



## A FOUNDATION FOR RECONSTRUCTION: BUILDING THE RWANDA REVENUE AUTHORITY, 2001–2017 (SHORT VERSION)

*This summary draws on an ISS case study with the same title can be found on the [ISS website](#). Leon Schreiber drafted the full case based on interviews conducted in Kigali, Rwanda in March 2018. Case published May 2018. Summary published in May 2019.*

### BACKGROUND

Following the 1994 genocide in Rwanda that claimed hundreds of thousands of lives, the country's tax collections collapsed to \$132 million in 1996 from \$225 million in 1990. Aside from its desperate need for money to pay for reconstruction, the new unity government, under the leadership of Paul Kagame's Rwandan Patriotic Front, also was determined to break from its dependence on foreign donors, who had proved undependable amid the crisis. To do that, Kagame's government had to persuade a traumatized and distrustful public to pay its fair share of taxes.

In 1998, the Rwandan government replaced its existing tax and customs departments with the Rwanda Revenue Authority (RRA), a semiautonomous tax agency. With technical skills in short supply, parliament turned to an outsider to lead the RRA: respected Ghanaian economist and lawyer Edward Larbi-Siaw, who had headed the neighboring Uganda Revenue Authority. By the time Larbi-Siaw departed in 2001, the RRA had laid the groundwork for improvement by weeding out many corrupt and incompetent employees, drawing up its first set of internal strategic plans, and working with the finance ministry's policy committee to streamline the tax code. A new legal framework for tax collection and new legislation together clarified the RRA's ambitious goals. Embodying them was a long-term national strategic plan—Vision 2020—that aimed to turn Rwanda into a lower-middle-income country by 2020.

It would be the job of the RRA's new leader, James Musoni, a Rwandan with close ties to Kagame, who became president in 2000, to begin the extraordinarily ambitious journey of creating a taxpaying culture out of the ashes of a genocide.

## KEY ISSUES

- The RRA had to carry out two of Kagame’s most important goals: first, to break the country’s reliance on foreign donors and second, to remake its social contract by convincing Rwandans to pay their fair shares of taxes in exchange for government services.
- Tax collections continued to lag far behind pregenocide levels. Not only did the RRA still have work to do to recover the ground lost during the 1990s, but it also had to keep up with the national goals of Vision 2020, which aimed for annual GDP growth of at least 7% from 2001 onward.
- With no long-term record of good governance, Rwandans were understandably skeptical about paying taxes, and widespread illiteracy added to the problem.
- Despite progress on improving staff capacity, it was clear the RRA required an even more fundamental internal reorganization—and more training—to improve both the coordination and the efficiency of its services.
- The Kagame government’s launch of a push toward decentralization meant the RRA had to concentrate not only on self-improvement but also on building the capacity of district offices that would be responsible for collecting a large share of revenues.

## REFORM STRATEGY

Shortly after Musoni succeeded Larbi-Siaw, the RRA’s board of directors decided to overhaul the senior management team, replacing many of the holdovers from the old tax departments with talented recent recruits. Writing in 2004, Anthony Land, a researcher at the European Centre for Development Policy Management, said Musoni had seized on the window created by the change in management to “nurture a new ethos and culture within the organization . . . [that] injected a new vitality and confidence.”

With beefed-up staffing and an energetic new leadership team in place, the RRA was ready to shift its focus to its core missions of improving compliance and widening the tax base, adopting the motto “Taxes for growth and development.”

Achieving its goal would require reorganizing the RRA to improve business processes, adopting a modern digital software system both internally and nationwide, continuing to improve staff capacity through training, educating taxpayers about the need for them to pay their fair shares, and reaching out to train and guide district officials who, under the government’s decentralization plan, would conduct the collection of a large share of the nation’s tax revenue. To ensure legitimacy and coherence with national goals, the efforts would have to dovetail with—and support—Vision 2020.

## ACTIONS TAKEN

Musoni's team began by dividing the RRA's responsibilities into three sections. It consolidated support departments—including administration, human services, training, and planning—under a single deputy commissioner general of corporate services, who oversaw administration and logistics, human resources, taxpayer services, training, IT, revenue investigation, legal services, and research. The creation of the deputy commissioner general position freed Musoni to oversee the RRA's two main operational sections: domestic taxes and customs services.

But revamping the RRA's overall structure would not be enough because an even more fundamental flaw was hampering the domestic tax unit's work. When the tax authority was created in 1998, Larbi-Siaw's team had decided to retain the old domestic tax department's structure, which was organized according to tax type. As a result, the RRA had separate offices for income taxes, sales taxes (replaced by a value-added tax in 2001), and auditing. By 2002, it had become clear that organization by tax types was impeding the RRA's efforts to overcome fragmentation. Taxpayers had to spend a lot of time and a lot of money visiting different offices, and sometimes they got conflicting information from employees in the various divisions.

In November 2003, the board of directors approved management's plan to restructure the RRA along functional lines. Under a new, one-stop-shop approach, tax offices would offer all services for all tax types. In addition, the new framework created both an office for large taxpayers and a separate division for small and medium taxpayers. Whereas the RRA's work had been segmented previously by tax type, it was now segmented according to income, reflecting the belief that people at different income levels had differing needs.

By the time the tax office completed its restructuring in early 2004, the RRA's lack of a modern digital software system had become a greater challenge. Taxpayers had to fill in numerous forms, and clerks had to then type the information from the forms into programs like Microsoft Excel. Digitization began with a project—assisted by the United Nations Conference on Trade and Development—to roll out the latest version of the Automated System for Customs Data, called ASYCUDA World, in customs. Then came the process of implementing an off-the-shelf software system, called the Standard Integrated Government Tax Administration System, in the departments that collected domestic taxes. The RRA used the lessons learned from that effort—and the expansion of digital capacity across the nation, thanks to government policies that offered tax breaks to encourage the adoption technology—to introduce eTax, a system for online taxpaying. After successfully piloting the system for assessing and filing taxes among large taxpayers, the RRA introduced eFiling and ePayment to all taxpayers in 2012, and it became routine to pay taxes via a cell phone app. And the

establishment of a flat tax for many small taxpayers made compliance even easier.

To continue the improvement in staff capacity, the RRA established a training institute and recruited senior staff to teach there on a part-time basis. Training became a standard expectation for new hires, and beginning in 2011, online learning programs expanded the institute's ability to reach upper-level staff with advanced instruction.

Alongside its emphasis on enhancing skills and capacity, the RRA focused on building a new public service ethos as one of the ways to prevent corruption. New human resources policies took advantage of the tax office's status as a semiautonomous agency to impose standards—more stringent than those in other government departments—for dealing with corruption and underperformance, and the RRA required every employee to sign a performance contract yearly. At the same time, the RRA made sure all employees were aware of the rules by introducing a code of conduct and a whistle-blower policy that empowered not only staff but also the public as watchdogs.

Although organizational and policy changes were crucial reforms, the RRA's leadership team understood that the tax authority's ultimate goal was to build a taxpaying culture in Rwanda. In 2002, the tax authority organized its first annual taxpayer appreciation day, and by the mid 2000s, the event—with Kagame's participation—had grown into the organization's flagship public awareness initiative, handing out widely publicized prizes for tax compliance. Weekly TV and radio programs, frequent public meetings, the establishment of a call center for taxpayer questions, and an outreach to schools rounded out the public education effort.

Kagame's national push for decentralization created another challenge. As problems such as duplication of effort and lack of expertise emerged at the regional and local levels, the government in 2011 empowered the RRA to assist districts that requested help with revenue collection. All 30 districts soon did. Keeping 5% of the collections to cover its costs, the RRA deposited the remainder into accounts that permitted the districts to use local taxes to finance their initiatives.

## RESULTS

From the RRA's first year of operation in 1998 to 2017, Rwanda's bottom-line annual tax-to-GDP ratio improved to 16.7% from 10.8%, and total tax revenues grew almost 10-fold to \$1.3 billion. On its way to reaching the International Monetary Fund's suggested minimum threshold of 15%, the RRA during the first half of the 2010s consistently recorded annual increases of more than 10% in revenues collected, which outpaced the economy's average overall growth rate of 8.9% per year. Moreover, in the decade from 2007 to 2017 alone, the number of registered taxpayers paying national taxes

such as the value-added tax and income tax grew more than 13-fold to 355,128.

As a result of the tax authority's success in improving revenue mobilization, by 2017 the Rwandan government had become able to finance 62% of its annual budget from domestically generated tax monies, compared with 39% in 2000. In 2017, according to a study by Land, Rwanda collected in three weeks the same amount of taxes it had collected annually only a dozen years earlier.

The RRA's embrace of technology yielded additional dividends. The shift to online and mobile technologies likely accounted for a sizable chunk of the nearly 271,528 new taxpayers who registered from 2012 to 2017. Preliminary figures from the 2018 tax year showed that up to half of all tax returns filed during that year came from microtaxpayers using cell phones.

Still, there were difficulties. Not surprisingly, more staffers left for private-sector jobs after receiving the RRA's skills training. And millions of people in Rwanda's overwhelmingly rural population remained outside the tax system despite the RRA's extended reach.

## LESSONS LEARNED

- The coherence that Vision 2020 provided for policies throughout Rwanda's government and Kagame's visible support for initiatives that that coherence inspired—such as the RRA's annual taxpayer day, which Kagame regularly attended—were vital to building a taxpaying culture.
- Though the government's move to eliminate import taxes on computers, cell phones, and telecommunications equipment was a sacrifice, the technology boom it fostered enabled the widening of the country's narrow tax base by making it easier for people at all levels to file taxes.
- More-effective governance and increased government spending helped bolster Rwandans' standard of living, which substantiated the RRA's message that paying taxes generated genuine benefits for citizens of all stripes.



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