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ESID Working Paper No. 157

# *Revenue extraction is not enough: The ambiguous effectiveness of the Rwandan Revenue Authority*

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October 2020

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## Abstract

The objective of this paper is to understand the RRA's relatively high, and yet uneven, performance. While the organisation is effective regarding overall revenue collection, and processes of tax filling and payment, it is much less so with regard to everyday bookkeeping, reporting and provision of inputs to policymaking. The paper argues that the dominant nature of the political settlement and the ruling elite's paradigmatic ideas of national self-reliance supported the performance of the RRA in extracting revenues. On the other hand, the top-down pressure on the RRA to perform produced a range of perverse incentives in the organisation, making everyday processes of bookkeeping and reporting secondary. In addition, vested interests regarding property tax and the tension between state-centred and market-led ideas about development led to a series of policy gaps that limited revenue mobilisation. Furthermore, the vulnerability of the elite anchored in its minority status, and its origins in the diaspora, meant that the state in general, and the RRA in particular, while autonomous from social pressure, might not be much embedded in society. This led to an uneven performance. The organisation performed well in the raw task of extracting revenue, which requires a high level of autonomy, but much less so when its tasks, such as providing advice to policy formulation, required some embeddedness with key segments of society.

**Keywords:** Rwanda, political economy, pockets of effectiveness, Rwanda Revenue Authority, state-building, taxation

**Acknowledgment:** The author would like to thank Sam Hickey and the three reviewers for their insightful comments, and Louise Umutoni-Bower for her precious research assistance.

Chemouni, B. (2020) Revenue extraction is not enough: The ambiguous effectiveness of the Rwandan Revenue Authority. ESID Working Paper No. 157. Manchester, UK: The University of Manchester. Available at www.effective-states.org

## Introduction

The Rwandan Revenue Authority (RRA) is generally recognised as one of the most effective agencies in the Rwandan state. Embracing the new trend of semi-autonomous revenue agencies in Africa (Fjeldstad and Moore 2009) and considered pivotal in the efforts to create a self-reliant country, the RRA is the epitome of the post-genocide Rwandan state-building project. Using the project 'Pockets of Effectiveness' analytical framework (Hickey 2019) focused on the role of policy domains, ideas and political settlements, the objective of this paper is to understand the RRA's relatively high, and yet inconsistent, level of performance. In an expert survey carried out in Rwanda in 2017 for this project, the RRA was identified as the third best-performing organisation in the state.[1] Elaborating on their response, experts cited the capacity of the RRA to hit its annual revenue targets, along with the continuous improvement of its organisational capacity and of the skills of its agents. They also identified several weaknesses regarding the RRA's interaction with businesses. Besides factors related to the inner functioning of the RRA, policy choices such as the inconsistency of tax exemptions, as well as reluctance to tax property, have also significantly impacted the RRA in its mission to maximise revenue mobilisation. Consequently, understanding RRA's performance will involve distinguishing analytically the determinants of performance related to the RRA from those related to broader policy decisions.

The Rwanda political settlement is clearly of the dominant type, with power firmly entrenched in the ruling Rwandan Patriotic Front (RPF).[2] Created by Tutsi refugees who fled the anti-Tutsi pogroms of the 1950s and 1960s, the RPF was formed in Uganda in 1987, with the objective of allowing the return of refugees to Rwanda. It gained power in 1994 by stopping the genocide against the Tutsi ethnic group and achieving a clear victory over the governmental army. The RPF, however, reached power in a context of extreme vulnerability. The Tutsi-led rebellion had little political legitimacy, ruling over a Hutu-dominated population.[3] Such a minority status was magnified by the horrors of the genocide and decades of anti-Tutsi ideology that constituted a central criterion of legitimacy of all regimes since independence.

Since the end of the genocide, power has been horizontally and vertically concentrated in the hands of an RPF-led coalition. In terms of horizontal distribution of power, the political opposition is virtually non-existent. Power is firmly entrenched in the RPF, helped by its control of the military apparatus, and supported by a range of military- and party-owned large enterprises (Gökgür 2012; Reyntjens 2013) as well as the limits put on opposition parties, media and civil society activities (Beswick 2010; Reyntjens 2013). As a result, the political opposition is weak. It is mainly outside Rwanda, constituted by diaspora activists and the remnants of the armed

[1] For the results of the survey, see Chemouni (2019) and for its methodology, Hickey (2019).
[2] The following description of the Rwandan political settlement is based on Chemouni (2019: 4-5).
[3] The Rwandan population is thought to be composed of roughly 85 percent Hutu, 14 percent Tutsi and 1 percent Twa.

opposition to the RPF that fled into the Democratic Republic of Congo after the genocide. Power has also been vertically concentrated in the settlement. The RPF is generally analysed as a cohesive party, although this cohesiveness has been challenged from time to time by the defection of high-level individuals. Paul Kagame enjoys enormous loyalty from party supporters. The RPF has a considerable autonomy from subordinate groups, giving it great enforcement capabilities. These capabilities are enhanced by the RPF's tight control of the local administration (Chemouni 2014).

The paper relies on a mix of secondary sources, combined with 42 interviews with RRA, Ministry of Finance and other state officials and stakeholders, such as tax advisors and private sector actors. To assess performance, it relies on largely used data of revenue collection and tax effort, but also addresses more process-oriented aspects of performance, such as book-keeping and policy formulation. The paper explores the determinants of the RRA performance through five main sections. Section 2 traces the history of the RRA and presents the evolution of its performance over time in terms of revenue mobilisation. Section 3 analyses the functioning of the RRA and its interaction with businesses to highlight some of its organisational strengths and weaknesses. Section 4 looks at particular policy gaps, through a political economy lens, that have hindered RRA's performance. Section 5 concludes by analysing the findings using the analytical framework of the project.

## History and performance of the RRA

The RRA was created by law in 1997 and instituted in 1998. Although its main mission is taxation, it has also collected a range of fees on behalf of the government since 2003. In 2010, it was assigned the collection and enforcement of social security contributions from employers. Since 2011, it can also gather local tax, such as property tax (see below) on behalf of districts, Rwanda's main tier of local government.

Before the creation of the RRA, tax and customs were collected by different departments in the Ministry of Finance and Economic Planning (MINECOFIN). The creation of the RRA was meant to enhance domestic revenue mobilisation by introducing a private sector ethos and staff motivation. As explained by Donald Kaberuka, then Ministry of Finance, to Schreiber (2018: 2), 'we thought its functions were so critical that [the RRA] had to operate independently – almost on the private sector model'. This was to be achieved through the autonomy of the RRA in the recruitment of its staff and in the determination of their pay-scale. As remembered by an advisor to the RRA,

> 'hiring was taken very seriously [in the RRA]. People understood that they were joining the institution to actually work. This was one of the reasons for

> setting up a semi-autonomous revenue authority independent from government. […] We had a private sector structure in public services'.[4]

Yet, this logic, as articulated by the Rwandan government (see also Schreiber 2018), was not totally indigenous. It fully embraced, and was influenced by, DFID's enthusiasm for Semi-Autonomous Revenue Agencies (SARAs). The RRA was indeed one of the many SARAs created across anglophone Africa by DFID and a network of consultancy organisations at the time. Inspired by a strong New Public Management philosophy, SARAs were perceived as the response to Africa's lack of domestic revenue, government discipline and market friendliness (Fjeldstad and Moore 2009; Moore 2014: 102).

The creation of the RRA was part of a larger first wave of state-building reforms in Rwanda that included the creation of the Office of the Auditor General (OAG) and of the National Tender Board (NTB) that aimed at better managing the scarce, and badly needed, resources of the country (Chemouni 2017). DFID supported its creation financially and technically, embedding expatriate experts, who combined advisory and training functions, in various line management positions. Recognising that the relevant skills did not exist in Rwanda, the government advertised the job of Commissioner General internationally, which was given to the Ghanaian, Edward Larbi-Siaw, who occupied a similar position in the Ugandan Revenue Authority (1991-1997) (Schreiber 2018: 2).[5] This allowed the new RRA to learn from the experiences of other tax administrations in the region. More importantly, 'it was also felt that having an expatriate CG [Commissioner General] at this initial stage could reduce any risk of patronage and corruption creeping into the new organisation, thereby helping to make a break with past practices' (Land 2004, 8). In the same logic, and to ensure competence, all employees from the tax administration had to re-apply to their position and undergo an exam administered by outsiders to ensure the impartiality of the process (Land 2004). This led to the dismissal of about 25 percent of tax officials (Schreiber 2018: 4).

On a more general level, the creation and subsequent strengthening of the RRA has to be understood as the consequence of the vulnerability of Rwanda's post-genocide elite, anchored in its ethnic minority status and the episode of the genocide. The vulnerability was first military. When the RRA was created, Rwanda was not only waging war in Congo, but also had to address an insurgency in the north of the country organised by a remnant of the former regime (African Rights 1998). Official Development Assistant cannot fund military spending, thus anchoring the idea in the government that Rwanda had to find its own financial resource on the long run (AfDB 2011: vi). Vulnerability also resulted from the volatility of foreign aid after the genocide. Aid decreased dramatically in the late 1990s and Rwanda experienced some aid withdrawal and cutback, notably from the EU, following its involvement in Congo in the late 1990s (AfDB 2011: vi). Besides these very Tillian dynamics,

[4] Interview, January 2019.
[5] His salary was funded by DFID.

vulnerability was also the consequence of the RPF's desperate need of legitimation when it reached power, given its ethnic minority status. Rapid development and delivery of social services has been pivotal to the elite's legitimation project. In the large absence of natural resources in the country, the RRA was the tool to fund such a project. This is especially true as the RPF leadership has had a strong suspicion towards the international community, originating in the RPF ideology of self-reliance (see below) and the international community's passivity during the genocide. Consequently, foreign aid, although useful, has been perceived as an inherently unreliable source of finance, which called for the bolstering of domestic resources mobilisation. This is encapsulated in the RRA's current official 'vision': 'To become a world-class efficient and modern revenue agency, *fully financing national needs* [my emphasis]'. While such wording, as in many other poor countries, may also aim at pleasing donors, it particularly resonates in Rwanda with the ruling elite, given its history and ideas. Consequently, while the creation of the RRA was heavily encouraged by donors, as part of a broader trend across anglophone Africa, it was readily embraced and owned by the government, as it was very much in line with its attempt to address some of its vulnerability.

Finally, the RRA is an organisation whose mission strongly fits the ideological world-view of the RPF. The agency is at the core of the RPF's paradigmatic ideas of self-reliance that underpin much of its approach to the rebuilding of the country. One aspect of such worldview is the RPF's belief that foreign influence, epitomised by colonisation, is at the root of the country's problem since independence (Chemouni and Mugiraneza 2020). Consequently, 'policies are logically geared towards reducing aid dependency, framed as an issue of independence but also dignity. As a result, self-reliance receives greater importance in Rwanda than in many other African countries' (Chemouni and Mugiraneza 2020: 137). This was not only true immediately after the genocide. In 2012, the creation of the *agaciro* [dignity] sovereign fund following aid cuts was, for example, presented 'as a common goal against external threat (Western donors), which was perceived to be attacking Rwanda's sovereignty' (Behuria 2016: 442). The ruling party has also linked the country's violence to the passivity of the Rwandan population: guarding against foreign actors' interference requires self-reliance at the national but also at the individual level. As a consequence, the RPF considers the active contribution of Rwandans to development (notably through financial contribution) as a way to fight people's perceived passivity and dependence on the state, seen as an obstacle to development (see, for instance, Chemouni 2018). The RRA then becomes a tool not only to reactivate a social contract between the citizens and the state after mass violence, but also to create new mindsets fit for sustaining self-reliant development.

From the beginning, the RRA has benefited from two key factors. It has 'been able to count on the personal support of the president, who has played a major role in the campaign to change public attitudes towards paying taxes and corruption' (Fjeldstad and Moore 2009: 6). In addition, it received the strong financial and technical backing of DFID and other donors. In 2003, DFID provided as much as 34 percent of the RRA budget (DFID 2010). Between 2000 and 2010, it provided direct budget support and technical assistance that amounted to £24M (Schreiber 2018: 5). Since then, DFID support has been less regular and mainly through technical assistance. It has not been the only one, however: USAID, GIZ and the World Bank among others have also provided regular support to the organisation.

Since its creation, the RRA has been constantly strengthened through a continuous series of improvements. This has been paralleled by the frequent reform of the tax legal framework (Table 1). These changes can be roughly classified in four main categories.

**Table 1. Main reforms in the RRA and main tax reforms**

| YEAR | REFORMS OF THE RRA | TAX REFORMS |
|---|---|---|
| **1997** | Creation of the RRA | |
| **1998** | 'Modernisation committee' in the RRA in charge of writing of clear job descriptions with the help of PwC.<br>All tax service staff required to pass an exam. About 25 percent of employees from MINECOFIN lose their job, as they do not pass the test to join the RRA. | |
| **1999** | | |
| **2000** | Creation of Tax Advisory Councils, which include opinion leaders and local government officials whose task is to help the RRA in mobilising taxpayers. | |
| **2001** | Introduction of a taxpayer appreciation day. | Introduction of VAT in replacement of the sales tax.<br>Property tax, trading licence tax and rental income tax are decentralised. |
| **2002** | | |
| **2003** | RRA's mandate includes non-tax revenue (vehicle sales, fines, etc.).<br>RRA is restructured along functional lines. Creation of the office for large taxpayers and of a division focused on small and medium taxpayers.<br>Start of the roll-out of the Standardised Integrated Government Tax Administration System (SIGTAS). | |
| **2004** | RRA implements the Automated System for Customs Data (ASYCUDA). | |

| | | |
|---|---|---|
| **2005** | | Revised income tax law and excise tax.<br>Law on tax procedure.<br>Dividend withholding tax.<br>Depreciation allowances on capital assets rationalised and simplified. |
| **2006** | | Districts collect their own tax.<br>New custom law. |
| **2007** | Opening of the RRA training institute in Huye. | |
| **2008** | | |
| **2009** | | Rwanda signs to the EAC Customs Union protocol in July 2009.<br>Modification of VAT, subsidies; and import duties as part of the harmonisation with the EAC tax regime.<br>Law on tax for moto and vehicle registration. |
| **2010** | | Introduction of a flat tax for small companies. |
| **2011** | RRA introduces e-filing and e-payment.<br>Launch of e-learning platform and digital library for RRA officials.<br>Opening of a toll-free call centre. | RRA is empowered to collect local tax on behalf of districts. |
| **2012** | Introduction of Electronic Billing Machine (EBM). | Law on VAT is revamped.<br>Law on tax on gambling activities. |
| **2013** | | Law on mineral tax. |
| **2014** | | The RRA systematically collects land and fixed-asset taxes on behalf of district. |
| **2015** | | New investment code. |
| **2016** | Audits start to be outsourced to private audit companies. | |
| **2017** | | |
| **2018** | | New property tax law introduced.<br>New income tax law. |

First, the tax base has been widened. Flagship measures have been the introduction of VAT in 2001 and, more recently, the revamping of the property tax in 2018 (see below). The need to widen the tax base became especially pressing after 2009, when Rwanda joined the East African Community (EAC) customs union. The country had to harmonise its tax regime. This especially required the lowering of customs tax. As a result of the loss of revenue (Figure 1), the RRA first focused on increasing its reach of taxpayers, notably small and medium enterprises (SMEs). Many SMEs are in the informal sector and, by definition, difficult to tax. Following the restructuring of the RRA in 2006 and the creation of departments according to taxpayer size,[6] the SMEs team were trained in 2011 in the specificity of reaching out to SMEs. This led to tangible results: between 2010/11 and 2012/13, the SME taxpayer population more than doubled, while the revenue collected rose from RWF 385.2 billion (USD 636.2 million) to RWF 651.9 billion (USD 1 076.6 million) (ATAF 2016: 62). The contribution of SMEs (through income tax/pay as you earn) grew steadily, from 0.81 to 1.81 percent of GDP (USAID 2018: 6), demonstrating the RRA's efforts not just to focus on the quick wins that large taxpayers offer. Overall, between 2007 and 2017, the number of registered taxpayers grew more than thirteen-fold, from 26,526 to 355,128 (Schreiber 2018: 20).

The need to address the decrease of customs revenue also incentivised the RRA to reinforce compliance of VAT payments (see below) (Schreiber 2018: 17). Lowering of customs tax was also seen as an opportunity to further attract investments and increase trade. Consequently, the RRA embarked on further improving its procedure as part of Rwanda's wider effort to signal that the country was 'open for business'. For example, particular attention was paid to improvement of the indicators related to paying taxes and clearing customs in the World Bank Doing Business survey, especially given the direct involvement of the president in monitoring this evolution. The former Commissioner General Richard Tusabe (2014-2018) explained to Schreiber (2018: 21) that 'the head of state gets constant reports on how we perform on the Doing Business report's tax indicators'.

**Figure 1. Tax revenues by Item (percent of GDP)**

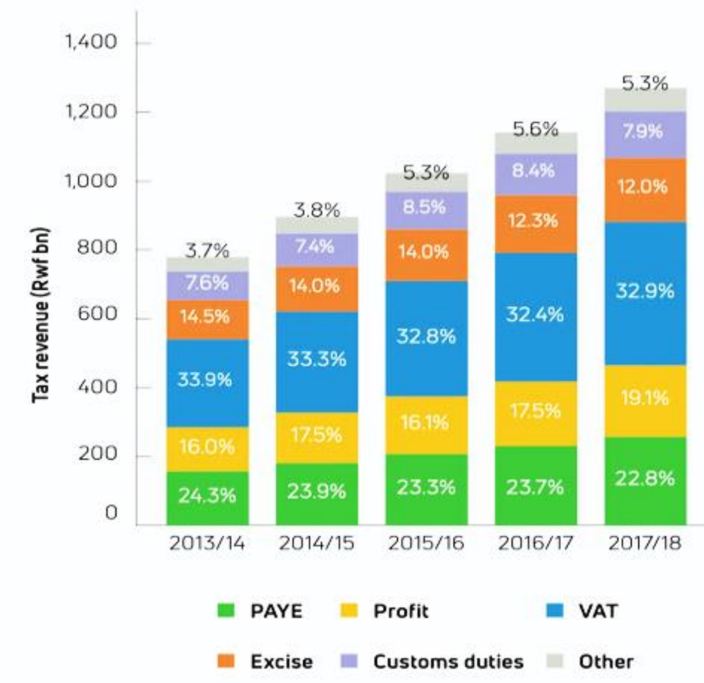

*Source*: Reproduced from (Akitoby et al. 2019: 14)

Second, the RRA focused, early on, on strengthening compliance. This materialised through a voluntarist strategy of sensitising taxpayers to their obligations while trying to shift normative behaviours towards tax payment. For example, a Taxpayer Appreciation Day was introduced as early as 2001. The yearly campaign typically starts with events in districts, along with a special show on the radio and the

[6] Instead of departments previously organised according to types of taxes.

presenting of awards to the best taxpayers. It culminates with a speech by the president about the importance of paying tax for the development of the country. In 2005, although noting that reaching SMEs was still difficult, a joint study by DFID and the World Bank underlined that the RRA 'has an effective program of community information dissemination, perhaps one of the best in Africa' (FIAS 2005: 6). Compliance also progressed through the reinforcement of tax audits and, recently, through the implementation of a risk-based approach to auditing. On VAT specifically, compliance was bolstered by the rolling out of electronic billing machines (EBMs). While their introduction in 2012 suffered from various issues,[7] by 2014 it had led to a 6.5 percent of VAT (ATAF 2016: 76) as 80percent of firms subjected to VAT were using EBMs. Overall, the VAT compliance has risen steadily, but slowly, as the value added tax gross compliance ratio increased from only 26 percent in 2001 to 38 percent in 2016, against an average of 49 percent in Sub Saharan Africa (ITC and OECD 2015: 24). Limited compliance is further demonstrated by the fact that in 2017, 43 percent of VAT returns reported VAT sales different from the EBM data (Mascagni, Mukama and Santoro 2019: 1).

**Figure 2. Tax revenue by tax type**




Reproduced from (RRA 2019: 15).

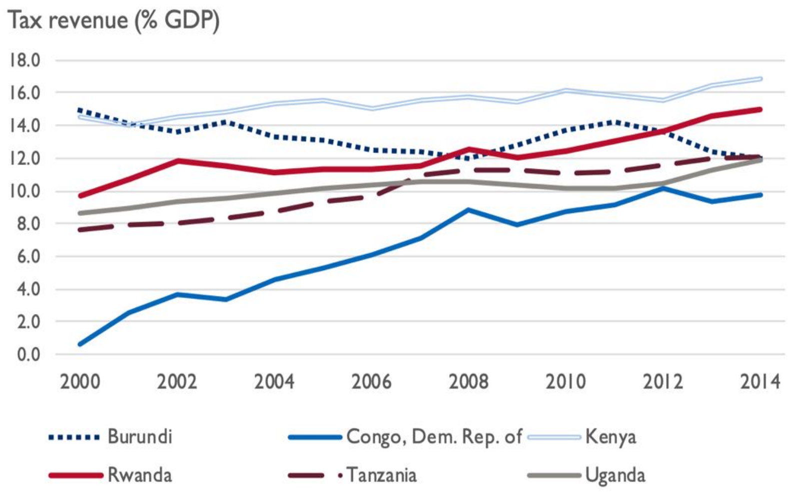
Thirdly, the RRA has streamlined the process of tax declaration. In the early 2000s, declaring taxes was an extremely cumbersome process. Filling tax and obtaining the tax clearance certificate required taxpayers to go physically to the RRA to hand in their tax return, then to the bank to make the payment, and finally to go back to the RRA with the bank slip to obtain the tax clearance certificate. Queues were especially long before deadlines. The filing and payment for VAT, income tax or pay

[7] Including the inability to partially correct invoices once issued or the difficulty of interfacing EBM with point of sales (PoS) software.

as you earn (PAYE) on average took over 23 days (USAID 2018: 5). In 2011, the introduction of a filling and payment platform online greatly reduced the burden for taxpayers. For example, it takes now three days to get a taxpayer compliance certificate vs. 10 days before (USAID 2018: 6). As mentioned, tax declaration and payment were also improved by the revamping of the RRA organisation, switching in 2003 from a structure organised by types of tax to one along functional lines. While taxpayers had to visit different offices in the RRA, depending on the tax to be paid, they now come once to the RRA to a unique counter. The organisation of RRA's work by taxpayer size rather than by tax type also allowed the organisation to better target taxpayer groups in terms of audit and sensitisation, as explained in the case of SMEs above. The RRA also focused on training taxpayers and improving their support. A taxpayer and RRA official training centre was created in Huye in 2007 and a toll-free number instituted in 2011.[8] The overall drive for using IT and sensitising taxpayers bore fruit. According to the RRA, while 70.5 percent of taxpayers declared their personal income tax online, 100 percent did so in 2018/19. That year, all taxes that were declared online and more than 90 percent of taxes were paid online (RRA 2019: 49;51).

Fourth, the legal framework for taxation has been improved following two objectives. The first has been to ensure that the tax system supported economic development. This resulted, for example, in the creation of an investment code in 2005, updated in 2015 and 2020. The second goal was allowing Rwanda to join the East African Community in 2009, as mentioned above. It involved establishing common external tariffs, eliminating internal tariffs and harmonising Rwanda's tax regime and administration with that of the EAC (AfDB 2011). As a result, taxation rates and structure in Rwanda are broadly similar to the rest of the East African Community (East African Community n.d.).

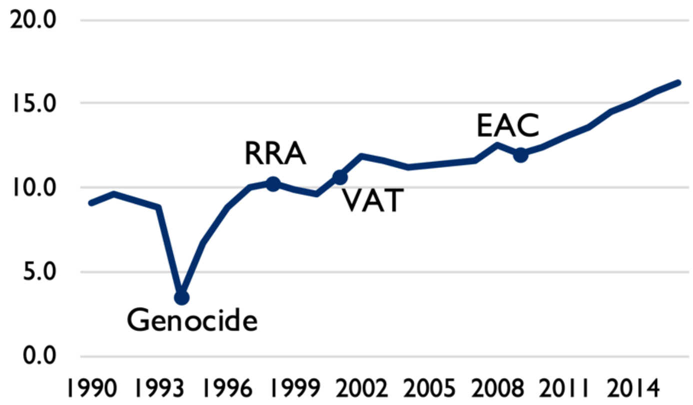
**Figure 3. Regional comparison of tax revenue (% of GDP)**




*Source:* Reproduced from (USAID 2018: 2).

[8] In the year 2018-2019, the toll-free number received 32,615 inquiries, 98.7 percent of which were answered within six minutes, according to the RRA (2019: 42).

**Figure 4. Total tax revenues (% of GDP) in Rwanda**




*Source*: Reproduced from (USAID 2018: 1).

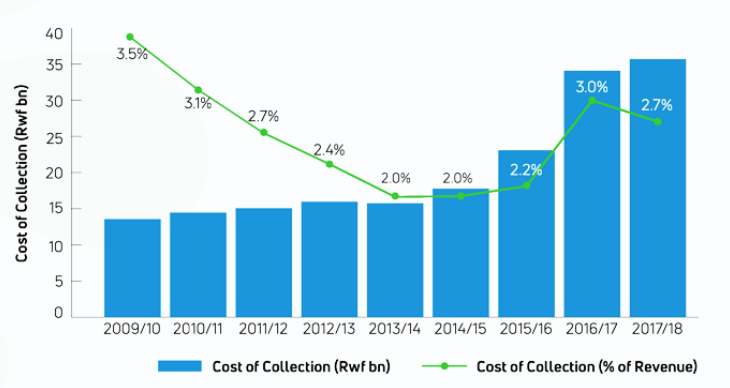
These reforms have had clear consequences in terms of revenue mobilisation (Figure 4). It is usually recognised that ‘in general, the story of taxation in post-genocide Rwanda has been one of remarkable success’ (Goodfellow 2014: 319). Revenue collection has increased continuously and accelerated from 2010 following a series of tax reforms (Figure 1), kickstarted by Rwanda joining the EAC. Between 1998 and 2017, the tax-to-GDP ratio increased from 10.8 to 16.7 percent. In the second half of the 2010s, revenue increased by 10 percent per year on average (Schreiber 2018: 10), although this performance has recently plateaued.

While progress in domestic revenue mobilisation is undeniable in Rwanda, the country is still below the Sub-Saharan African average of 18.2 percent in 2016.[9] In addition, while the RRA is an effective organisation to mobilise domestic revenue, it is not particularly efficient. The cost of extracting revenue is still quite high (Figure 5) in comparison to the average for the continent, where it represents 1.6 percent of revenue collected (ATAF 2016: 101).[10]

Furthermore, from a tax effort perspective, i.e. when considering the extent to which actual tax revenue is able to reach full potential, Rwanda’s level of performance has not progressed. Figure 6 shows the vulnerability-adjusted tax effort index of Yohou and Goujon (2017), i.e. the percentage deviation of non-resource GDP of tax actually collected from tax expected, taking into account the vulnerability of the economy to external shocks and its human assets. Such numbers must be taken with caution, as calculations are based on broad regression of variables, data for which are not always accurate.[11] Yet, it indicates that, although Rwanda performed better than

[9] Source: World Bank, https://data.worldbank.org/. Rwanda is also below the sub-Saharan average in terms of tax productivity, whether this is corporate income tax (CIT), personal income tax (PIT) or VAT (USAID 2018: 3).
[10] This may come from some RRA’s functional shortcomings (see below), but also from significant investment in IT systems.
[11] Using more classic methods of determining tax efforts squarely focused on the structure of the economy, such as those of Mawejje and Sebudde (2019) that do not take into account external shocks and human capital, show that the tax efforts of Rwanda have been

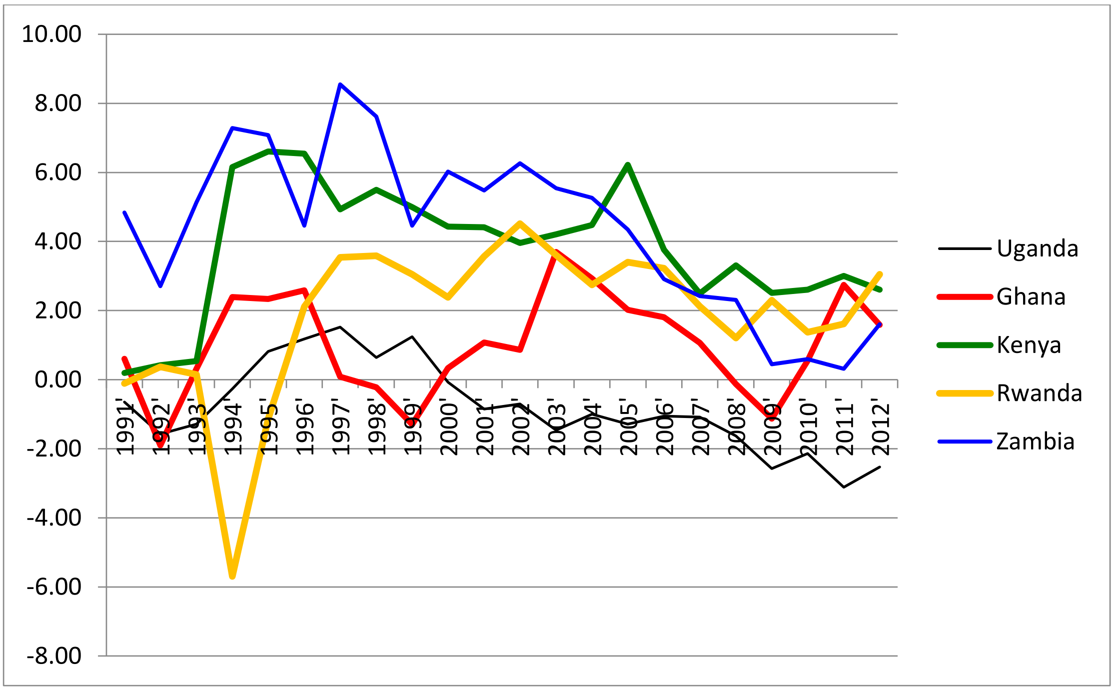
**Figure 5. Cost of revenue collection in the RRA**




*Source*: Reproduced from (RRA 2019: 14).

expected, and better than some other countries, the strengthening of the RRA has not translated into a better tax effort when the dramatic expansion of the economy and its human capital are taken into account. Part of the explanation might be, as discussed in Section 4, that some policy gaps have not allowed Rwanda to maximise its revenue.

**Figure 6. Vulnerability-adjusted tax effort index, as a percentage of non-resource GDP**




*Source:* Yohou and Goujon (2017).

continuously increasing and, although below Kenya, are better than Zambia and Uganda (data on Ghana are missing).

## Organisational performance and culture

The RRA is widely considered as one of the most capable organisations in the Rwandan state, particularly on the basis of its merit-based approach to recruitment. Indeed, 'the Authority has become well known for meritocracy and for extremely low levels of corruption' (Moore 2014: 106). As mentioned, this was made possible partly by the leeway given to the agency to pay its staff better than in the rest of the civil service. In addition, senior staff have usually risen through the ranks in an organisation that prides itself of hiring mainly young graduates. As explained by a former senior official of MNECOFIN, 'like MINECOFIN, RRA is good at fostering internal promotion – training people from scratch and promoting. This means that you've got continuity and the culture of professionalism of the institution is preserved'.[12] As a result, as summarised by an RRA official, the organisation 'is very professional in nature and there is a clear career trajectory. You can become an expert at something in four years'.[13] This is a key difference with other organisations in the Rwandan state, where flat hierarchy means that civil servants quickly feel that they are stuck in their career (e.g. Chemouni 2019: 21). RRA's career-oriented management, along with its special legal status, fosters an *esprit de corps*, often associated with PoE (Grindle 1997; Roll 2014). It also reflects its autonomy, as staff are not parachuted into the RRA by political patrons to enjoy RRA's higher salaries.

The RRA's relative excellence has had spillovers across the state. As noted by Mick Moore, the organisation has been 'consciously used as a training ground for public servants, who are moved out into senior technocratic posts in other public sector organizations', a dynamic not obvious in other East-African countries (Moore 2014: 106). The RRA has indeed produced several senior civil servants, especially for the Ministry of Finance or the Rwandan Social Security Board. For instance, for the period 2003-08, 21 staff moved to senior positions elsewhere, 18 in the public sector (Moore 2014: 110). RRA former employees seem to do well in their new role, although it is not possible to ascertain that they were central in driving up the performance in their new organisation. As elsewhere on the continent, at the level of more junior staff, the RRA has been mainly producing individuals with accounting and auditing skills who have been subsequently hired by the private sector, a trend observed as early as 2004 (Land 2004).

Another trait that explains RRA's performance is the nature of its leadership. First, the kinds of profile of the RRA's early Commissioners General has fostered the autonomy of the organisation. This was first afforded by the appointment of a non-Rwandan, the Ghanaian economist, Edward Larbi-Siaw. After 2001, the two Commissioners General, Mary Baineand James Musoni, were among the most powerful RPF cadres at the time. The former is an historical cadre of the war, while the latter was until recently very close to President Kagame. They thus acted as technopols, i.e. actors who have both technical and political competences

[12] Interviewed in January 2019.
[13] Interviewed in August 2018.

(Domínguez 1997; Joignant 2011). This gave clout to the young organisation, but also the capacity for its leadership to implement bold, and potentially unpopular, change internally. For example, Musoni was instrumental in replacing the senior management, many of whom had worked in the old MINECOFIN's tax department before the creation of the RRA, with younger ones, either hired externally or promoted internally. As explained by Land (2004: 8), this constituted a 'critical juncture' for the young organisation:

> 'The significance of this management transformation [should not] be underestimated. It seems to have injected a new vitality and confidence into the organisation and marked a final break with the old order. The new CG used this opportunity to nurture a new ethos and culture within the organisation, together with a new vision and management approaches. Crucially, the foundations of a culture of performance and integrity were laid down that continue to drive the organisation.'

This created a relatively young workforce of the RRA (in 2005, 90 percent of the staff were below 45 (Schreiber 2018: 6)), which has been conducive to the high learning capacity of the institution and its adaptation (Table 1 above) in comparison to other organisations at the time (Land 2004: 14).

Since 2001, the Commissioners General have systematically reached their position as a result of internal promotion. While they may have started their careers elsewhere, they have always held a position within the RRA before becoming its leader (Table 2). This reveals again the political autonomy of the institution, as well as the importance of competence in selecting leaders. As a result, as

**Table 2. Role of Commissioners General before reaching their position**

| Date | Name | Previous position |
|---|---|---|
| 1998-2001 | Edward Larbi-Siaw | 1986-1991: Chief Director, Ghana NationalRevenue Secretariat (NRS) |
| 2001-2005 | James Musoni | Deputy Commissioner General, RRA |
| 2006-2006 | Henry Gaperi | Commissioner, Large Taxpayers Department, RRA |
| 2006-2011 | Mary Baines | Commissioner of Customs and Excise, RRA |
| 2011-2014 | Ben Kagarama | Head of Large Taxpayers Department, RRA |
| 2014-2018 | Richard Tusabe | Deputy Commissioner General and Commissioner for Customs, RRA |
| 2018- | Pascal Ruganintwali Bizimana | Deputy Commissioner General and Commissioner for Corporate Services, RRA |

explained by a senior official, ‘those that took on senior position already understood what works or doesn’t work’.[14] On the other hand, this also created some detrimental effects, with some senior officials in the RRA creating groups of internal clients they would promote. For this reason, from 2014 the government has encouraged the organisation to hire part of its senior staff, such as heads of department, from outside as well.

The RRA has pioneered some management innovations that would later become common in the state. This included target-driven governance and semi-autonomous status. This avant-gardism set the RRA apart and helped to create an *esprit de corps*, signalled the importance of its mission, raised its credibility, and generated an expectation to perform.

Its semi-autonomous status gave the RRA freedom to decide on its hiring policy and to set higher salaries than the rest of the state. The minister of finance of the time, Donald Kaberuka, tried to apply the latter measure to the OAG and the NTB, created around the same time, as a way for the government to better manage its resources after the immediate post-genocide period. Yet this elicited resistance in cabinet, as ministers were afraid that this would jeopardise the unity of the state (Chemouni 2019: 14). In the end, only the RRA was able to retain this special measure, given the importance of revenue mobilisation and because SARAs were a model widely promoted elsewhere in the region. Consequently, at its creation, RRA offered much better salaries than in the rest the state or the private sector. It became ‘regarded as the “employer of choice”, which certainly helped in the recruitment and retention of high-calibre personnel, especially in management positions’. (Land 2004: 12). As explained by a former senior official from MINECOFIN, as the private sector was small and salaries relatively low when the RRA was created, ‘in the past, working for RRA was prestigious […]. It was prestigious to be a driver in RRA’.[15]

The RRA also pioneered target-driven management in Rwanda, as the practice started becoming more widespread in the state only in 2006, with the introduction of local government performance contracts (*imihgo*). At the creation of the RRA, each department (personal income tax, corporate tax, sales tax, customs, etc.) had its own revenue target. Reaching targets meant bonuses paid to the employees, thanks to DFID funding (Schreiber 2018: 6). Later, the RRA was allowed to keep 3 percent of the tax collected to be redistributed in the organisation as a way to incentivise staff (ibid.). The performance system was also rolled out at the individual level, as each member of staff has targets to achieve.

The effects of such a target-based system are felt by taxpayers themselves. Besides the diligence of RRA officials in collecting tax, it also results in small arrangements with taxpayers. A businessman explained:

[14] Interviewed with a former MINECOFIN senior official, January 2019.
[15] February 2019.

> 'I can receive a call from someone [from the RRA] about the account finishing on the 31st but asking me to pay [the corresponding tax] on the 29th, so that he can meet his monthly target, for example. Or, if you have a credit with them and they need to give you back money, they will ask you to wait a bit and generally take time before paying it [so that it is not removed from their performance indicator].'[16]

The target-driven incentives of the RRA also translate into a very punitive approach to taxation. A former senior official in MINECOFIN explained that:

> 'this punitive regime was put in place [by a former Commissioner General] as a shortcut to increase taxes […]. For example, on VAT, if you were late by one day, it was just as bad as not paying. So, imagine your accountant gets into an accident and cannot pay on the day it's due.'[17]

This was a complaint recurrent in interviews: 'If you are later, it is 60 percent of the amount! No exception. If you submit at 00:01am after the deadline, you have the penalty. Sometimes it is just that the bank had a technical problem but that's it, you pay.'[18] And the room for clemency was perceived as inexistent: 'if you mess up, you don't know who to talk to. You see it as an authority over you that's inaccessible and failure to pay tax is a matter of life and death. There should be room for negotiation.'[19] Furthermore, given their performance targets, RRA auditors will be more likely to interpret the tax law to maximise revenue. Finally, in order to keep their numbers high, RRA officials can be reluctant to grant tax holidays and customs exemptions provided by the law, by asking for many documents and making the process cumbersome.

Besides the target-driven governance, many traits in the organisational culture of the RRA can be also observed elsewhere in the state. As such, they reflect general trends in the Rwandan bureaucracy (cf. Chemouni 2019, 20-21). First of all, the capacity of the organisation, as of the rest of the state, should not be exaggerated. While the RRA has staff who are relatively capable, compared to the rest of the bureaucracy, their skills remain limited. This is especially true at more junior level. As explained by an advisor to the RRA, 'at the lower level, quality of employees is hit and miss: the leadership rely on few good ones and the rest is low capacity and does not do much'.[20] A donor concurred:

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[16] Interviewed in January 2019.
[17] Interviewed in February 2019.
[18] Interviewed in January 2019.
[19] Interview with a businessman, July 2018. The government has, however, recently recognised this issue, significantly decreasing penalties for late declaration through the new Law on Tax Procedures, N° 026/2019 of 18 September 2019. It provides, for example, that if a taxpayer has neither declared nor paid tax within a period of not more than 30 days (but rises to 60 percent after 60 days), the administrative fine is set at 20 percent of the amount due, against 60 percent for late filing and 50 percent for late payment previously.
[20] Interview, July 2018.

> 'there is a huge gap between the senior management and the rest in terms of capacity. You see this in many institutions in Rwanda. The senior management is well-educated and studied abroad, but the mid and lower levels are not as well educated'.[21]

Second, staff management is lacking: an RRA insider acknowledged that:

> 'the HR function is very weak: no real management meetings except the senior management meeting […], you have a lack of planning activities. All is very ad hoc. The management also doesn't really engage with staff. You have the management at the top and the worker bees below and that is it'.[22]

Third, staff are not empowered to take decisions, which creates bottlenecks at the top, given the general lack of delegation.

> 'The culture doesn't encourage people to raise issues and they don't have the capacity to present evidence to the leadership to change course of action. You don't escalate failure [i.e. report failure to higher ranks]'[23]

This results in a range of issues for taxpayers when interacting with the RRA, as aptly summarised by the following quote from an RRA insider:

> 'The staff is not centred on the customer's [i.e. the taxpayer's] experience. The cause is mindset, but especially the little delegation to staff, the little space they have to take decisions. For example, the employee will always take the path of least resistance with the hierarchy, follow the regulation, not engage in interpretation. For example, in an unclear case about tax, if the taxpayer asks the RRA official about tax he has to pay, the official will give his interpretation, but will not dare to put the position in writing. For this, he will want the validation of top ranks, which overwhelms the system and creates uncertainty for the taxpayer.'[24]

An accountant for the private sector concurs:

> 'people in RRA are very warm […] it is easy to raise issues with them, but to have an answer is a problem. The guy won't take a decision and it has to escalate […] But I often hear their supervisor saying, "you should have answered", so RRA officers simply don't dare to take decisions I guess.'[25]

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[21] Interview, July 2018.
[22] July 2018.
[23] RRA advisor, July 2018.
[24] Interview, July 2018.
[25] Interview, January 2019.

Unfortunately, these management issues are difficult to address in the RRA, as in other parts of the state, because they are about much 'softer' aspects of performance not easily reflected by performance indicators. An RRA insider explains that 'benchmark such as TADAT [the internationally recognised Tax Administration Diagnostic Assessment Tool] masks the ability to recognise other issues, issues that they don't see. One is basic management skills'.[26]

Generally, informants from the private sector recognised that corruption is low in the RRA, and that RRA officials are swiftly disciplined if they take bribes. In 2018-2019, 48 staff members were investigated, which resulted in the sanction of 28 employees, including the dismissal of five (and 20 the previous year) (RRA 2019: 71). Corruption is made difficult by the fact that several RRA officials can be involved in auditing a company. Interpersonal connections are generally recognised as ineffective when attempting to escape tax, as explained by a private sector accountant: 'personal relations would come into play to speed up a process, but not to alter it'.[27]

While the effectiveness of the RRA is clear if viewed through the prism of tax collection, it is much less so if analysed through the broader lens of its relationship with the private sector. Recurring complaints from businesses relate to the difficulty in accessing information on tax and to the fast-changing legislation that regularly imposes sudden, and at times poorly conceived, reforms. This creates a significant issue of tax predictability. For example, the new income tax law voted in August 2018 was applicable for accounts closing in December 2018, making it partly retroactive. This is especially problematic for businesses, as this law changed significantly what is deductible from taxation and the threshold for corporate tax. The law on VAT was, for example, changed in 2012 and in 2015 again. An accountant explained that the RRA 'missed things in the 2012 law, so they had to correct it. What happens is that the private sector is protesting so they change, but after'.[28] While tax reform is not, on paper, the responsibility of the RRA, but of the Ministry of Finance, in practice, the RRA does play a central role in changing the law. The RRA is, according to its mission statement, only 'responsible for providing advice to the government on tax policy matters relating to revenue collections'. In the Rwandan context, however, as underlined by many interviewees, the RRA has an important clout in defining tax policy, because MINECOFIN tax policy function has been historically weak: the tax policy team is small – only three people – and does not have the necessary skills to analyse tax policies. The fact that the informants cited above and below equate policy change with the RRA leadership is telling in this respect. Besides policy changes, the RRA was also perceived as not doing a good job at informing the business community of such changes. Overall, the general feeling was that:

> 'changes in taxes or new taxes are not communicated There are all sorts of things that pop-up without consultation [….] we found out by just reading in a

[26] Interview, July 2018.
[27] Interview, January 2019.
[28] Interview with a businessman, January 2019.

> newspaper […] I know that they are perceived as efficient, because they hit all their targets, closing businesses down for tax evasion and carrying out raids to do this. But they are not good at communicating with taxpayers'.[29]

The frequent modification of the law is attributed to a lack of preparation of reforms. For a businessman, echoing the statement about the VAT reforms, the logic followed is one of post-hoc adjustment: 'the big problem is that they first vote a very hard law, and then they adjust. They say, "let's see if we are going to receive a lot of complaints", if they don't, the law does not change'.[30] Unsurprisingly then, the latest Investor Perception Survey prepared by the World Bank (2018) found that tax predictability was the third main constraint on company growth in Rwanda, according to investors.

These issues can, to a certain extent, be explained by RRA's poor consultation of businesses, which is part of its mission of providing inputs to policy formulation. This is not to say that fora where RRA and businesses interact do not exist – they are indeed many – but businesspeople interviewed often felt that these were more a way to lecture them on the importance of paying taxes than genuine consultations where they could provide inputs on tax policies. They all underlined the relative uselessness of the Private Sector Federation (PSF), which is meant to represent the interests of the private sector. It was generally perceived as 'an engine of government, because to be appointed in PSF, you need to be well connected to the party'.[31]

The concept of 'embedded autonomy', coined by Peter Evans (1995), appears especially useful to understand the difficulties of the RRA in formulating policies that do not need frequent adjustment after implementation. Evans argues that a developmental state needs a certain degree of autonomy, understood as coherent, competent administrative agencies sheltered from political capture. But at the same time, it also requires embeddedness, i.e. 'concrete set of social ties that bind the state to society and provide institutionalized channels for the continual negotiation and renegotiation of goals and policies' (Evans 1995: 12). Specifically, successful policy formulation results from the state entertaining formal and informal linkages with society. These are not clientelistic ties, but rather connections between key constituencies for development (such as businesspeople) and the state. Evans demonstrates this in the case of industrial policy in South Korea, by showing that consultation and exchange of information with the private sector were pivotal to the design of successful interventions, such as financial support for well-performing companies or tax relief for R&D in some strategic sectors. Applied to the Rwandan case, this kind of synergetic relationship is generally missing, something already noticed in the industrial (Behuria 2018) and agricultural (Ansoms 2009) sectors. The sentiments among many businessmen was that 'the RRA or RPPA [Rwanda Public Procurement Authority] do not trust the private sector: they would say "you always try

[29] Interview with a businessman, September 2018.
[30] Interview with a businessman, January 2019.
[31] Interview with a businessman, December 2019.

to cheat us"'[32], a sentiment echoed by many donors. The RRA does not 'have relations with investors. They are more like debt collectors',[33] an aspect compounded by the importance of payment schedules and collection targets. Overall, while the RRA is undoubtedly autonomous, it is not embedded enough, as it considers businesses mostly as actors to be disciplined, rather than counterparts in a productive relationship to enhance policy formulation and implementation. This lack of embeddedness can be linked to elite vulnerability. As rapid development is a question of political and physical survival for the Tutsi minority, the RPF chose to embrace a highly top-down and transformative developmental agenda, hardly conducive to consultation. This is reinforced by the RPF 'high modernist' and paternalistic ideology through which it perceives itself as an enlightened vanguard that 'that knows better' than the rest of the population (Chemouni and Mugiraneza 2020; Reyntjens 2016). Finally, this lack of embeddedness is, to a certain extent, sociological: the ruling elite's ethnic minority status, its origins in the diaspora as refugees, means that it does not entertain concrete social links with some segments of the population. This has been especially visible in the agricultural sector: the RPF's rather weak ties with the rural world has led to overly top-down policies poorly attuned to the local realities (Ansoms 2009).

The relationship with the private sector also suffers from a significant range of organisational issues within the RRA. The overall picture is one of an agency that is relatively good at doing its fundamental mission, as captured by the main indicators of revenue extraction, but less so in ensuring that its underlying administrative organisation is fit for purpose. One of the most problematic issues lies in the reliability of its taxpayer database. As a consequence, the data reported by the RRA on the proportion of different taxes paid on time is not necessarily reliable. The RRA has also had some difficulties knowing who owns what amount of tax arrears. This was confirmed by several businessmen, who reported that the RRA asked them to pay tax from some years back, although they already paid them. The RRA system had no proofs of these payments, however. Only when businessmen were able to produce the tax certificates from the previous years did the RRA stop asking for these arrears. This reveals that, as the RRA was, in some cases, unable to identify who exactly owed it money, it adopted a hit-and-miss strategy, asking random amounts of random businesses, in the hope of recovering some funds. This is confirmed by audits of the Office of the Auditor General (OAG). In 2017, the OAG stated that some 'taxpayers who have cleared their obligations still appear in arrears and may be attracting penalties and yet they already made payment to RRA' (OAG 2018: 56).

More generally, OAG audits offers a sobering assessment of bookkeeping practices in the organisation. In its 2015 report, the OAG mentioned that 'the audit of RRA revenue collection system revealed various gaps', especially 'lack of proper tracking

[32] Interview with a businessman, January 2019.
[33] Interview in June 2018.

of registered taxpayers for domestic taxes and gaps in existing databases of taxpayers' (OAG 2015: 15).[34] In addition,

> 'there were many instances identified, where staff did not perform the necessary tasks of maintaining cashbooks and preparing proper bank reconciliations or even making follow up to investigate any omissions. The supervisors too did not provide appropriate oversight and review' (OAG 2018: 15).

Poor record-keeping and bank reconciliation led the RRA to wrongly report 32bn Rwf, or 4 percent of its total revenue, in 2014 (OAG 2015: 16). Other issues spotted by the 2014 audit include significant tax arrears (some dating back more than 10 years), dysfunctional IT system reporting revenue data not matching the money in RRA's bank accounts, weak audit capacity, and existence of tax payers who never paid tax, despite their registration with the RRA (27,358 in 2014). Most of these issues were not resolved in 2017.[35] Finally, it appears that the RRA did not systematically followed up on some key audits. There were, for example, no proof the RRA conducted compliance follow-up of cases audited because these cases were flagged as risky by its Risk Management and Modernization Department (OAG 2018: 57).

Overall, looking at the RRA's functioning that underpins the relatively glowing numbers of revenue collection reveals a much less rosy picture of the organisation. Scratching the veneer expose a chaotic administration, especially as far as bookkeeping and taxpayer registration is concerned, two tasks that are pivotal for such an organisation. How can such a paradox be understood? Part of the explanation probably lies in the structure of incentives driving the RRA. The RRA's performance is mainly grasped by aggregate macro indicators of revenue mobilisation, as these are the ones most used internationally, and are critical for Rwanda's image, and usually recognised as best for summarising a revenue agency's performance. Unsurprisingly, they are closely followed by the president, as mentioned above. As these performance indicators have been particularly prominent politically, other less salient indicators pertaining to the inner organisation of the RRA seem to have faded into the background for RRA's management. Tax collection had to progress, even if this meant that the 'back office' was not following up apace. A second explanation of the heterogenous performance lies in the RRA's low capacity. Financial, human and technical resources, compounded by the turnover of its agents, whose profiles are attractive to the private sector, are also obvious limits to the RRA's performance. A third reason lies in the management culture presented above. The focus on targets, coupled with a missing robust middle management, as in the rest of the state (e.g. Chemouni 2019), and the lack of empowerment of more junior

[34] The OAG revealed that 7,154 taxpayers were registered for some taxes but not others that they should be paying. For example, 3,195 companies paying employee pension contributions to the RRA did not pay PAYE tax (OAG 2015: 51).

[35] That year, tax arrears amounted to 14 percent of tax collected, a number that in reality was probably higher, as all tax arrears were not reported by the RRA, according to the OAG (OAG 2018: 56-59).

staff, create a lack of feedback loops on what can be improved in the organisation. A donor working closely with the RRA explained that 'success [in the RRA] is doing what you are told to do, and this is reflected in the *imihigo*. There is no culture of feedback and senior management is protected from criticism. This is a strange combination'.[36]

On the other hand, dysfunctions within the RRA did not seem to be primarily motivated by corruption or state capture. The organisation has historically risen to challenges through frequent reforms (Table 1). The taxpayer database and bookkeeping issues are not an exception: 'The 2015 TADAT clearly underlined some problems such the taxpayer database not up to date. This was clearly flagged, and the organisation is putting lots of energy to solve this'.[37] The very fact that these dysfunctions were so explicitly underlined and made public by another state agency, the OAG, indicates that such underperformance was not politically approved.

## The political economy of policy gaps

After analysing how the characteristics of the RRA itself influence revenue collection, the paper now turns to some key policy gaps. This is important, given the RRA's role in policy formulation and to explain some obstacles to higher tax efforts.

### Tax exemption

Tax exemptions are significant in Rwanda. Action Aid estimated that they amount to a loss of 94 billion Rwandan francs (RWF - US$156 million) in 2008, and 141 billion RWF (US$234 million) in 2009, the equivalent of 3.6 percent and 4.7 percent of GDP respectively. In 2016, tax exemptions were estimated at about 3.3 percent of GDP, equivalent to almost 10 percent of government expenditure (World Bank 2019: 131). In comparison, a study by Action Aid and Tax Justice Network-Africa reported that tax exemption amounted to 1.5 percent of GDP in Tanzania in 2014, 3.1 percent of GDP in Kenya in 2011, and around 2% of GDP in Uganda in 2012 (TJN-A and Action Aid 2016).[38]

Exemptions result from an attempt by the government to achieve three goals: job creation; export promotion; and the attraction of investments. Yet, the effects of these tax cuts have been questioned. According to various studies (ActionAid 2011; World Bank 2019: 184-186; TJN-A and Action Aid 2016), they are not targeted enough to be effective. Exemptions target both performing and non-performing companies. For example, all manufacturing firms are uniformly given value added tax (VAT) exemptions, regardless of performance (World Bank Group 2018: 203). Other tax holiday and exemptions concern sectors that do not create many jobs or that would

[36] Interview, July 2018.
[37] Senior advisor in the RRA, June 2018.
[38] These numbers must be taken with caution, as comparisons of tax exemptions across countries are difficult, due to data and definitional issues. Yet they give an idea of the order of magnitude of tax exemption in Rwanda, an issue regularly underlined by different studies (see below).

thrive regardless of the tax cut (mining and financial services, for instance). A survey conducted in 2011 found that 98 percent of investors in Rwanda would have made their investment without the tax incentives (IMF 2015: 12).

This situation is first the result of poor coordination within the state between agencies with different incentives. On one hand, limiting tax exemptions is in line with the RRA's interests. Annual targets of revenue mobilisation are indeed the single most important performance indicator that can make and unmake a general commissioner's career. On the other hand, promotion of tax incentives is strongly aligned with the mission of the Rwandan Development Board (RDB) to attract investments, promote exports and support the private sector, driven by ambitious FDI and export targets. RDB is consequently a strong advocate of tax subsidies.[39]

This tension between the goal of RDB and RRA should, in theory, be arbitrated by MINECOFIN through its role in tax policymaking. Yet, as mentioned, MINECOFIN tax policy function has historically been very weak. As a result, approaches to exemptions and tax holidays have been fragmented and un-coordinated. As recognised by a MINECOFIN official 'there is an issue about being systematic in terms of tax exemption. It is a bit ad hoc at the moment'.[40] As remembered by an RRA official,

> 'RDB does a lot without telling the RRA. For example, the policy "Made in Rwanda" [the national strategy to recapture domestic market and promote export] exemptions with MINICOM [the Ministry of Commerce] were decided without consulting RRA'.

Another official concurred, explaining that the general confusion benefited RDB: it 'did not want people to know what incentives had been awarded to firms'.[41] This was made possible by the fact that the Rwandan investment code, revised in 2015 'is too broad and leaves a lot room for RDB to interpret it as it wants,'[42] according to a consultant. More generally, RDB has felt empowered to grant exemption unilaterally:

> 'there is the view that RDB has particular influence and power [… and] is able to broker deals and secure government support for these deals. This creates a lot of frustration on the RRA and MINECOFIN's side. The issue of discretionary tax policy is worrying – the process is so opaque'.[43]

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[39] This is facilitated by the fact that RDB is a powerful institution. Its DG, unlike the head of RRA, has ministerial rank and sits in cabinet meetings.
[40] June 2018.
[41] Interview with a foreign consultant, January 2019.
[42] Interview with a foreign consultant, January 2019.
[43] Interview with a foreign consultant, January 2019. For an illustration in the energy sector, see Chemouni (forthcoming).

This assessment is echoed by businesspeople: 'they don't communicate. RDB will offer something with RRA unaware and then government has to cover up for it'.[44] As a result, in 2017, the IMF called for 'monthly coordination between the Rwanda Development Board and the Rwanda Revenue Authority to come to a common interpretation of tax incentives', and, more broadly, 'ensuring an investor-friendly tax regime without eroding the tax base' (IMF 2018: 17). The issue of uncoordinated exemptions is also a reflection of contradictory ideas about development in the ruling coalition. As in the case of the Central Bank (Behuria 2020), the tension between ideas of state-centred development held mainly in the RRA and in the MINECOFIN tax policy unit, versus ideas of market-led development promoted by RDB, resulted in some level of policy incoherence.

While it is clear that poor targeting of tax exemptions is the result of poor coordination within the state between two agencies with opposite goals and ideas, as well as a weak tax policy function in the Ministry of Finance, it is not clear whether this is also a direct attempt to protect elite rents and, especially, businesses linked with the party and the military. If the domestic military and party companies benefit from a tax subsidy, it is does not seem to be the primary purpose of the current tax regime, heavily geared towards attracting foreign investment.[45] Booth and Golooba-Mutebi argue that these firms actually do not get preferential treatment from the RRA. The prevalent view among businesspeople, who were not part of these companies, whom they interviewed was that the RRA 'is so harsh and inflexible that it would be unlikely to make concessions to anybody, and least of all to firms in the "large taxpayer" category', such as the regime companies (Booth and Golooba-Mutebi 2012: 396). On the other hand, some suspicions exist regarding tax favouritism for these same companies. Gökgür, who was able to examine the list of top taxpayers in 2010, reports that 'only 11 party-statals (less than half of the 25) were among the top 307 large taxpayers in 2010'. She underlined that the RPF-owned Crystal Ventures Limited (CVL)'s subsidiary in the food processing sector, Inyange, has a market share of 80 percent in mineral water, 70 percent in fruit juices, 70 percent in yoghurt and 55 percent in pasteurised milk. And yet, it 'is not among the top taxpayers,' while 'its two immediate competitors [...], which have smaller market concentrations, do appear on this list' (Gökgür 2012: 27). In the absence of further evidence, it is not possible to conclude whether some level of state capture exists in the form of tax breaks for companies belonging to the ruling party and the military.

Overall, given the weakness of the tax policy function in government, inconsistent tax exemption regime and issues of tax predictability, it appears that:

[44] Interview with a businessman, June 2018.

[45] This is unsurprising, as many foreign investors operate in sector with a seven-year tax holiday: manufacturing, tourism, health, exports, energy projects. In addition, international companies with their regional offices in Rwanda can benefit from a 0 percent corporate income tax for international companies with regional offices in Rwanda and which fulfil certain requirements.

> 'much of the progress over the past 17 years seems to have come from closing the administration cum compliance gap, while the tax policy gap (exemptions and other reliefs allowed to different types of taxpayers) remains wide'. (USAID 2018: 3).

This may explain why Rwanda's tax efforts have not significantly improved with the creation of the RRA, as revealed by Figure 6.

**Land and property tax**

Another key policy gap in revenue mobilisation is the government's limited efforts to tax property. The taxes on rental income and property were decentralised in 2006 and recentralised in the hands of the RRA in 2014, following the poor performance of tax collection by districts. Despite these changes, the Rwandan state has been ineffective in collecting these. Goodfellow notes, for instance, that while the other main local taxes – collection of local trading licences – are collected from more than 85 percent of the tax base in Kigali, building and rental income taxes, both related to property, are hardly collected. In the late 2000s, these taxes only accounted for 4 percent of local government revenue, compare to one-third in neighbouring Uganda (Goodfellow 2014: 320). Property tax revenue even seems to have decreased around 2013, making the amount of tax collected 'extraordinarily low, even by the standards of developing countries' (Goodfellow 2017: 561).

This underperformance is a significant loss of earnings that prevents the state from capturing some of the rents created by the real estate boom in the country, especially in Kigali. Real estate accounts for about 8 percent of GDP growth, while rental income has been increasing over the past decade, sustained by the scarcity of housing and by the growing expatriate community in the capital city. As noted by Goodfellow, it is not surprising then that nearly three-quarters of the top 10 domestic investors in the country in 2011 were in real estate (Goodfellow 2014: 319).

The incapacity of the Rwandan state to tap into the exponential rise of the price of land and rents in the urban areas comes first from the law. Until 2018, tax on property was only applicable to freeholding, which applied to only 2 percent of the population. In addition, the much lower tax on lease-holding (that concerns the remaining 98 percent of the population) is only applicable to the land, not to the building on it. Furthermore, it is a regressive tax, with low-income property owners paying on average 10 to 20 times more than owners of more valuable property (Kopanyi and Murray 2016: 2). The rate of these taxes was low compared to neighbouring countries and their collection was dysfunctional. Overall, tax on land and buildings represented in 2015/16 less than 1 percent of total tax revenues and 0.1 percent of GDP, five times lower than the estimated continental average (Collier et al. 2018, 6).

The ineffectiveness of the state in taxing properties can be best understood as the result of Rwanda's political settlement (Goodfellow 2014). Real estate and rental incomes are a huge source of rent for Rwanda's current elite, and for RPF supporters more broadly. The returnees who came in the wake of the RPF victory are over-represented in Kigali. Indeed,

> 'following the RPF's military victory, the new elite installed themselves in the capital. While this was partly for security reasons […], it also reflected the fact that a considerable number of the returnees had lost their ties with the "hill of origin" and had little incentive to go to the rural areas' (Ansoms 2009: 295).

In addition, the lack of productive sectors to invest in has made real estate a logical investment for Kigali's wealthy elite and the Rwandan diaspora, especially as the expanding expatriate community has fuelled rental prices (Behuria and Goodfellow 2018). Some companies owned by the party and the military are especially active in the construction and property development business. Overall, the ineffectiveness of the state in taxing land and buildings has been key in sustaining the rents of the ruling coalition and its supporters.

This situation of underperforming property taxes has been known to the authorities for a long time. For example, as soon as 1997, a consultant advised the government to create a new property tax. In 2006, a draft law was abandoned (Goodfellow 2014: 322). Finally, a law revamping property and rental tax was passed in 2018.[46] As explained by a former MINECOFIN senior official:

> 'the problem with this [new property] tax is that it's not a pro-rich tax. This is why it took so long to be passed and has been debated for so long. It's because those people sitting in parliament are the ones that it will be affected the most [… such as this or] that minister with a mansion in Kibagabaga, with three rental properties in Nyarutarama and more than three hectares of land in Nyagatare for his cows […]. They are thinking about the taxes they will have to pay […]. It's a pure political economy issue.'[47]

A consultant who worked in the country in the late 2000s concurs:

> 'there was push back on the property tax law even then. The elite – senior army or government officials – all of them had multiple properties and received rents in US dollars. This rent was never taxed, and they were happy with the situation.'[48]

As a result, for a long time, there were what a senior official has described as 'two camps' among policy-makers regarding reforming the property tax: one who wanted to maximise local revenue through a tax reform; and 'one against it because people

[46] Law No. 75/2018 of 07/08/2018 determining the source of revenue and property of decentralised entities.
[47] Interview, February 2019.
[48] Interview, January 2019.

had land and nice houses' and who 'argued that this would limit the construction boom and urbanisation'.[49] MINECOFIN technocrats from the former camp even tried 'to push the politicians' to pass the new law, by making it a conditionality as part of the IMF Policy Support Instrument, but to no avail.

The new law on property tax finally passed in 2018.[50] How this happened reveals, as so often in Rwanda, the key role played by the presidency in disciplining the elite. The economist Paul Collier came in 2016, on the invitation of the mayor of Kigali, and gave a presentation on the need to better tax property to sustain urbanisation. According to a senior official, 'what he did was giving voice to conversations that were already happening'.[51] Crucially, Collier also directly talked to the president. His demonstration came at a crucial moment, as urbanisation was emerging at the time as a new priority for the government. It considered urbanisation as a way to create jobs and hasten the structural transformation of the economy. Collier's demonstration emphasised that, in the absence of revamped property tax, vacant urban land and houses allow property owners to realise significant benefits on the back of the city's development, without participating in its financing, and depriving the city of much needed revenue. It emphasised that urbanisation would not be successful if the government did not manage to properly fund local services. This strongly resonated with top officials: 'we were looking at it as an equitable tax but did not make the link with urbanisation and the financing of it. This was an important point that Collier made in framing the debate'.[52] Then, as remembered by a MINECOFIN senior official, 'the law came as an instruction [from the presidency]'.[53] An advisor to MINECOFIN concurs: 'I am actually impressed that the proposal submitted to parliament has not changed much. This is because of the president's support and that of an elite policy maker like [then Minister of Finance] Gatete.[54] After a series of studies, the law was finally passed in 2018. It increased and harmonised tax rates for property (land and buildings) and made tax on rental income more progressive. It is still too early to know if the law will produce tangible effects on the collection of property and rental tax.[55] Nonetheless, this episode illustrates both why property tax has been historically low in Rwanda and how the dominant nature of the settlement, which concentrates power in the presidency, can be instrumental in overcoming vested interests.

[49] Interview, February 2019.
[50] The law especially covered tax on property (land and building) as well as on rental income.
[51] Interview, February 2019.
[52] Interviewed with a senior official in February 2019.
[53] Interview, January 2019.
[54] Interview, July 2017.
[55] Obstacle could be political, but also technical, as valuation of all property and plots of land in the country on which to base tax is tricky. In 2020, declarations were based on self-reporting of land area and building valuation. Reflections are under way on using a computer model, which would carry mass-valuation, based on the database of the Rwanda Land Management and Use Authority, satellite maps, and valuation algorithm (IGC 2019).

## Conclusion

The performance of the RRA has continuously increased if one looks at its tax-to-GDP ratio, allowing Rwanda to overtake some countries in the region. Its tax effort, although better than expected, has remained relatively stable since the RRA's creation. Overall, as hypothesised in this project (Hickey 2019), these linear trends are unsurprising, given the lack of substantial changes in the country's political settlement over time as the ruling coalition remained clearly dominant. Unfortunately, this evolution (or lack thereof) prevented the integration of counterfactuals into the argument. Yet, it is clear that the concentration of power in the RPF generally guaranteed the RRA's autonomy. It sheltered it from political pressure, allowing it to work according to formal and hierarchical rules. It empowered leaders of the RRA to set the organisation on a different path from MINECOFIN's revenue department that it replaced. The organisation easily emerged as an agency with young, capable staff and extra resources compared to the rest of the state.

Given the relative stability of the political economy environment, variations of RRA's level of performance mainly boil down to lower-level explanations, such as capacity strengthening and policy adaptation. Three periods can be distinguished. From 1997 to 2009, the period is one of organisational strengthening, focused on IT system deployment, improvement of the organisational structure and HR management. From 2009 to 2014, under the pressure of joining the EAC, which would decrease customs revenue, and as investment attraction became more prominent on the agenda, reforms focused on revamping taxation and tax collection procedures. This led to a more substantial increase in the amount of tax collected in comparison to the previous period (Figures 3 and 4). From around 2015, reforms more squarely focused on closing several policy gaps, through the revamping of the investment code in 2015 and in 2020[56] and of the property tax, the effects of which are yet to be ascertained. Variations in the level of performance of the revenue agency also resulted from the influence of external actors (DFID, the EAC or Paul Collier), who made problems salient to a political leadership that was willing to address them.

While the nature of the political settlement gave the elite the space to support the RRA, vulnerability gave the elite its motivation for doing so. The RRA was envisioned as a tool to provide, in the long run, the resources to decrease what was perceived a dangerous material dependence on the outside world. It was also the tool to gather resources to deliver, in the long run, the rapid socio-economic development able to foster the popular legitimacy that the RPF was desperately lacking. Given their minority status and resulting vulnerability, rulers did not hesitate to tax their own constituency, although the case of property tax showed that it has not always been easy. One may wonder, however, why, as a minority, the rulers have not chosen the easy path of applying less fiscal pressure on the majority to gain their support. The first reason, already mentioned, is the nature of the settlement, which, given the absence of a strong opposition, gave the ruling elite the ability to do so. The second

[56] Cabinet approved the draft law in August 2020.

is that providing public goods is probably seen as the only sustainable solution to deliver legitimacy in the long term while *at the same time* building a state strong enough to ensure protection of the minority.[57] The influence of elite vulnerability on the RRA must also be understood in articulation with the ideas harboured by the elite group. Ideas partly influenced how the elite perceived their own vulnerability (e.g. their dependence on the outside world). They also influenced the governmental approaches to taxation, for example the use of statist or more neoliberal recipes to guide their policies.

On the other hand, the nature of the political settlement and of the rulers' ideas also explain much of the hindrance to the performance of the RRA. Regarding ideas, a tension existed between preference of developmental statism – maximise revenue for public investment or state-led urbanisation – and a more market-friendly approach to growth to attract foreign investors and foster regional integration. As also observed in the case of the Central Bank (Behuria 2020), this led to some policy incoherence about tax exemption. Regarding the settlement, its nature also hindered performance, in two ways. First, by allowing the exercise of unchecked top- down pressure focused on a few narrow indicators, it produced a range of perverse incentives in the RRA. Especially, it encouraged the organisation to focus on overall amount of revenue mobilised as well as speed of filling tax returns, at the expense of less visible processes of everyday bookkeeping and reporting. Second, the settlement hampered the collection of property tax and, possibly, tax from companies owned by the party and the military, as this went against the interests of powerful individuals. Yet, the concentration of power in the settlement in the hands of the president helped to increase property taxes when the 2018 law was passed.

Overall, the RRA has the usual traits of PoEs in the literature (see Hickey 2019): at lower levels, professionalism of staff, a sense of mission, meritocratic recruitment (e.g. Grindle 1997; Leonard 1991), and a leadership that included 'technopols' who are able to revamp the organisation while overcoming political obstacles at key moments. Performance in the RRA has been supported by the specificity and measurability of its task (Israel 1987; Roll 2014: 34), although this also created unintended consequences for performance. At a higher level, the RRA performance resulted from the commitment of a vulnerable elite to shelter it from political interference (cf. Geddes 1999). It epitomises the idea that 'PoEs are not hermetically sealed from wider social and economic interests; what matters, rather, is the nature of their relationship with wider forces' (Hickey 2019: 16). On the other hand, the concept of the PoE, understood as 'a public organisation which provides public services relatively effectively, despite operating *in an environment in which public service delivery is the exception rather than the norm*' (Roll 2014: 24 my emphasis) can only be partly applied to the RRA. The RRA did not exist in a sea of dysfunction, as performance is more homogenously distributed in the Rwandan state than in the other countries of the project (see Chemouni 2019). This is unsurprising, as the

[57] For a similar argument about how internal, and potentially unmanageable, threats provide the elite with the incentive to build the state, see Slater (2010).

drivers of effectiveness of the RRA are also at work in the rest of the state as well (including in lesser-performing organisations, such as MININFRA (Chemouni forthcoming)): autonomy, top-down pressure from the presidency, and a set of narrow performance targets to incentivise the civil service. As in the case of MINECOFIN (Chemouni 2019), these drivers are, however, enhanced by the policy domain of the RRA. The organisation indeed has a critical position in the elite legitimation project. PoEs in Rwanda are thus organisations prioritised in what remains a systematic dynamic of state building (Chemouni 2019: 35-36). They are not operating 'in an environment in which public service delivery is the exception rather than the norm' (Roll 2014: 24).

Finally, the RRA case confirms a hypothesis formulated in the analysis of the case of MINECOFIN (Chemouni 2019: 34). The concept of embedded autonomy seems precious to understanding uneven performance in the Rwandan state. The vulnerability of the elite, anchored in its minority status, its origins in the diaspora abroad and its limited ties with the rural world, means that the current state, while autonomous from social pressure, might not be embedded enough in society. It can lack channels of consultation and information useful to inform policies. Consequently, state organisations in Rwanda are more likely to do very well when their task requires a high level of autonomy (resisting popular pressure), but much less so when they require some embeddedness. In the case of the RRA, this led to an inconsistent performance. The organisation performed well in the unambiguous task of extracting revenue, which arguably requires some autonomy from particularistic interests,[58] but much less so when its tasks, such as contributing to policy formulation, required embeddedness.

[58] Although the tax policy was not totally immune from vested interest, as exemplified by the issue of property tax.

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