been allowed to operate under the PFMA, facing little ongoing accountability for deepening financial crisis and collapsing service delivery despite stringent reporting expectations.

The failure of existing accountability mechanisms emerges as a recurrent theme in assessments of the post-apartheid financial management reforms. According to Wildeman and Jogo, “the absolute number of reported cases for State employees generally and for senior managers more specifically appear quite small given the size of the public service sector” (Wildeman & Jogo, 2012:27). Folscher and Cole (2006) pointed to a “a distinct reluctance to ensure that there are harsh consequences for material and serial violation of the PFMA, for fraud and corruption and for egregious poor performance, despite such remedies being available in the legal framework” which “severely undermines accountability and is inimical to a performance culture” (Folscher and Cole, 2006, Wildeman and Jogo, 2012).

A number of senior Treasury officials have even expressed disappointment with the extent to which the institution’s policies have resulted in improved living standards for most South Africans. Ismail Momoniat admits that the weaknesses associated with the PFMA were both a cause and a symptom of growing fragmentation and corruption in the late 2000s. For Momoniat, there was a certain element of “naivete” in the way the public financial management reforms were designed, in that they were reliant on the goodwill of officials, with very few tools to deal with those who act in “bad faith”. Kuben Naidoo, however, argues that the innovations of the PFMA had to be grounded on the

presumption that officials would buy into its prescriptions voluntarily, insisting that there was no way that legislation which presumed that managers were corrupt would have passed muster (Naidoo, 2015).

Recalibrating Control in a Shifting Political Environment

The examples of the MTEF and the PFMA have brought significant rationalisation to what was a highly fragmented system of government. Yet these two major Treasury-led reforms also show that the manner in which the Treasury has exercised its authority has produced a range of unintended consequences and also attracted significant criticism. In the face of distinct policy shortcomings, the Treasury has set about recalibrating its methods of coordination, attempting to renegotiate its authority in the governance landscape, establishing new instruments to reel wayward administrations back in line with its central mandate of fiscal discipline - imperatives made all the more stark as the full consequences of the global financial crisis hit home. Many of these initiatives, such as the Financial Management Capability Maturity Model⁹ (FMCMM) and the Office of the Chief Procurement Officer¹⁰ (OCPO), have been formulated to address the limitations and weaknesses of previous Treasury reforms – namely operational inefficiency and fiscal mismanagement.

Next year, the Treasury hopes to complete its unfolding implementation of a municipal Standard Chart of Accounts (*mSCOA*) (National Treasury, 2014). The proposed method for the implementation of *mSCOA* is a distinctly top-down form of technical imposition, attesting to persistence in the Treasury's technocratic and compliance-driven approach to implementing devolving budget reforms.¹¹ As the experiences of

⁹ To hone in on failures in operational efficiency, a Financial Management Capability Maturity Model (FMCMM) by the National Treasury has been developed to try and assess the capacities of institutions to engage with advanced stages of the PFMA. The FMCMM categorises state institutions according to six stages of financial maturity - from “start-up level” through to “optimisation” (Wildeman & Jogo, 2012; National Treasury, 2012). This has also been accompanied by a greater emphasis on outcome-driven delivery agreements and performance auditing.

¹⁰ To counter the growing fragmentation and fiscal mismanagement that the decentralisation of procurement has resulted in, the Minister of Finance announced the creation of an Office of the Chief Procurement Officer (OCPO) within the National Treasury in 2013 (Ministry of Finance, 2013). The OCPO aims to induce more standardised operational norms and supplement the decentralised regulatory function with centralised oversight (National Treasury, 2015a). The Treasury has also been working to develop a central supplier database and an online procurement platform (e-procurement) (National Treasury, 2015a:64).

¹¹ Treasury has emphasised that *mSCOA* is not merely a financial reform: it involves far-reaching changes to basic business processes of local government. Thus far, Treasury has provided little in terms of training programs to ready officials, and although certain conditional grants have been amended to cover the costs of the *mSCOA* migration, municipalities are expected to largely finance the reforms themselves. In a position paper delivered on June

both the MFMA and PFMA indicate, there are serious questions to be asked about the operational efficacy of such a top-down approach – particularly with the capacity and financial constraints experienced at a local government level.

These initiatives are being pursued in an increasingly arduous fiscal environment. The February 2015 Budget Review noted that “the South African economy faces a difficult few years ahead”. In the face of subdued growth, Treasury’s Director General, Lungisa Fuzile, noted that measures have to be taken to avoid expanding an already sizeable stock of debt. Among these, reducing public expenditure across all spheres of government is noted as imperative, necessitating a lowered ceiling on expenditure in a bid to prevent a rising deficit (National Treasury, 2015b).

These reforms are also being undertaken against the backdrop of what some perceive as a more contested political terrain. As the 2000s proceeded, Thabo Mbeki’s model of centralised control became the source of increasing division within the ANC. Jacob Zuma, with the support of the SACP, Cosatu, and other marginalised yet powerful interests within the ANC, rose to the Presidency buoyed by growing perceptions of authoritarianism in Mbeki’s administration. Writing in 2007, Southall also noted a “growing chasm between the party’s rank and file” in the years leading to the Conference, and that “vested local elites” were rebelling against central direction: “Mbeki’s centralising and modernising project is challenged by offended local elites” (Southall, 2007:21). These antagonisms reached a breaking point in 2007 at the ANC’s 52nd Annual Conference in Polokwane. With promises of more thoroughgoing economic reform, and a more inclusive role for the SACP and Cosatu within the state, Zuma became President of the ANC.

According to senior Treasury officials interviewed over the course of 2015, Polokwane signalled a watershed moment for the National Treasury. In the run up to Polokwane, the Treasury was not spared criticism. A centrepiece of Mbeki’s centralised state model, the Treasury under Manuel was denigrated as being “too powerful” by factions within the ruling party, especially Cosatu and the SACP who lobbied for the department to be cut down to size (Letsoalo, Molele & Naidoo, 2011). Treasury officials interviewed shared a sentiment of increasing embattlement in the post-Polokwane era. Prior to the conference, they argue, there was a clear, central and dominant role for Treasury in the management of the economy and economic policy, with strong support from the President. Post-Polokwane, some argue, that was no longer the case. Donaldson (2015) and Cole (2015) indicate that the rise of Zuma has coincided with an erosion of

2015, the Auditor General of South Africa (AGSA) noted that “mSCOA is a significant project, and as such poses various risks to local government”. The AG raised, *inter alia*, concerns regarding the timeliness and attendance of training programs, insufficient support and action from provincial treasuries, budget constraints from a project assurance perspective (internal or external audit), possible errors in the migration of the current financial information to the new mSCOA classification system” (AGSA, 2015).

the strong relationships of trust and mutual accountability built between national and provincial governments under Team Finance. One former senior official argues that, pre-Polokwane, Treasury had been more “relaxed” in going about its business, depending on informal relationships focusing on consensus building to get things done. Post-Polokwane, however, it became much more focused on hard and fast rules, and the period thereafter is marked by a considerable increase in the issuing of regulations and new legislation (2015). The Budget Councils – used to great effect to build consensus under Trevor Manuel – were convened less often under Gordhan. According to the officials interviewed, the rise of a more partisan politics – of which Polokwane was a symptom – has meant that Treasury no longer can be assured of predominant sway over economic policy and fiscal decision-making, nor ostensibly the high levels of collaboration that officials claim characterised the work of “Team Finance” under Mbeki’s administration.¹² Treasury officials also note the rise of provincial power nodes, especially since Polokwane, which they believe have had a damaging effect on the Treasury’s capacity for control. Andrew Donaldson (2015), for instance, speaks about the rise of “provincial fiefdoms” that have increasingly attempted to pull away from the center since Polokwane.

These recollections need to be understood in the context of what is seen as a decline of a crucial source of support from the executive of the tripartite alliance. Crucially, the Treasury appeared to have lost the support of the President. Writing before the news of Nhlanelhla Nene’s surprise dismissal on 9 December 2015, financial analyst Peter Montalto believed “that treasury, though weakened politically, has done well in waging a form of covert fiscal consolidation warfare” in order to find savings and procurement efficiencies. However, he wondered how long it would be “before the political space closes down around Treasury once it is forced to make politically unpopular cuts” (Montalto, 2015).

The removal of Nene by Zuma seemed to be a confirmation that Treasury’s political space had closed down. It represented, albeit briefly, what is perhaps the most formidable challenge that has been advanced against the National Treasury. Among

¹² Another indicator of this challenge to the Treasury’s centralized control is the move toward greater parliamentary power. One of the first challenges to the Treasury’s centralised role post-Polokwane occurred with the passing of the Money Bills Amendment Act in 2009. With the act, a parliamentary budget office was established, and parliamentary committees were to be tasked with macroeconomic and fiscal policy, and budget amendments (Wehner, 2009). This occurred after years of reluctance by the ANC to extend parliamentary budgetary power. Wehner (2009: 35) suggests that this is indicative that under Zuma, the “balance of power had shifted in favour of strong parliamentary oversight”. Arguably, this could be read as an attempt to diffuse sites of power within government - diverting the reins of power from the executive, and the Treasury. Yet, until today, the prescriptions of the Money Bill Amendment Act have not been employed.

his first and only utterances in his brief tenure as Finance Minister, David van Rooyen asserted:

We want to demystify some of the myths that are currently prevailing around the functionality this important department, the National Treasury. Because in our take, National Treasury is the axis of our development agenda. It must be accessible, we are going to strive to improve on the achievements that have been realised by those who came before us, as we open up and ensure that National Treasury becomes an accessible department to all our people, including our people in the rural areas... it is our duty to simplify issues of public finance (Van Rooyen, 2015).

Such statements were an indication that the institution and its mandate enjoys far less executive support than it did under President Mbeki. They hinted at sentiments that the Treasury is “too powerful”, “too autonomous”. This was a sentiment that echoed criticism that had been advanced against the Treasury since its ascendance in the mid-1990s. Yet Van Rooyen’s statements were read cynically. Even on the Left, the firing of Nhlanhla Nene was not viewed as an attempt to democratise the Treasury or dismantle neoliberal policies, but rather as a brazen display of presidential unilateralism. Actors from across the political spectrum rose in defence of the National Treasury in opposition to the arbitrary powers of the President, not in defence of Treasury’s policies or modes of governance *per se*.

Yet the events of December 2015 once again clearly display the powerful disciplining role of global finance, and Treasury’s integral role as its local proxy. The plunge in the exchange rate, threats of further credit rating downgrades, and precipitous falls in the stock market galvanised key constituencies within the ANC and business community into action, impressing upon the President the need to reverse his decision (see, for instance, Hogg, 2015).

Gordhan’s return was accompanied by renewed assurances that the country would not stray from long-held macroeconomic conservatism, ensuring that state expenditure across government and parastatals would be firmly disciplined by Treasury. In his first speech as the returning Finance Minister Gordhan insisted:

We will stay the course of sound fiscal management. Our expenditure ceiling is sacrosanct. We can have extra expenditure only if we raise extra revenue. We will unreservedly continue our fiscal consolidation process and we will stabilise our debt in the medium term. If needs be, we will accelerate this by either cutting spending or making selective changes to tax policy (Gordhan, 2015)

With Gordhan’s appointment having followed such an overwhelming response by the markets and the public at large, some commentators opine that the Finance Minister now occupies one of the most powerful positions in the state (see, for instance, Sparks, 2015). It remains to be seen whether Treasury’s central mandate to hold the line on

government spending has been emboldened after these recent events. Yet the incident was a powerful indication that the established hierarchy of the state cannot so easily be overturned, with the Treasury's top-down position finding powerful support from a range of interests both within and outside the government.

Conclusion:

The approach to institution-building and cross-government coordination undertaken by the Treasury was tied to the particular form that it has assumed in the uncertain context of the transition. Coming out of a long period where the political, institutional and geographical integrity of the South African state had been actively disaggregated and splintered, seemingly mundane tasks over which the incoming government was responsible – like finding what money was available in what accounts, consolidating revenue and then, more ambitiously, determining spending priorities and allocating budgets – required nothing less than overcoming an entrenched historical legacy. To build a genuinely national state meant integrating the shards left by apartheid's policies of balkanisation. Negotiating this fragmented legacy is a process which is still ongoing.

Early post-apartheid state-building was undertaken largely through top-down initiatives, with Treasury playing a preeminent role in constructing the fiscal machinery of the intergovernmental system and formulating the scripts by which it was to run. Through constitutional imperatives, its institutional genealogy, and political support for a particular macroeconomic stance, the Treasury was empowered to give life to the new intergovernmental system. As this post-apartheid state took shape, the Treasury thus ascended to the position of central coordinator. This form of hierarchical coordination was reinforced with the closure of the RDP Office and the implementation of GEAR, which placed fiscal consolidation at the forefront of macroeconomic policy and placed Treasury at the helm of the new state's institutional framework.

The Treasury built its central institutional capacity while fashioning a system of "cooperative governance". This involved an attempt to strike the right balance between central control and devolved fiscal autonomy to departments and other spheres of government. Yet the Treasury has always maintained central predominance in setting the scripts of governance. Through its initiatives, the Treasury has made strides in bringing about greater transparency to the budgeting process. The MTEF, along with the establishment of numerous consultative fora, has brought a degree of multilayer involvement which had hitherto not existed. We have argued, however, that the extent to which the budget has been truly democratised is limited. The Treasury's imperatives of fiscal discipline have remained the hard parameters within which any discussions of the budget have taken place. While this may equate with prudent fiscal management, the limited genuine fiscal autonomy of the provinces especially may have contributed to growing antagonism with the Treasury as an imposing coordinating authority, especially in the context of sharpening austerity.

The PFMA represented a distinct attempt at balanced decentralisation that sought to imbue far greater autonomy in government institutions to spend according to their own discretion, while at the same time imposing strict reporting requirements to the central government. While this has undoubtedly enhanced aspects of fiscal discipline and

made available unprecedented levels of information, its effects on improving service delivery have remained questionable. The expanded autonomy that came with the PFMA's managerial emphasis combined with a lack of accountability may have emboldened forces that are now attempting to pull away from centralised control.

From the Treasury's earliest formative years, it has been enmeshed in an intensely political environment. We have argued that the political backing that has historically held the Treasury in place in the post-apartheid era has been aligned to a particular vision of state-building, and a particular macroeconomic paradigm which emphasises the centrality of the institution in government's fiscal policy and public expenditure. The preeminence of a strongly centralised Treasury imposing fiscal discipline in the post-apartheid landscape is, it seems, a political-economic ideal that has strong support from domestic and international investors. Recent events demonstrate the powerful disciplining effect that the markets have in relation to those who seek to disrupt this organisational paradigm and its modes of cross-state coordination.

The return of Pravin Gordhan has brought with it renewed promises of deepened fiscal restraint. The Treasury is now in a stronger political position than in the recent past, yet it will continue to have to negotiate its authority, as the full consequences of economic downturn are felt in all sectors of society. With its continuing power to determine some of the very basic facts of life in South Africa, a role cemented in the earliest years of the democratic state, the National Treasury will continue to be an authoritative yet contested institution in the years to come.

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