

# Case Study of Tax Reforms for Enhancing DRM in Africa: Rwanda

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## Abbreviation

AAAA	Addis Ababa Action Agenda
AfDB	African Development Bank Group
ARII	Africa Regional Integration Index
ASYCUDA	Automated System for Customs Data
AU	African Union
CETs	Common External Tariffs
CIT	Corporate Income Tax
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DFID	Department For International Development
DRM	Domestic Revenue Mobilization
DTA	Double Tax Agreement
EAC	East Africa Community
EBM	Electronic Billing Machine
ERP	Economic Recovery Plan
FAD	Fiscal Affairs Department
HIC	High-Income Country
ICT	Information and Communication Technology
ICTD	International Centre for Tax and Development
IFF	Illicit Financial Flows
IGC	International Growth Center
IMF	International Monetary Fund
KIPF	Korea Institute of Public Finance
KOICA	Korea International Cooperation Agency
LAC	Latin America and the Caribbean
LGT	Local Government Taxes
MBRP	Manufacture and Build to Recover Program
MINECOFIN	Ministry of Finance and Economic Planning
MSMEs	Micro, Small and Medium-Sized Companies
MTRS	Medium-Term Revenue Strategy
NST1	National Strategy for Transformation

ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OSBPs	One Stop Border Posts



# I

## Introduction

Since the 1990s, the landscape in Africa has been shaped by political transitions and globalization, setting the stage for a potential economic revival across the continent. In this context, Domestic Revenue Mobilization (DRM) has emerged as a critical area of focus, with tax systems playing a key role in driving progress. Notably, tax reforms in the region reveal historical trends and policy commonalities among countries, consistently emphasizing the importance of building tax administration capacities in recipient nations early on to ensure effective policy realization.

The emphasis on DRM in developing nations has been persistent, highlighted by the Addis Ababa Action Agenda (AAAA), a major outcome of the third International Conference on Financing for Development in 2015. This ambitious initiative for sustainable development prioritizes global cooperation to implement policy and administrative measures aimed at improving DRM, with tax reform being a central component of these efforts.

In Africa, the approach to tax reform has been generally characterized by reliance on international support and regional initiatives, incorporating both structural changes and financial contributions. Yet, the depth of the relationship between aid providers and recipient countries has not been thoroughly studied. To bridge this knowledge gap, this paper presents a detailed case study of Africa, with a specific focus on Rwanda, to assess the impact of tax reforms on the continent. Despite its status as one of the lower-income countries in Africa, Rwanda stands out as an exemplary instance of tax reform success. This success

is attributed not merely to a significant increase in tax revenue but also to improvements in the efficiency and sophistication of the tax system.

This research provides a comprehensive overview of international and regional tax initiatives spanning the 1990s to the 2010s, drawing on existing research and current public financial challenges, particularly in the wake of the recent global economic uncertainty caused by Covid-19. The country case study delves into the significant changes and achievements of Rwanda, tracing historical tax reforms outlined in the preceding chapter. The primary aim is to explore the current factors that set Rwanda apart from other African nations, as well as anticipated future obstacles. The research concludes with findings and insights that underscore the pivotal role of development partners and committed countries in ensuring successful tax reforms and the enhancement of DRM.

## II

# Trend and Issues Analysis for Domestic Revenue Mobilization (DRM) in Africa

### 1 International and Regional Tax Initiatives

#### A. Historical Trend

Domestic Revenue Mobilization (hereinafter called DRM) refers to the generation of government revenue through domestic resources, encompassing both tax and non-tax sources. Enhancing DRM is vitally important for developing countries, especially in Africa, as it plays a critical role in reducing poverty and achieving macroeconomic stability. Given that tax revenue constitutes a fundamental element DRM, its improvement heavily depends on the effectiveness of the tax system as a central instrument.

Until the 1980s, much of the African continent was predominantly under the sway of dictatorships after their independence struggles. From the 1990s, however, the forces of globalization facilitated the rise of democracy. This transition was primarily a result of persistent international efforts, often accompanied by aid incentives from the global community. Within this context, it became evident that economic structure underwent rapid and transformative changes, necessitating increased national revenue and an associated overhaul of fiscal systems.

Fiscal reforms since the 1990s have focused on increasing tax revenue and refining the tax system to support political and economic transformations during that period. Many African countries established Semi-Autonomous Revenue Authorities (SARAs) in the 1990s. These authorities, operationally distinct from their ministries of finance, were granted a certain degree of operational autonomy to lead these reforms (Fjeldstad and Moore 2009).

A widespread strategy adopted by many developing countries, including those in Africa, was the adoption of the Value-Added Tax (VAT). This move, aligned with the establishment of SARAs, aimed to broaden the tax base (Ebeke et al. 2016). By 2001, the number of Sub-Saharan African countries implementing VAT had grown from four in 1989 to 27, showcasing the widespread acceptance of this tax system. Concurrently, global tax reforms sought to address inequities and inefficiencies in the tax structures, such as simplifying tax rates and brackets, as well as removing preferential and discriminatory taxation practices that disproportionately favored certain taxpayers. These reforms accompanied political liberalization, setting the stage for further economic and fiscal changes.

Nevertheless, efforts to mobilize revenue in Africa have been continually influenced by political and social factors, such as political instability, resistance from privileged classes to reforms, and deficiencies in administrative management capacity.

⟨Table II-1⟩ Spread of the Value Added Tax (VAT), 1969-2001

	Sub-Saharan Africa (43)	North Africa and Middle East (21)	Asia and Pacific (24)	EU (plus Norway and Switzerland) (17)	Central Europe and BRO (26)	Americas (26)	Small Islands (27)
2001 (April)	27	6	18	17	25	22	8
1989	4	4	6	15	1	16	1
1979	1	1	1	12	0	12	0
1969	1	0	0	5	0	2	0

Note: 1. Total number of countries in each regions is as of September 1998.

2. BRO refers to Baltic States, Russia, and other states of the former Soviet Union.

Source: Ebrill et al.(2001), p. 6, Table 1.1.

## B. International Supports (from the 1990s to the 2010s)

International donors and institutions have concentrated their technical assistance efforts in Africa on enhancing revenue performance. While low revenue capacity has been a widespread challenge across African countries, it stems from distinct political, economic and social-cultural factors that influence each country to varying degrees. The common objective of tax reform, involving actions like broadening the tax base, simplifying tax systems, has been pursued throughout the continent. However, due to the diversity of circumstances, a one-size-fits-all approach may not be suitable, and a phased reform strategy has often been necessary, particularly to address persistent shortcomings in tax administration capabilities.

International assistance in Africa evolved gradually over the decades. The World Bank (hereinafter referred to as WB) and International Monetary Fund (hereinafter referred to as IMF) have played major roles in the tax reforms of African countries, each with relatively distinct characteristics and approaches. These approaches can be categorized into two main periods: the 1990s and the post-2000s.

During the 1990s, WB's advice and lending operations focused on both tax policy and administration reforms across developing countries. Out of approximately 120 loan operations, 37 projects targeted broader tax structural reform, while the other 83 concentrated more on the tax system. In 43 of these 83 projects, the modernization of tax and customs administration was a major priority, and Africa was one of the most beneficiary regions, especially for the early 1990s (see Tables II-2 and II-3). Their assistance relevant to tax administration mainly concentrated on legal frameworks, core enforcement functions (with a focus on the basic functions like identification, assessment, audit, and collection) and customs computerization, with less emphasis on taxpayer services components.<sup>1)</sup>

WB's support in helping its clients promote tax system in the 1990s led

1) The figures of the projects are based on Barbone et al.(1999), as published by the World Bank.

to the recognition of the importance of the project design process and institutional environment analysis based on methodological guidelines. Additionally, in the mid- and long- term, good institutions within recipient governments ensured effective policy making, action development and efficient service delivery to citizens.

**〈Table II-2〉 Major Project Objectives for the 1990s (43 projects)**

Objective	Number of projects	Percentage of projects
1. Revenue enhancement	17	39,5
2. Strengthen administrative institutions	16	37,2
3. Macroeconomic stability	12	27,9
4. Improve environmental institutions	8	18,6
5. Strengthen administrative capacity	7	16,3
6. Improve taxpayer compliance	6	14,0
7. Strengthen accountability	3	7,0
8. Strengthen anti-corruption	2	4,7
9. Improve taxpayer services	2	4,7
10. Improve taxpayer education	2	4,7
11. Strengthen voice and participation	0	0
12. Others	9	20,9
Number of major objectives in 43 projects	85	–

Note: Each project can have more than one major objectives

Source: Barbone et al.(1999), p. 4, Table 2.

**〈Table II-3〉 Projects Classified by Region for the 1990s (83 projects)**

(Unit: 10 Million USD)

Region	1990–1994		1995–1998	
	No. of projects	Value	No. of projects	Value
Africa regions	21	1205,8	12	980,9
North Africa and Middle East	3	444,9	1	80,0
Europe and Central Asia	3	487,0	17	2108,2
East Asia and Pacific	4	203,0	1	25,0
Latine America and the Caribbean	16	2046,0	3	252,2
South Asia region	2	650,0	0	0,0
Total	49	5174,7	34	3553,2

Note: 83 projects with a tax system component during the 1990s

Source: Barbone et al.(1999), p. 5, Table 4.

Many initiatives in Sub-Saharan Africa aimed at tax and customs policy and administration reform were implemented as part of programs supported by the Fiscal Affairs Department (FAD) of the IMF as well, with the goal of strengthening revenue mobilization efforts. Common policy reform approaches in this region, such as broadening the tax base and ensuring fair taxation, were closely tied to addressing tax administration constraints that often influenced tax policy decisions. For instance, despite efforts to transition to a global taxation system, a scheduler tax system persisted due to a lack of administrative capacity. Heller (1997) established core strategies for improving tax administration in Africa, taking into account the specific circumstances of many African countries: i) Focusing primarily on larger taxpayer units as part of tax policy reforms, ii) Shifting toward a self-assessment and self-payment tax system, iii) Centralizing responsibility for taxation under a single organization, iv) Simplifying tax reforms, v) Gradually introducing computerization and digitalization.

During the 2000s, DRM-related projects have continued in African countries. Over 2005-2015, the WB supported tax reforms through 205 projects in 107 countries, with a total commitments of \$28.4 billion. In terms of project numbers, Sub-Saharan Africa accounted for 30 percent, despite the region represented only 9 percent of the total commitments.<sup>2)</sup> A total of 205 projects, 75 were from investment and 130 fell into the development policy loan. Sub-Saharan Africa represented 38 percent and 46 percent respectively in terms of investment project numbers and their commitment amount. Key lessons learned from these projects underscored the critical role of tax administration capacity. Compared to previous experiences, these lessons emphasized that reforms should not be limited to technical and institutional aspects alone but should consider the broader context encompassing various government agencies, legal entities, and the overall institutional framework, including the tax system itself. Furthermore, a growing recognition emerged regarding the importance of enhancing tax compliance.

2) Middle-income countries where the tax-to-GDP ratio is 10 to 20 percent, primarily in Latin America, the Caribbean, Europe and Asia, received 78% of tax reform funds (investment and policy loan) during this period, while low-income countries, including many African nations, received only 5% (World Bank 2017).

Tax administration reform primarily involved enhancing institutional capacity, and reducing the tax administrative burden on both taxpayers and tax authorities. Technological advancements have significantly aided the digitalization of tax system, improving the efficiency of tax base management. Fjeldstad and Moore (2008) list several key modernization reforms in tax administration: i) Introducing unique taxpayer identification numbers, ii) Reorganising the collection system to focus on individual taxpayers (from based on different taxes, to organized system around individual taxpayers), iii) Segmenting taxpayers, with a particular emphasis on large taxpayers, iv) Separating back- and front-office functions to reduce the opportunities for bribery, v) Establishing user-friendly services such as one-stop shops, simplified procedures, online filing of returns, etc.

With international assistance, support for DRM from Organisation for Economic Cooperation and Development (hereinafter referred to as OECD)'s Development Assistance Committee (DAC) members has largely expanded. From 2015 to 2021, the African continent received over 3,1 billion USD in Official Development Assistance (ODA) allocated to more than 1,200 DRM-related projects.<sup>3)</sup> Annual disbursement has risen steadily, with a notable increase during 2019 and 2020 due to the economic impacts of the Covid-19 pandemic. Throughout the whole period, major recipients consist of Nigeria, Tanzania, Kenya and Egypt accounted for 45 percent of the total aid provided. International organizations were the largest contributors, providing 62 percent of total aid disbursements related to DRM projects in Africa, with 50 percent of that coming from World Bank institutions. Key individual donor countries included the UK, Germany, the USA, Sweden, and Denmark, together contributing 27 percent of the aid.

3) The purpose code 15114 in the OECD's Creditor Reporting System (CRS) was introduced in 2015 specifically for Domestic Revenue Mobilization (DRM) funding. Prior to its introduction, funding for DRM initiatives was recorded under different, related categories. Recognizing the substantial impact of DRM on public finance, the current report now consolidates all projects associated with DRM, moving beyond the confines of strictly categorized DRM direct projects. The assistance scope include ODA grants, ODA loans, private development finance and other official flows (non export credit).

**〈Table II-4〉 Annual ODA Disbursements related to DRM Projects in African regions, 2015-2021**

(Unit: Million USD, Percentage)

Region	2015	2016	2017	2018	2019	2020	2021
Africa	6,864	9,696	8,676	23,281	6,686	9,799	24,344
North of Sahara	4,388	104,482	6,934	27,702	137,437	21,587	26,015
Sub-Saharan Africa	121,122	133,010	334,485	346,852	522,599	866,578	384,032
Total	132,374	247,188	350,095	397,835	666,722	897,964	434,391
% of total disbursements (across all regions)	9	27	46	17	24	34	32

Note: 1. DRM-related projects includes those funded for the purpose of public sector policy and administrative management (OECD CRS purpose code: 15110), public finance management (15111), domestic revenue mobilization (15114) and finance policy and administration management (24010).

2. 'All regions' refer to Africa, America, Asia, Caribbean & Central America, Europe, Far East Asia, Middle East, North of Sahara, Oceania, Regional and unspecified, South & Central Asia, South America, Sub-Saharan Africa.

Source: OECD.stat, CRS, <https://stats.oecd.org/Index.aspx?DataSetCode=crs1> (accessed on September 26, 2023), combined by author

**〈Table II-5〉 Largest Contributors of ODA Disbursements related to DRM Projects in Africa, 2015-2021**

(Unit: Million USD)

Donor	Disbursement
International Development Association	1213,992
EU Institutions	360,649
International Bank for Reconstruction and Development	351,239
United Kingdom	277,169
Germany	222,332
United States	137,831
Sweden	128,819
Denmark	85,0219
Other OECD DAC members and partners	333,486
Total	3,110,539

Note: 1. DRM projects includes those funded for the purpose of public sector policy and administrative management (OECD CRS purpose code: 15110), public finance management (15111), domestic revenue mobilization (15114) and finance policy and administration management (24010).

2. International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) are within WB Units.

Source: OECD.stat, CRS, <https://stats.oecd.org/Index.aspx?DataSetCode=crs1> (accessed on September 26, 2023), combined by author

### C. Regional Initiatives

Efforts to enhance DRM and implement tax reforms in African regions are deeply integrated with regional communities. These initiatives encompass projects designed to enhance public finance and tax systems, benefiting not only individual countries but also their regional communities as a whole. The African Development Bank Group (AfDB), consisting of several entities, has offered substantial financial and technical support in the DRM domain. Additionally, different African regions house various Regional Economic Communities (RECs)<sup>4</sup> and specialized tax-focused groups operate in collaboration with these communities.

When assessing the impact of regional initiatives on enhancing DRM, the primary objective of regional integration is to facilitate sustained long-term growth among member countries. Member states strive to enhance their institutional environment, improve macroeconomic and political stability, and stimulate industry and trade development by establishing integrated markets. In support of this integration, tax system harmonization is deemed necessary and advantageous. Such harmonization involves implementing a common external tariff, eliminating internal tariffs, and achieving uniformity in commodity tax types and bases.

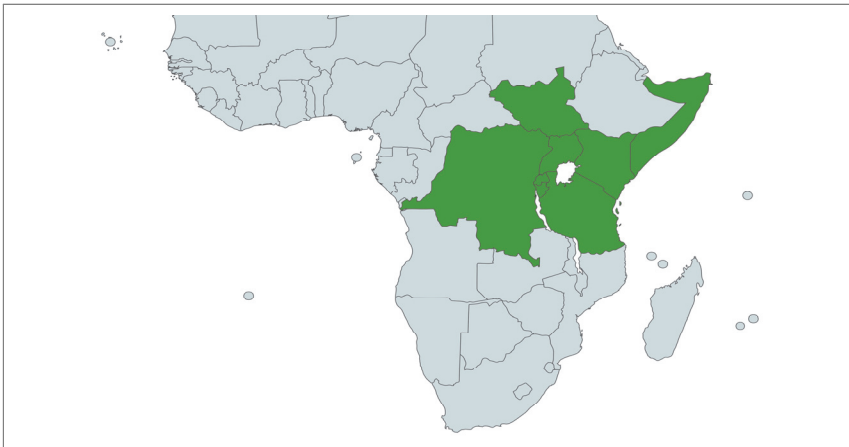
As an illustrative example, the Africa Regional Integration Index (ARII), developed by the African Development Bank (AfDB), the African Union (AU), and the United Nations Economic Commission for Africa (UNECA), indicates that the East African Community (henceforth referred to as EAC) is the most integrated region among the RECs in Africa.<sup>5</sup> Its extensive economic integration has matched the commodities tax system, particularly with regard to tariffs (Nnyanzi et al. 2016).

4) AMU (Arab Maghreb Union), CEN-SAD (The Commission of Sahel-Saharan States), CEMAC (Central African Economic and Monetary Community), COMESA (Common Market for Eastern and Southern Africa), EAC (East African Community), ECCAS (Economic Community of Central African States), ECOWAS (Economic Community of West African States), IGAD (Intergovernmental Authority on Development), SACU (Southern African Customs Union) and SADC (Southern African Development Community).

5) The ARII is assessed using 16 indicators, categorized into five dimensions: free movement of people, trade integration, infrastructure integration, macroeconomic integration, and productive integration.

The EAC consists of Burundi, Kenya, Rwanda, Uganda and Tanzania, where its secretariat is located. It has recently expanded to include South Sudan, the Democratic Republic of Congo, and Somalia (since December 2023). Initially established in 1967, this intergovernmental organization collapsed in the 1970s, but was revived in 2000, driven by the vision of promoting prosperity in East Africa and enhancing the region's international competitiveness.<sup>6)</sup>

[Figure II-1] EAC Member States



Note: The EAC comprises 8 member states in total.

Source: Author (created using MapChart, <https://mapchart.net>)

A significant milestone was achieved in 2005 when the EAC transitioned into a customs union known as the EAC Customs Union. Under this framework, the EAC partner states adopted a Common External Tariffs (CETs) and eliminated internal tariffs on all goods and services originating from member states. In 2010, the EAC Common Market Protocol came into force, facilitating the free movement of services and capital within the region. However, the common market does not cover all tax exemptions, and domestic taxes including VAT, consumption duty, and withholding tax, still remain in effect. The

6) The Permanent Tripartite Commission for East African Cooperation was established in 1993, initially involving Kenya, Uganda and Tanzania. Burundi and Rwanda became of this cooperation in 2007.

discussion on the Double Tax Agreement (DTA) within the EAC dates back to 1997 when the Tripartite Agreement on Avoidance of Double Taxation was signed, but it was never put into operation. The DTA process continued with the signature of a revised version in 2010, which was ratified by all member states except Tanzania and Burundi. Despite efforts over the last decade, the DTA has remained under negotiation.

The evaluation of DRM enhancement through taxation in the EAC partner states is divisive. While customs revenue has historically played a significant role in strengthening overall tax income in developing countries, the expansion of market size and the unhindered movement of production factors among member countries, driven by integration, could have enhanced overall trade dynamics and stimulated national revenue generation. From 2004 to 2010, the initial member countries generally experienced an upward trend in both trade volume as a proportion of GDP and the tax revenue-to-GDP ratio, with the exception of a decline noticed in Burundi's tax revenue-to-GDP ratio.

⟨Table II-6⟩ Ratios of Trade and Tax Revenue to GDP, 2004-2005

(Unit: Percentage of GDP)

Year	Burundi		Kenya		Rwanda		Tanzania		Uganda	
	Trade	Tax	Trade	Tax	Trade	Tax	Trade	Tax	Trade	Tax
2004	31.6	18.3	59.5	16.6	33.5	11.2	33.6	10.1	35.5	10.1
2005	35.1	18.5	64.5	17.2	34.2	11.3	37.0	11.7	39.0	11.4
2006	42.4	17.3	55.2	16.1	33.2	11.2	42.8	13.0	43.6	11.8
2007	38.8	17.2	53.9	17.0	36.0	11.6	48.1	15.3	46.8	11.9
2008	47.2	16.9	57.6	17.9	37.6	12.8	49.0	16.4	56.3	12.3
2009	35.8	16.4	45.9	17.6	36.8	11.7	43.5	15.7	47.1	11.8
2010	39.5	18.0	50.4	18.3	37.3	12.0	47.6	15.8	38.3	11.8

Source: World Bank, World Development Indicators, <https://databank.worldbank.org> (accessed on September 26, 2023) and Brun et al.(2015)

The establishment of SARAs in Africa can be largely attributed to international programs, especially led by the WB, the IMF, and the British aid programme in the 1990s.<sup>7)</sup> SARAs have played a major role in promoting structural stability and ensuring the continuity of tax reforms in African countries.

Importantly, SARAs have given rise to distinct tax professional communities. One of which is the African Tax Administration Forum (ATAF), established as an international organization in 2009. These regional tax administrations have established their own strong networks, while maintaining the engagement with international organizations and other stockholders.

In light of the digital economy's rapid expansion and ongoing international tax reform, Africa is actively seeking to protect its interests in the global tax landscape. This effort is being coordinated through collaborative initiatives led by the AU, the ATAF and the RECs, in conjunction with relevant ministries and administrations in individual countries. These recent endeavors encompass several central objectives. Africa is striving to protect its taxing rights, ensuring that multinational corporations cannot shift their tax liabilities to countries where they are headquartered.

In parallel, ongoing initiatives aim to streamline the VAT regime, making it more straightforward and uniform. Moreover, there is a dedicated focus on enhancing the capacity and efficiency of tax administrations across participating nations. This multifaceted approach not only addresses inefficient tax structures but also seeks to combat Illicit Financial Flows (IFF), thereby contributing to the sustainable development of DRM efforts on the continent.

## 2 Major Issues

### A. Internal and External Challenges

Africa has encountered persistent structural and external challenges throughout its development. Economic growth in the region began to gain

7) SARAs model has been actively supported by the same international aid and development organisations – especially the UK's Department for International Development (DfID), the IMF, and the WB – that have supported the introduction of New Public Management reforms in poor countries (Fjeldstad and Moore, 2009)

momentum with the onset of globalization and democracy in the 1990s, following earlier, widely regarded unsuccessful attempts at industrialization in the 1970s. Facing the mounting domestic needs and external pressures, Africa has continued to pursue its efforts for economic growth. In this context, there has been a growing emphasis on nation's capacity to collect revenue, aimed at strengthening its institutions and enhancing state capacity.

Despite efforts over the past decades, it is imperative for African nations to continue driving their industrialization efforts. Over 70 percent of the population in the Sub-Saharan region is still directly or indirectly engaged in agricultural and related activities. Although Africa's economic transformation has leaned towards services rather than manufacturing, promoting industrial sector growth is crucial for national development. Achieving this requires the adoption of expansionary policies by governments. Providing incentives to strategic sectors and relying on external borrowing to finance their growth is considered necessary, especially for countries in the early stages of development (Songwe, 2018).

However, African governments face not only domestic development challenges but also macroeconomic external factors that make them vulnerable to global economic fluctuations. The recent Covid-19 pandemic crisis has imposed even greater demands on developing countries, including African governments, to respond effectively and mitigate its adverse effects. The pandemic and other external unstable factors have disrupted global supply chains and increased global inflation, exerting pressure on energy and food prices within the region.

While Africa's average debt level masks diverse experiences influenced by varying resource capacities, such as those of oil-importing or exporting countries, the rise in debt during the 2000s often stemmed from factors like currency depreciation, interest costs, and weak institutional governance. In the mid-2010s, debt levels saw a notable increase, primarily due to declining oil prices and heightened expenditure on development and infrastructure. Prior to the pandemic, the region experienced strong economic growth, leading to additional tax revenues that had the potential to alleviate the public debt-to-GDP ratio. Notably, nations with consistently high levels of economic growth saw an improvement

in their debt capacity.<sup>8)</sup>

In the aftermath of the recent crisis, African nations have grappled with high internal demands for economic recovery and the establishment of social security systems, along with external risks such as maturity structure and a deterioration of national confidence in the international capital market. Nevertheless, African public debt remains at relatively low levels, both globally and compared to its historical standards, supported by debt relief initiatives from traditional partners. Additionally, increasing debt becomes less concerning when it is utilized to finance investments aimed at boosting a country's potential output, even in the presence of fiscal deficits. This approach ultimately strengthens the country's capacity to repay loans in the future (World Bank, 2017).

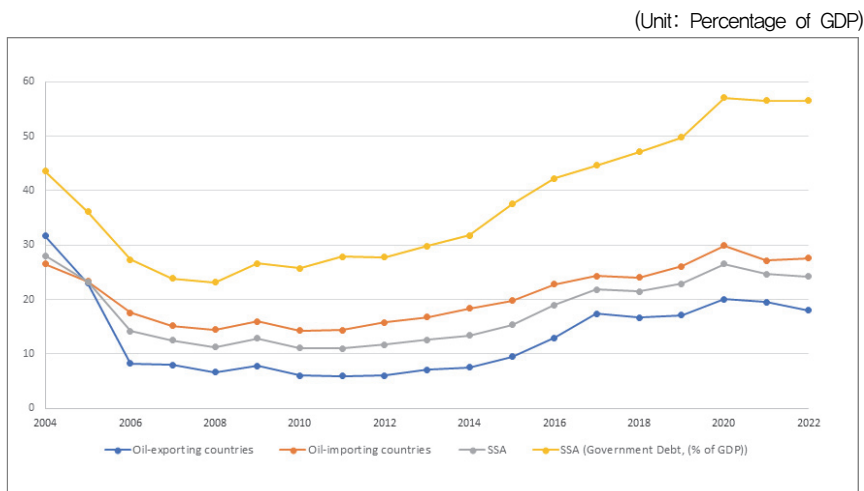
In fact, most African countries are deemed capable of managing the sudden increase in debt, as their debt trajectory has been trending downwards since reaching its recent peak around 2020 (see Figure II-2). However, several nations, including Zambia, Ghana, and more recently Ethiopia, have experienced defaults and sought debt restructuring programs with international assistance. The primary cause of these defaults has been their high levels of external debt. For instance, Zambia's total public debt reached 150 percent of GDP, with external public debt constituting 96 percent of this total in 2020.

The region faces specific challenges in managing its debt, primarily due to vulnerable economic fundamentals such as high dependency on commodity prices and volatile currencies, as well as a limited capacity for DRM. Currency mismatch issues are particularly pronounced in countries where a substantial portion of external debt is subject to market rates, while countries benefiting from lower interest rates on concessional debt face comparatively fewer challenges in this regard.<sup>9)</sup>

8) Benefiting from this enhanced debt capacity, African governments diversified their resources, leading to a significant increase in the proportion of both domestic and commercial debt. This shift involved a larger number of private creditors, introducing new complexities to the realm of debt management.

9) Similar to other Low-Income Countries (LICs), a significant portion of Africa's borrowing is from abroad and denominated in foreign currencies. A rising proportion of private creditors, charging high interest rates, has absorbed a larger portion of government revenues. Between 2013 and 2017, the DRM rose 31 percent against a 128 percent rise in interest payments in LICs (Essl et al., 2019)

[Figure II-2] External Debt Trend in SSA, 2004-2022



Source: Based on IMF, External debt, official debt, debtor based (% of GDP), [https://www.imf.org/external/datamapper/DG\\_GDP@AFRREO/SSA/OEXP/OIMP](https://www.imf.org/external/datamapper/DG_GDP@AFRREO/SSA/OEXP/OIMP) (accessed on October 2, 2023)

These circumstances highlight the need for enhancing DRM and implementing tax reforms to boost revenue collection through international cooperation. Despite growing concerns about reduced financial support from development partners facing economic difficulties themselves, ODA has consistently proven to be the most reliable external resource for developing countries compared to other inflows (Ahmad et al. 2023).<sup>10)</sup> Comparing total resources flows from DAC countries to developing countries, including ODA, private flows at market terms, private grants and other official flows, ODA is the most stable external resources for developing countries despite historical economic shocks. Over the last two decades, DAC member states ODA has been ongoing growing from 0.23 to 0.36 for ODA as a percentage of GNI and total annual amount average from 89.76 billion USD to 211.32 billion USD as well. The vulnerability of fiscal policy in Africa is not confined to the region alone, given the reliance of many African countries on funding from international

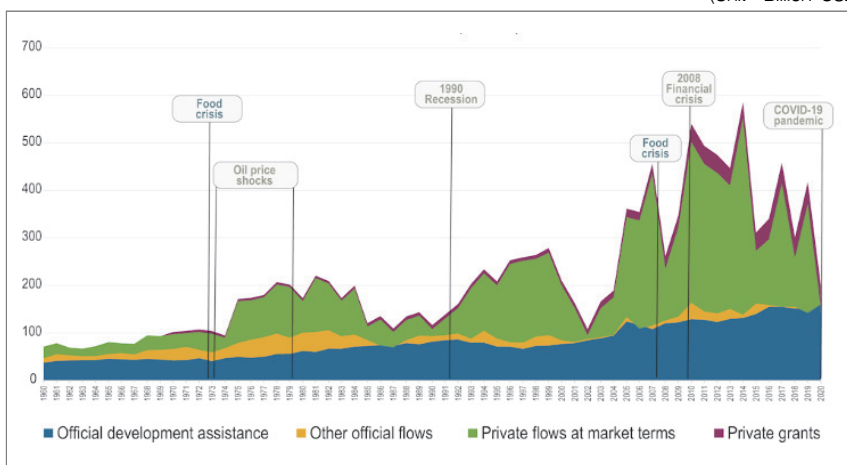
10) ODA consists of disbursements of loans made on concessional terms (concessional loans) and grants.

organizations and developed partner states. Strengthened DRM in these nations is of significance in the interconnected landscape of today's markets.

However, in the process of DRM enhancement, tax policy strategies should be carefully adopted, as an elevated tax burden could potentially have adverse effects on the growing economy and its diversification efforts. Improving the efficiency of systems and administrative processes becomes even more critical in this regard, enabling not only the expansion of the tax base but also the reduction of compliance and operational costs. Since the outbreak of the Covid-19 pandemic, there has been a notable focus on the digitalization of tax administrations, particularly in developing countries. The restriction on physical movement during the pandemic had an impact on tax payments, especially in nations where tax authorities heavily rely on in-person interactions. Despite persistent barriers to the broader adoption of digital services, Africa is experiencing a surge in digital opportunities. The digitalization of tax administrations has emerged as a major area of cooperation between developed and developing tax authorities. This collaboration encompasses aspects mainly such as data management and integration and human resources improvement, among others.

**[Figure II-3] Total Net Resource Flows from DAC Countries to Developing Countries, 1960-2018**

(Unit: Billion USD)



Note: 1) Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria.

2) Private grants contain transfers made by private voluntary agencies and NGOs.

Source: Ahmad, Y. and E. Carey, "How COVID-19 and Russia's war of aggression against Ukraine are reshaping official development assistance (ODA)", 2022.

**<Table II-7> DAC Member's ODA as a Percentage of GNI and Its Total Annual Amount 2002, 2012, 2022**

(Unit: Percentage, Billion USD)

2002		2012		2022	
ODA/GNI	Annual Amount	ODA/GNI	Annual Amount	ODA/GNI	Annual Amount
0.23%	89.76	0.28%	131.26	0.36%	211.32

Note: ODA encompasses both financial flows and the grant equivalent measure provided by members of the OECD DAC.

Source: : OECD.stat, Creditor Reporting System (CRS), <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>, (accessed on September 26), combined by author

## B. Comparison Between Africa and Other Developing Regions

In numerous developing countries, African nations, and those in Latin America and the Caribbean (LAC) share commonalities, notably their history of colonization by European nations and the challenges associated with the failure of industrialization policies immediately following their respective independence. Over the past couple of decades, with increasing economic growth, both have actively undertaken tax reforms to enhance DRM as part of newly formulated industrialization and development policies.

In the realm of socio-economic development, LAC has largely outpaced Africa. In 2022, the GDP of LAC reached 6.25 trillion USD, more than three times the 2.05 trillion USD of Sub-Saharan Africa. Even when excluding high-income countries, LAC's GDP stood at a substantial 5.3 trillion USD. In terms of foreign direct investment, LAC attracted 289 billion USD (187 billion USD excluding high-income countries), while Africa received 30.66 billion USD. These considerable gaps underscore the substantial advantage of Latin American states in various social and economic aspects, including infrastructure, education, and healthcare.

Despite the pronounced economic predominance of LAC, the efficiency of tax reforms for revenue mobilization requires assessment. One fundamental metric for evaluating tax administration performance is the total tax revenue collection as a percentage of GDP. Notably, the tax-to-GDP ratio of LAC consistently surpasses that of Africa, with an average gap of approximately 5.8% between the two regions from 2009 to 2021 (Figure II-2).

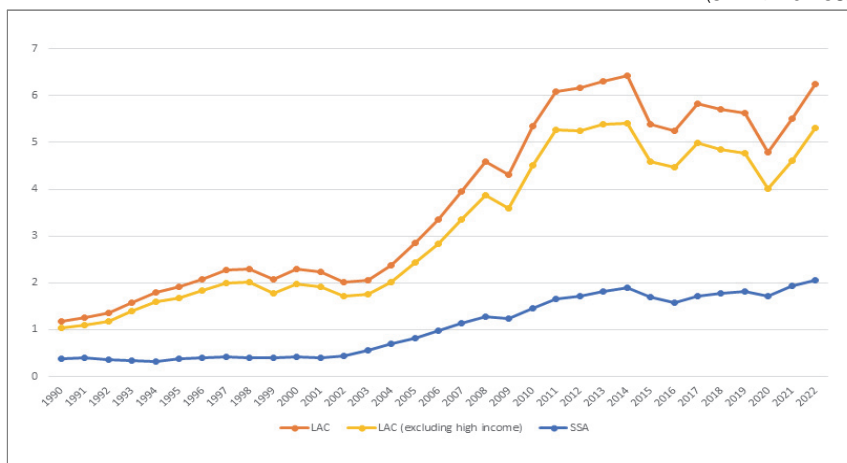
Another measure, tax effort, represents the ratio of actual revenue collected to the expected amount based on the structure of the national economy. Between 1991 and 2006, the average tax effort for 15 Sub-Saharan African countries was 0.76, surpassing the average for 15 Latin American countries, which was 0.66. Tax efforts estimated by region from 1991 to 2012 revealed also that the Western Hemisphere Department (WHD) had a tax effort of 0.62, while Africa's stood at 0.71 (Fenochietto and Pessino 2013).<sup>11</sup> These figures suggest that Africa's tax revenue is closer to its tax capacity than LAC. Meanwhile, LAC

demonstrates a higher level of tax-to-GDP ratio and physical tax revenue amount compared to Africa.

High-income countries typically exhibit higher levels of tax effort, with average values of 0.76, followed by middle-income and low-income countries with respective averages of 0.64 and 0.65, as highlighted by Fenochetto and Pessino (2013). While acknowledging the general correlation between tax effort and a country's income level, there are distinct circumstances, such as political choices and economic structure, that can influence tax effort. Despite anticipated factors contributing to an increase in tax effort in Africa, such as the relative simplicity of the economy and its controllability, Africa's tax collection administrative performance has developed in a stable and robust manner compared to income levels.

[Figure II-4] GDP in SSA and LAC Countries, 1990-2022

(Unit: Trillion USD)



Note: LAC high-income countries include Argentina, Bahamas, Barbados, Chile, Panama, Puerto Rico, Trinidad and Tobago and Uruguay

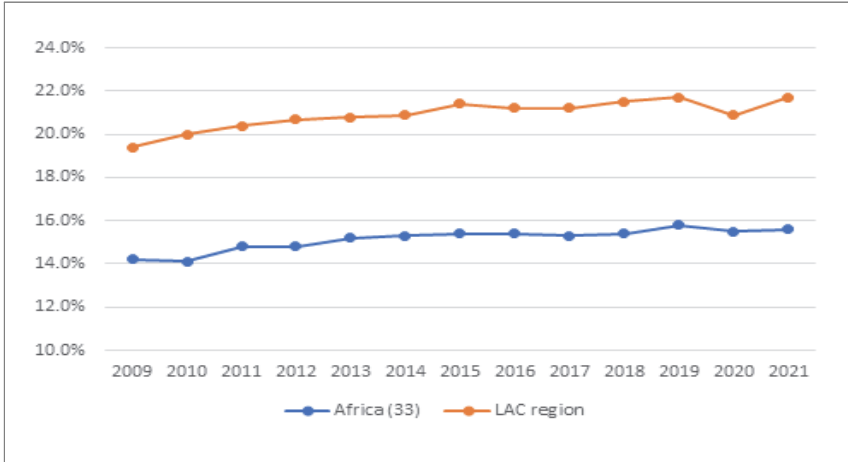
Source: Based on World Bank, GDP (current USD)

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2022&locations=ZJ-ZG-XJ&start=1990>  
(accessed on October 2, 2023), combined by author

- 11) The Western Hemisphere Department (WHD) encompasses LAC countries, the United States, and Canada. The tax effort for these North American countries was respectively 0.77 and 0.68.

[Figure II-5] Average Total Tax-to-GDP Ratio in Africa (33 countries) and the LAC Region, 2009-2021

(Unit: Percentage of GDP)



Source: OECD, OECD Tax Statistics, [https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics\\_tax-data-en](https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics_tax-data-en) (accessed on October 3, 2023), combined by author

<Table II-8> Estimated Tax Effort in SSA and LAC Countries, 1991-2006

SSA		LAC			
Country	Tax Effort	Country	Tax Effort		
Low-income	Burkina Faso	0.62	Bolivia	0.68	
	Ethiopia	0.81	El Salvador	0.54	
	Gambia, The	0.86	Low middle-income	Guatemala	0.38
	Ghana	0.86		Honduras	0.65
	Kenya	0.81		Nicaragua	0.65
	Madagascar	0.52	Paraguay	0.65	
	Mali	0.75	Argentina	0.64	
	Sierra Leone	0.65	Upper middle-income	Brazil	0.98
	Togo	0.8		Colombia	0.72
	Uganda	0.68		Costa Rica	0.67
	Zambia	0.92		Dominican Republic	0.48

〈Table II-8〉 continued

SSA			LAC		
	Country	Tax Effort		Country	Tax Effort
Low middle-income	Cameroon	0.58		Jamaica	0.95
	Côte d'Ivoire	0.96		Panama	0.48
	Senegal	0.72		Peru	0.55
Upper middle-income	South africa	0.81		Uruguay	0.88
	Average	0.76		Average	0.66

Note: 1. The tax effort index ranges from 0 to 1, where a value of 1 indicates that the actual revenue collection aligns perfectly with the expected amount (tax revenue/tax capacity).

2. The income levels of the countries were determined using data from the period 1991-2006.

Source: IMF(2011), combined by author

### 3 Conclusion

Examining tax reforms for Domestic Resource Mobilization (DRM) in Africa from the 1990s to the 2010s reveals a clear historical trajectory. Guided by international organizations, these reforms commonly included establishing SARAs, adopting VAT, and improving tax systems for greater efficiency and equity. Key strategies in tax administration focused on managing tax bases, enhancing the efficiency of responsible authorities, and integrating technologies. Throughout the 2000s and 2010s, tax reforms continued through collaborations with development partners, emphasizing institutional adjustments and easing tax administration burdens. The pivotal role of digitalization and technical advancements proved crucial in elevating the capabilities of both tax authorities and taxpayers.

During this period, regional efforts for DRM enhancement actively pursued the goal of fostering regional economic growth. A notable example is the common agreement on external tariffs, eliminating internal tariffs within each state, thereby boosting trade and strengthening the competitiveness of an

integrated market. Various initiatives have contributed to addressing regional issues and improving the fiscal self-reliance of member countries.

When compared to other developing nations, particularly those in LAC, Africa has consistently demonstrated stable performance in tax administration, despite its slower pace of socio-economic development. However, the recent surge in external challenges, such as escalating public debt, has highlighted Africa's structural internal weaknesses, underscoring the importance of enhancing DRM. To effectively address internal development needs and mitigate the impacts of external crises, ensuring a consistent flow of ODA is crucial. It represents the most stable contribution of the international community for enhancing DRM capacity. Since the onset of the Covid-19 pandemic, there has been a greater emphasis on improving the efficiency of tax administrations through digitalization efforts.



# III

## Case Study: Rwanda

### 1 Background

Rwanda stands out not only within the EAC but also across Africa as a notable example of economic growth and fiscal consolidation in recent years. This progress is primarily due to relentless governmental initiatives that have spurred a significant increase in GDP, averaging more than 7% over the last decade. Notably, Rwanda achieved a tax-to-GDP ratio of 17% in 2021, surpassing the African average of 15.6%. Such consistent growth is particularly remarkable considering Rwanda's complex historical challenges and its relatively modest economic base.

Furthermore, Rwanda's commitment to implementing a series of tax reforms has significantly improved its tax administration system, resulting in notable enhancement in efficiency. In the World Bank's Paying Taxes evaluation, Rwanda received a notable score of 84.6, reflecting the efficiency of its tax system.<sup>12)</sup> This score greatly surpasses the Sub-Saharan Africa average of 57.8, placing Rwanda in the 38th position out of 190 countries worldwide.

In its efforts to enhance DRM, Rwanda has established close collaborations with international and regional partners. As discussed in the previous chapter,

<sup>12)</sup> Paying Taxes records the taxes and mandatory contributions in more than 190 countries to help governments and businesses understand how their tax systems compare on the global stage (World Bank).

certain interactions resulting from geographical and historical aspects are likely to have impacts in this country. This chapter aims to conduct a comprehensive analysis of Rwanda's approach, seeking insights into the African model patterns within a single nation (ADB 2010). However, it is essential to note that the objective is not to establish a one-size-fits-all solution or a standardized DRM model for adoption across Africa. Instead, the focus is on understanding the key factors that have shaped Rwanda's distinctive features for DRM enhancement. Additionally, it is worthwhile to contemplate the next steps for the upcoming period, marked by continuing global economic fluctuations and their subsequent impacts.

## 2 Country Context and Government Policy

Since gaining independence from Belgium in 1962, Rwanda endured prolonged internal conflict that eventually escalated into a civil war in 1994. The country was left in complete devastation during the 1990s. However, Rwanda has since transformed itself into one of the top-performing nations in Africa. Its economy has made significant strides, with its GDP increasing more than 6.7 times from 2002 to 2022, boasting an average growth rate of 7.32%.

This remarkable progress can be attributed to a stable political environment and continued public investment in both industrial and social infrastructure based on its national reconciliation efforts. These investments had led to substantial improvements in human capital and the overall business environment. Despite recent challenges, such as the impact of Covid-19 and global economic trends, Rwanda's economic indicators have responded favorably when compared to neighboring countries.

The driving force behind this economic recovery has been the service sector, including wholesale and retail trade, accommodation and food services, among others. The industry, particularly food manufacturing and construction, has also played a significant role in this growth. Over the past few years, Rwanda has

implemented substantial policy reforms aimed at enhancing competitiveness in key strategic sectors, including manufacturing, energy, finance, and information and communication technology (ICT), as well as improving the overall investment climate.

While Rwanda has transitioned from an agrarian economy to one focused on industry and services, it still heavily relies on imports, indicating room for improvement. There is a pressing need for the industrial sector to take on a more prominent role in the country's economic landscape. However, this economic diversification has also introduced challenges, such as income inequality between urban and rural areas and increasing differentiation in social classes.

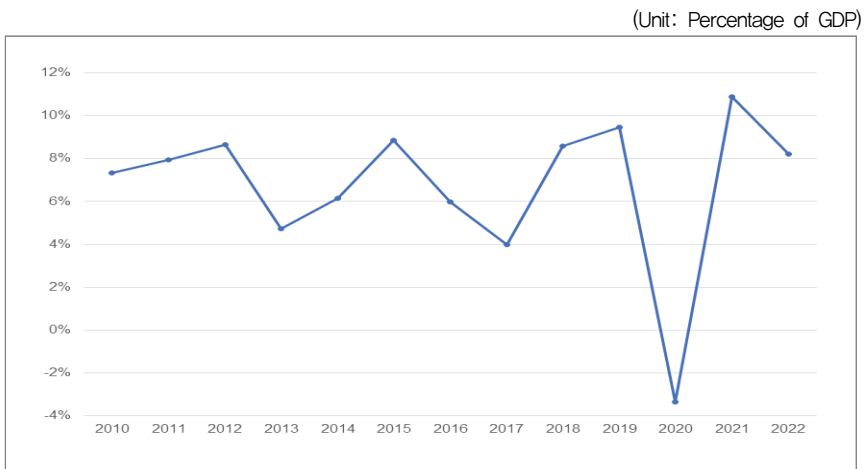
Rwanda has laid out a long-term strategic roadmap, known as Vision 2050, with the goal of achieving economic prosperity. It aims to attain upper middle-income country (UMIC) status by 2035 and ultimately to achieve high-income country (HIC) status by 2050. Vision 2050's primary focus lies in the development of human capital, the enhancement of industry competitiveness, and the strengthening of institutional capacity. To guide the transition toward Vision 2050 and provide the necessary foundation, the National Strategy for Transformation (NST1) has been established. This framework spans the period from 2017 to 2024.

The financial requirements to realize these ambitions are substantial, necessitating a significant scale of DRM enhancement. Vision 2050 has set a formidable DRM target of 21.5 percent of GDP by the year 2035. The NST1 budget, amounting to 39 trillion FRW for its implementation, is expected to be funded to the extent of 56 percent by domestic resources.

In response to the pressing need for revenue mobilization, the Rwandan government has taken decisive action by implementing a series of tax system reforms. These reforms encompass measures such as broadening the tax base, combating tax evasion, and alleviating the tax and administration burdens on taxpayers. Simultaneously, these efforts challenge the country's reliance on external aid and seek to enhance the efficiency of tax expenditures.

In alignment with its national strategies, Rwanda has remained steadfast in its efforts to increase revenue generation. The government has projected a budget of 4,765 billion FRW for FY 2022/2023. However, despite notable progress in revenue collection, the Rwandan government grapples with the persistence of fiscal deficits, which become even more acute in the absence of external grants. To sustain economic growth, the country remains committed to an expansionary policy, with a particular focus on improving DRM.

[Figure III-1] GDP Growth Rate, 2010-2022



Note: The GDP growth rate in 2023 is estimated based on the rates of Q1 and Q2.

Source: Based on NISR(2010-2023)

**Table III-1) Selected Economic Indicators**

Indicator	Unit	2018	2019	2020	2021	2022
GDP, current prices	Billion USD	9.6	10.4	10.2	11.1	13.3
GDP per capita, current prices	USD	797.1	836.0	803.4	853.1	1,000
Inflation, average consumer prices	Percentage	1.4	2.4	7.7	0.8	13.9
Index of industrial production	2017=100	121.2	133.8	140.5	150.3	164.5
General government net lending/borrowing	Percentage of GDP	-2.6	-5.1	-9.5	-7	-5.8
General government gross debt	Percentage of GDP	45.0	49.9	65.6	66.7	61.1
Current account	Percentage of GDP	-10.1	-11.9	-12.1	-10.9	-9.8
Exchange rate	FRW:USD	861.1	899.4	943.3	988.6	1,030.3

Source: Based on IMF, Datamapper, [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEOORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOORLD) (accessed on November 23, 2023) and NISR(2023).

### 3 Key Changes and Major Achievements

#### A. Policy Reform Phases (from the 1990s to the 2010s)

Rwanda inherited a basic tax legislative and institutional framework during the 1960s. Although certain taxes, such as profit tax (introduced in 1964) and customs and excise duties (1968), were formally put into place after gaining independence, there were also some temporary measures including the imposition of a single rate on corporate annual turnover and specific consumption goods, particularly after the civil war.

Fundamental tax policies, following a pattern seen in many African countries, began to take shape in the late 1990s and early 2000s. A pivotal moment arrived

with the establishment of the Rwanda Revenue Authority (hereinafter referred to as RRA) in 1997 as a quasi-autonomous revenue authority separate from the Ministry of Finance and Economic Planning (MINECOFIN). This move was driven by the primary objective of enhancing the country's DRM. During its early years, the focus was primarily on improving tax administration due to limited operational capacity. This involved activities such as taxpayer registration and identification, large-scale taxpayer management, tax audits, presumptive taxation, and various other initiatives. Institutional arrangements have also evolved to support these developments.

One of the significant policy initiatives was the implementation of VAT in 2001 under Law No.6 of 2001. Initially set at 15%, the standard VAT rate increased to 18% in 2002, aligning with the most prevalent rate in the EAC region. The introduction of the VAT system aimed to replace the cumbersome sales tax and leverage it as a primary source of tax revenue. Since its inception, VAT has consistently contributed around 30% of the total tax revenue in Rwanda, making it the largest single contributor.

Throughout the 2000s, significant tax policy and legislative reforms have been ongoing, focused on revising the formal tax system and modernizing it. In 2005, new tax legislation resulted in the reduction of the top marginal corporate income tax (CIT) and personal income tax (PIT) rates from 35% to 30%. In an effort to enhance progressivity and simplicity, incomes subject to PIT were divided into three brackets, each with marginal tax rates of 0%, 20% and 30%.

During the period from 2005 to 2006, a tax procedures law was enacted, originally introduced as the code of fiscal procedures in 1997. This law outlined the procedural guidelines for PIT, CIT, withholding taxes, VAT and property tax on certain movable assets, such as vehicles and boats. Additionally, in 2006, a consumption tax law was introduced. This tax applied to certain imported and locally manufactured products and included specific obligations related to this tax, commonly known as excise duties. Rwanda's major tax policy reforms, especially in their early stages, were likely to closely adhere to the African model.

In July 2008, Rwanda became a member of the EAC Customs Union and signed the EAC Customs Union protocol, which included the adoption of CETs. Noteworthy initiatives, such as the implementation of One Stop Border Posts (OSBPs), were introduced, enabling Rwanda to further streamline its trade processes. Subsequently, the Rwandan government implemented several modifications to its tax system, aligning and harmonizing it with EAC rules and practices. These changes included the elimination of the sugar charge and VAT charge on foreign trucks, aiming to enhance the competitiveness of Rwanda's transporters.<sup>13)</sup> Simultaneously, replacing the ad valorem levy on fuels with a specific value fuel tax significantly contributed to stabilizing revenue per liter sold, no longer being dependent on international oil prices.

In response to concerns about a reduction in custom tax revenue, the Rwandan government made efforts to compensate for this by increasing domestic tax revenue. As part of these initiatives, in 2012, the PIT rate structures were extended to encompass three different regimes: the real regime, lump-sum regimes on turnover, and the introduction of a flat fee regime (presumptive) specifically designed for micro, small and medium-sized companies (MSMEs).<sup>14)</sup> This adjustment aimed to broaden the tax base.

## B. Administration Advancements

While policy and legislative reforms have played a role, the majority of credit for the increase in DRM since the early 2000s should be attributed to continuous enhancements in tax administration with structured measures (Akitoby et al. 2019). In 2003, RRA, previously organized by tax types, underwent an important restructuring along functional lines. This change resulted

13) However, research has shown that the capacity of Rwandan transporters is insufficient to satisfy demand. Furthermore, this tax was applied to transporters from Uganda, Tanzania and Kenya, and thus the tax increased the comparative cost of doing business in Rwanda. Therefore, the government reversed it, although about 370 million FRW revenue per annum would be lost.

14) Introduction of a flat tax in the lump-sum regime (Eissa et al. 2017)

in a significant improvement in tax administration efficiency. Recognizing that taxpayers at different income levels had distinct needs, RRA adopted a one-stop approach to provide all services to individual taxpayers.

Efforts to modernize the tax system began with customs duties. In 2004, the Automated System for Customs Data (ASYCUDA ++)<sup>15</sup> was introduced at RRA to enhance the efficiency of custom operations through automation, including data collection, management, and reporting. This streamlined operational processes, protected revenue and reduced administrative burdens for traders. In 2012, the system was upgraded to ASYCUDA world.

In the same timeframe, RRA introduced the Standardized Integrated Government Tax Administration System (SIGTAS) with the goal of computerizing and managing taxation data for each taxpayer, streamlining various administrative processes such as tax return filing and audits. However, the adoption of this system in the Rwandan context was met with several challenges. Practical implementation was delayed until 2006 due to internal capacity limitations.<sup>16</sup> As part of Rwanda's Vision 2020 development goals, there was increased investment in the ICT sector. This resulted in the expansion of ICT infrastructure necessary for supporting a nationwide administrative system. By early 2009, RRA had achieved data centralization that incorporated regional offices.

Starting in 2003, RRA also assumed responsibility for collecting non-tax revenues, which included fines, fees, revenue generated from public property and assets, and income from the sale of government vehicles. This role was further extended to include the collection of various administrative fees, establishing RRA as the sole government agency responsible for this function. In 2009, RRA also took on the task of collecting and enforcing social security contributions.

15) Developed from United Nations Conference on Trade and Development (UNCTAD)

16) As part of internal capacity enhancement, the RRA consolidated scattered tax administration offices under one roof and established its own training institution in 2007. Additionally, financial management and reporting capacity were enhanced through the introduction of the SAGE system (Sage–Pastel Evolution).

As part of the decentralization policy initiated in 2001, local governments began directly collecting local taxes and fees, including property tax, rental income, trade licenses, and various other fees, since 2006. However, due to issues such as a lack of capacity, inefficiency from task duplication, low expertise, and data fragmentation, the RRA has also been collecting local government taxes (LGT) on behalf of districts since 2011.

Administrative efforts during the 2010 in Rwanda primarily focused on the digitalization of tax services. These efforts were aligned with concurrent tax policy reforms aimed at enhancing VAT revenue, expanding the tax base for micro and individual businesses, and reducing their associated tax compliance costs. In 2011, Rwanda introduced e-filing and e-payment services, enabling taxpayers to electronically submit their tax reports and make online tax payments. The introduction of the mobile declaration system (m-declaration) in 2013 made it more convenient for small taxpayers to fulfill their tax obligations using mobile devices. The establishment of the Electronic Billing Machine (EBM) 1.0 represented a significant advancement in taxation data management for the RRA. The EBM system underwent updates to keep pace with technological advancements and evolving tax administration needs, with upgrades to EBM 2.0 in 2017 and further to EBM 2.1 in 2021. These systems significantly improved the accuracy and efficiency of tax collection and record-keeping.

Rwanda's tax authorities have prioritized the advanced digitalization of tax administration and taxpayer-friendly policies while concurrently streamlining tax expenditure management in the period from 2020 to 2050. These efforts are aimed at supporting sustainable national development through effective tax administration.

**〈Table III-2〉 Key Milestones in Tax Policy and Administration Reforms From the 1990s to the 2010s**

Year	Tax Policy and Administration Reforms
1997	· Establishment of Rwanda Revenue Authority (RRA) (Law No.15/1997)
2001	· Introduction of VAT (Value Added Tax, No.6/2001)
2003–2004	· Mandate given to RRA for collecting non-tax revenues · Reorganization of RRA based on functions · Implementation of Automated System for Customs Data (ASYCUDA) (upgraded to ASYCUDA World in 2012) · Implementation of Standardized Integrated Government Tax Administration System (SIGTAS)
2005–2006	· Enactment and Completion of Tax Laws: Income Taxes (No. 16/2005), Tax Procedures Law (No.25/2005), Consumption Tax (No.26/2006) · Provisions of Fiscal Incentives to Investors (Investment Code, No.26/2005)
2009–2010	· Rwanda's signatory status to East African Community (EAC) Custom Union protocol · Harmonization of Rwanda's tax regime and administration with that of the EAC · Assumption of responsibility by RRA for the collection and enforcement of social security contributions
2011	· Introduction of e-filing and e-payment · Assumption of responsibility by RRA for the collection of LGT
2012	· Introduction of a flat fee regime for MSMEs (No.28/2012 on direct taxes on income)
2013~	· Introduction of m-declaration · Introduction of Electronic Billing Machine (EBM) 1.0 (upgraded to EBM 2.0 in 2017 and EBM 2.1 in 2021)

Source: : Author

### C. Major DRM Achievements

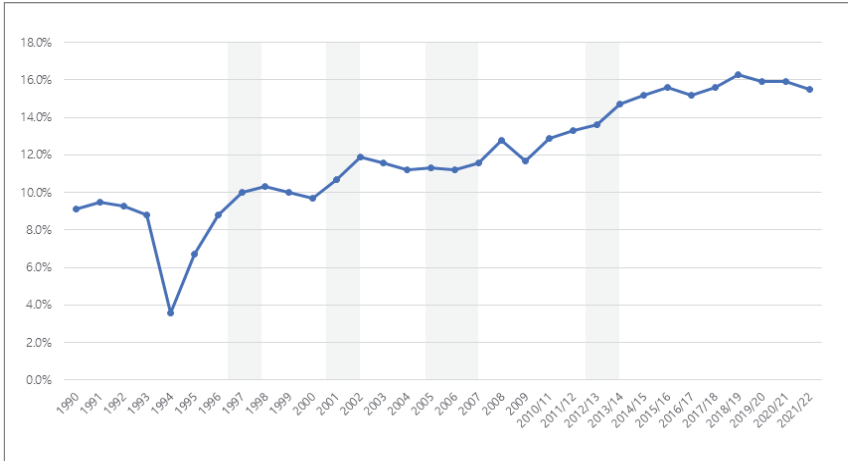
With substantial efforts directed at enhancing its DRM capabilities, Rwanda has witnessed a consistent increase in its tax-to-GDP ratio, with the exception of the challenging period marked by the 1994 historical catastrophe. As of the fiscal year 2021/22, this ratio stood at 15.5%. A trend of the tax-to-GDP ratio spanning from 1990-2022 (see figure III-1) demonstrates a noticeable improvement. This improvement can be attributed to key milestones in tax reform, including the creation of the RRA in 1997, the implementation of VAT in 2001, amendments to tax legislation in 2005 and 2006, and the progressive development of electronic tax systems from 2011 onwards, among other factors. Although the analysis of the effects of tax reform is somewhat limited, the tax-to-GDP ratio in Rwanda demonstrates an increase subsequent to these major reforms. When compared to the OECD's total tax revenues as a percentage of GDP in 2021, Rwanda's ratio of 17% was higher than the average ratio of 15.6% for 33 African countries.

Tax policy and administration systems in Rwanda have been enhanced to align with economic and social development over the recent decades. In terms of tax revenue, there has been not only an increase in its volume but also an improvement in its contribution to the national budget and its tax revenue structure. Over the last decade, total tax revenue in Rwanda has nearly quadrupled, increasing from FRW 461 billion in the fiscal year 2010/11 to FRW 1,825 billion in 2021/22. During the same period, the tax-to-budget ratio also saw an increase by exceeding 58% in 2017/18, although there was a recent decrease due to expansionary policies implemented in response to the Covid-19 pandemic.

Regarding the tax revenue structure based on OECD tax categories, there has been a notable shift. The structure, previously heavily reliant on indirect taxes, has become more balanced with the rise of direct taxes. In particular, taxes on individual incomes have increased from 10.1% in 2001 to 23.6% in 2020. Additionally, revenue from excise taxes has transitioned to VAT. These improvements were facilitated by the enactment and completion of tax laws, primarily in 2005-2006.

**[Figure III-2] Tax-to-GDP Ratio in Rwanda, 1990-2022**

(Unit: Percentage of GDP)



Note: The shaded areas on the chart delineate crucial phases in Rwanda's tax reform journey from the 1990s through the 2010s, including the establishment of the RRA, the introduction of VAT, comprehensive amendments to tax laws, and the substantial advancement in e-tax administration.

Source: Based on Mansour(2014) for 1990-2008 and RRA(2017, 2023) for 2010/11-2021/22

**⟨Table III-3⟩ Total Tax Revenue, FY 2010/11-2021/22**

(Unit: Billion FRW)

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
461	556	652	763	859	987	1,086	1,234	1,400	1,495	1,636	1,887

Note: The total tax revenue comprises only central government taxes, excluding LGT.

Source: RRA(2017, 2020, 2023)

**⟨Table III-4⟩ Tax-to-Budget Ratio in Rwanda, FY 2010/11-2021/22**

(Unit: Percentage)

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
46.8%	46.6%	42.1%	45.5%	48.7%	54.5%	55.6%	58.3%	54.5%	49.5%	47.2%	41.7%

Note: The tax to budget ratio is calculated as the tax revenue divided by the total national budget, considering only central government taxes, excluding LGT.

Source: : RRA(2017, 2020, 2023)

**Table III-5) Rwanda's Tax Revenue Structure by OECD Tax Category 2000, 2010, 2020**

(Unit: Percentage)

Category	2000	2010	2020
1000 Taxes on income, profits and capital gains	27.4%	38.7%	44.0%
– 1100 Individuals	10.1%	24.7%	23.6%
– 1200 Corporates	17.3%	13.9%	20.5%
4000 Taxes on property	0.2%	0.0%	1.0%
5000 Taxes on goods and services	72.4%	61.3%	55.0%
– 5111 Value added taxes	21.0%	31.9%	31.5%
– 5121 Excises	28.8%	18.2%	12.1%
– 5123 Customs and import duties	21.6%	10.5%	10.9%

Note: 1. Tax revenue structure by tax category refers to the revenue per category/total tax revenue (excluding social security contributions).

2. Category 1100 includes Pay As You Earn (PAYE), rental income tax, and taxes on capital gains of individuals.

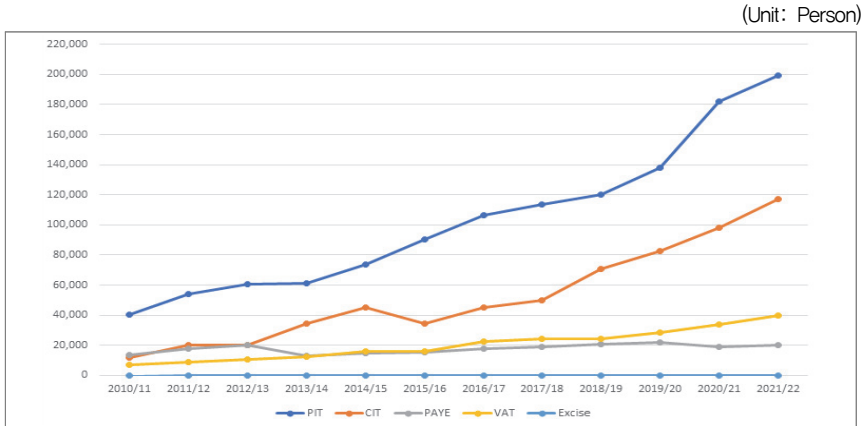
3. Category 1200 includes taxes on Corporate Income Tax (CIT), withholding tax, personal income tax, other taxes on profits and taxes on capital gains of corporates.

Source: OECD, Tax Statistics – Rwanda, [https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics\\_tax-data-en](https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics_tax-data-en) (accessed on October 3, 2023), combined by author

From the fiscal year 2010/11 to 2021/22, the number of active taxpayers registered by tax type increased by 419%, notably driven by the growth of taxpayers in CIT and VAT. In addition, when considering tax revenue from 2012/13-2021/22, there has been a steady increase in tax per capita, while tax per taxpayer has a tendency to decrease. These trends suggest that Rwanda is experiencing an expansion of its tax base while simultaneously reducing the tax burden on individual taxpayers.

In the World Bank's Paying Taxes assessment, Rwanda's tax system performance closely mirrors the OECD average, with a score of 84.6 compared to the OECD's 84.3, showcasing Rwanda's strong performance compared to the Sub-Saharan African average of 57.8. Notably, Rwanda stands out for its efficient compliance with tax regulations, marked by a swift process and low frequency of tax payments. Nevertheless, there remains room for enhancement in streamlining procedures for obtaining VAT refunds and rectifying CIT filings.

[Figure III-3] Number of Taxpayer by Tax Type, FY 2010/11-2021/22



Source: Based on RRA(2020-2021, 2023)

[Table III-6] Tax Revenue Per Capita and Taxpayer, FY 2012/13-2021/22

(Unit: Million FRW)

Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Tax per capita	0.060	0.070	0.077	0.087	0.093	0.103	0.115	0.120	0.128	0.145
Tax per taxpayer	5.8	7.2	6.5	6.5	6.7	7.2	7.2	6.5	5.4	4.9

Source: RRA(2020-2021, 2023)

[Table III-7) Paying Taxes Indicators: Rwanda, SSA and OECD, 2020

(Unit: Score, hours, number)

Indicator	Rwanda	SSA	OECD
Paying Taxes score	84.6	57.8	84.3
- Time to comply (hours per year)	91	280.6	158.8
- Payments (number per year)	9	36.6	10.3
- Postfiling index	64.6	54.7	39.9
- Total tax and contribution rate (% of profit)	33.2	47.3	39.9

Note: 1. The data for the paying taxes indicators in 2020 encompasses information from the calendar year 2018.

2. Tax payments refer to the count of tax payments made by a manufacturing company.

3. Postfiling index is determined by the time needed to complete procedures for obtaining a VAT refund and CIT correction.

Source: World Bank, Doing Business, [https://archive.doingbusiness.org/en/data/exploreconomies/rwanda#DB\\_tax](https://archive.doingbusiness.org/en/data/exploreconomies/rwanda#DB_tax) (accessed on October 2, 2023).

## 4 Determinants and Future Challenges

### A. Partnership Progress: DFID and IMF

As outlined in Chapter II, which delves into the analysis of DRM trends and issues in Africa, tax reforms in African nations exhibit certain common characteristics, and Rwanda is no exception in this regard. Over time, international institutions and interactions among countries in the region have provided support for these reforms. Rwanda has been actively engaged in political and administrative changes, all geared toward the goal of enhancing DRM.

A significant factor that sets Rwanda apart as a successful example among other African countries is its sustained cooperation with international partners and investment in the country's self-reliance. While other African countries have adopted similar approaches during specific time periods, many cases have seen fragmented and redundant reforms. Reforms imposed by external organizations rather than initiated by the host country have often faced resistance and have proven to be unsustainable.

Rwanda's tax reform can be characterized by two distinctive aspects: its long-term cooperation with international partners and its internal restructuring initiatives. From the early stage of the reform process, the country has actively engaged with international organizations and bilateral donors. The establishment of the RRA in 1997 aligns with a broader trend encouraged by donors across the continent to create dedicated organizations for DRM. Notably, the United Kingdom's Department for International Development (hereinafter called DFID) not only provided financial support but also contributed technical expertise by embedding international experts in various management roles for advisory and training purposes.<sup>17)</sup> Given the lack of relevant skills within the country, the RRA was initially led by an expatriate from Ghana, who had held a similar

17) During the 1990s and 2000s, DFID played a pivotal role in establishing numerous SARAs across Anglophone Africa, creating a network of consultancy organizations. The IMF also provided a resident adviser during the early period of RRA's establishment.

position in the tax authorities of Uganda, until the appointment of the first national Commissioner General in 2001. This approach allowed the new organization to draw from the experiences of tax administrations in other regional countries.

DFID's principal contributions played a considerable role in shaping Rwanda's tax policy and tax administration reforms from 1998 to 2010, investing approximately 24 million GBP (38 million USD). As previously mentioned, the initial years focused on establishing the RRA, involving the provision of advisory services and the construction of facilities. Notably, advisory assistance at the senior level was provided to develop a robust internal management system and a coordinated planning and monitoring process. This initial support has evolved into current high-level advisory assistance for the RRA.

Following the initial phases of assistance, subsequent stages involved support aimed at enhancing structural efficiency and strengthening administrative capacities. This support encompassed revisions to tax laws, technical assistance for physical infrastructure, investment in human resources, and improvements to information technology systems.

⟨Table III-8⟩ DFID's Long-Term Support for Rwanda's Tax Reforms

Year	Major Tax Reforms	DFID Major Initiatives
1990s	<ul style="list-style-type: none"> <li>· Establishment of RRA</li> </ul>	<ul style="list-style-type: none"> <li>· Creation of SARAs and network development in Anglophone Africa</li> <li>· Financial and technical support, including knowledge sharing, etc.</li> </ul>
2000s	<ul style="list-style-type: none"> <li>· Introduction of VAT</li> <li>· Mandate for collecting non-tax revenues</li> <li>· Reorganization of RRA based on functions</li> <li>· Implementation of ASYCUDA</li> <li>· Implementation of SIGTAS</li> <li>· Enactment and Completion of Tax Laws</li> <li>· Provisions of Fiscal Incentives to Investors</li> <li>· Rwanda's signatory status to EAC Custom Union protocol</li> <li>· Harmonization of Rwanda's tax regime and administration with that of the EAC</li> <li>· Assumption of responsibility for the collection and enforcement of social security contributions</li> </ul>	<ul style="list-style-type: none"> <li>· Funding for RRA's general budget, including operations, and especially IT systems (34% of the total budget in 2003)</li> <li>· Technical assistance for reorganizing the internal structure and overhauling tax laws</li> <li>· Constant advisory and capacity-building support, etc.</li> </ul>

〈Table II-8〉 continued

Year	Major Tax Reforms	DFID Major Initiatives
2010s	<ul style="list-style-type: none"> <li>· Introduction of e-filing and e-payment</li> <li>· Assumption of responsibility for the collection of LGT</li> <li>· Introduction of a flat fee regime for MSMIEs</li> <li>· Introduction of m-declaration</li> <li>· Introduction of EBM</li> </ul>	<ul style="list-style-type: none"> <li>· Funding for the Rwanda Electronic Single Window (RESW) project, which includes ASYCUDA upgrading</li> <li>· Constant advisory and capacity-building support, etc.</li> </ul>

Source: Based on DFID(2008) and DFID/FIAS (2005)

In the 1990s, international programs facilitated by the IMF were integral to a comprehensive structural adjustment loan provided in exchange for policy reforms.<sup>18)</sup> These reforms included administrative reorganizations, the elimination of trade barriers, a reduction in the CIT rate, and the introduction of VAT. The overarching goal was to broaden the tax base and redistribute the tax burden, particularly alleviating pressures on low-income classes. In a subsequent program initiated in 2002, the IMF urged the government to further adjust its fiscal policies. This involved an increase in the VAT rate, coupled with a simultaneous reduction in the CIT rate. Despite criticism of the IMF's tax reform for its market-oriented and pattern-formed recommendations, its policy advice held legitimacy for raising revenue, shifting toward appropriate revenue sources, building more effective tax administrations, and creating constructive state-society engagement for modernizing and improving the tax system. (Fjeldstad and Moore 2008).

International programs in the recent decade have seen continued involvement from various donors in the tax policy and tax administration sector. While the IMF has consistently provided financial support, a more comprehensive collaboration has emerged between the Rwandan government and international partners, specifically focusing on public finance and tax policies to enhance DRM without necessitating conditionality for loans.

18) In 1998, the government of Rwanda turned to the IMF to access a USD 95 million loan in exchange for its promise to reform its administration and eventually adopt VAT in 2001 (IMF 1999).

Under distinct IMF funding facilities, a prominent program is dedicated to crafting mid- and long-term development plans and maintaining an ongoing monitoring process for subsequent adjustments and planning. Building on the Rwandan government's active participation, the Medium-Term Revenue Strategy (MTRS), developed in 2021 with the backing of the IMF and various international organizations, has implemented fiscal reforms aligned with national development plans. It has also established a fiscal framework aimed at mobilizing domestic resources to fund social and economic objectives. Plans for MTRS-2 are underway, with a focus further on development following the monitoring and evaluation of MTRS implementation.<sup>19)</sup>

**〈Table III-9〉 IMF Disbursements in Rwanda – Poverty Reduction and Growth Trust (PRGT), 1998-2020**

(Unit: Special Drawing Rights (SDR))

Year	Disbursements	Repayments	Interest paid
1998	11,900,000	1,752,000	57,083
1999	21,420,000	1,752,000	126,955
2000	19,040,000	1,752,000	195,136
2001	9,520,000	876,000	272,060
2002	574,000	0	310,485
2003	571,000	1,190,000	313,719
2004	1,142,000	3,570,000	307,696
2005	1,142,000	6,664,000	287,505
2006	1,711,000	52,743,000	13,754
2007	2,280,000	0	22,051
2008	2,280,000	0	33,304
2009	2,310,000	0	44,855
2010	0	57,100	1,067
2011	0	399,500	0
2012	0	684,600	0
2013	0	1,140,600	0

19) The MTRS (2021) aims to boost tax revenue by 1% of GDP in a 3-year period (FY 2021/22–2023/24). Objectives include: (i) enhancing resources for SDG and NST1 programs, (ii) addressing fiscal challenges due to rising debt and government spending, and (iii) strengthening tax collection for self-sufficiency and reduced dependence on foreign aid in Rwanda.

(Table III-9) continued

Year	Disbursements	Repayments	Interest paid
2014	0	1,824,600	0
2015	0	1,887,500	0
2016	72,090,000	1,431,100	0
2017	54,067,500	1,146,000	0
2018	18,022,500	804,000	0
2019	0	348,000	0
2020	160,200,000	20,025,000	0
Total	378,270,000	100,047,000	1,985,670

Note: The PRGT was established in the late 1990s for low-income countries. Compared to IMF's formal programs, PRGT conditionality has been evolving more selective, focusing on developing country strategy measures and their success in the macroeconomic and financial areas with improved ownership.

Source: IMF, Financial Data, <https://www.imf.org/external/np/fin/tad/query.aspx> (accessed on November 23, 2023), combined by author.

Since the 2010s, Rwanda has focused its efforts on enhancing DRM, with a specific emphasis on augmenting tax revenue through the implementation of e-tax administration. The primary objectives revolve around reducing operational and compliance costs for both tax administration and taxpayers, and consequently improving the efficiency of tax collection and enhancing convenience for taxpayers. This strategic realignment has resulted in a notable increase in donor support for e-tax systems. Between 2015 and 2021, based on data from OECD DAC member countries, prominent international donors for projects categorized as direct DRM support included Germany, South Korea, the United Kingdom, the United States, and the Netherlands. Their support primarily targeted the development of the tax administration system, reflecting a substantial disbursement volume of 37 million USD during this period.<sup>20)</sup>

20) The figures for disbursement volume are estimated using the OECD CRS purpose code 15114 for DRM funding.

**〈Table III-10〉 Annual ODA Disbursements related to DRM Projects in Rwanda, 2015-2021**

(Unit: Million USD)

Purpose Code	2015	2016	2017	2018	2019	2020	2021
Public sector policy and administrative management (15110)	9,427	39,191	10,757	9,55	12,574	8,424	26,857
Public finance management (15111)	34,166	66,559	6,662	2,034	9,47	8,038	23,955
Domestic revenue mobilization (15114)	3,194	3,916	3,506	5,725	11,021	4,992	4,847
Finance policy and administration management (24010)	0,167	0,015	1,137	1,032	0,813	2,371	1,124
Total	46,954	109,681	22,062	18,341	33,878	23,825	56,783

Source: OECD.stat, Creditor Reporting System (CRS), <https://stats.oecd.org/Index.aspx?DataSetCode=crs1> (accessed on September 26), combined by author

## B. Organizational Capacity Building

As such, international organizations and donors took a more direct role due to a lack of national capacities, especially in the early stages of tax reforms. However, ongoing efforts have shifted towards increased national engagement, involving the restructuring of internal systems and investments in human capacity.

The Vision 2020, adopted in 2000, marked Rwanda's inaugural long-term national development plan, laying the foundation for sustainable growth. Subsequent plans like Vision 2050 and NST1, a 7-year strategy aligned with the Visions, led to the development of individual strategies by ministries and government agencies. This structured approach has not only defined resource requirements at the organizational level but also across the entire government, empowering Rwanda to actively and independently enhance its DRM.

As part of this process, the RRA has prioritized enhancing organizational capacity and elevating the skills of its workforce (IMF 2000 and Chemouni 2020). During its establishment in 1997, approximately 25% of employees from

MINECOFIN lost their positions for failing the required test to join the RRA, underscoring its commitment to autonomy and a competitive human resource base from the outset. The organization pioneered innovative management practices by recognizing the pivotal role of revenue mobilization within the government. This includes offering competitive salaries compared to other government entities, implementing target-driven incentives, and establishing its own training institution in 2007.

Enhancing internal capacity emerges as a key element in the collaboration between international and regional initiatives and Rwanda's autonomy, even without financial assistance. This involves collaborative efforts, such as joint research with specialized international institutions in tax and development, including the International Centre for Tax and Development (ICTD) and the International Growth Center (IGC). Additionally, there are peer-to-peer learning programs and expertise sharing through ATAF, among others. Another initiative provides opportunities for recent graduates through a two-year arrangement in specific units within the RRA and MINECOFIN under the Overseas Development Institute (ODI) scheme. Engaging in internal capacity building to strengthen the autonomy of the beneficiary country is a critical factor in the success and sustainability of public reforms. However, it is also a challenging endeavor, recognizing the limited role of development partners in this domain compared to financial assistance. These partnerships have been evaluated as significant contributors to enhancing human capacity within the Rwandan government, promising improved outcomes for infrastructure projects and fostering a virtuous circle of continuous and advanced development partnerships.

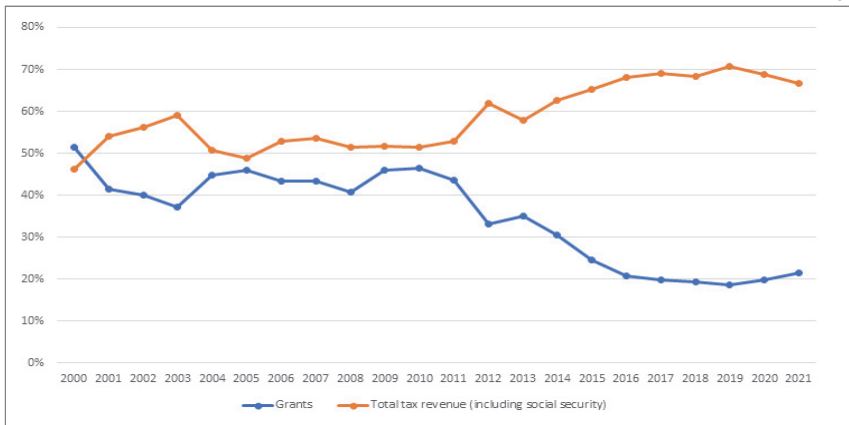
Rwanda's commitment to effective governance is evident in the establishment of the Single Project Implementation Unit (SPIU). This unit assumes specific functions such as project task and budget management, procurement, monitoring, and reporting. While other developing countries also utilize dedicated project management units, the SPIU distinguishes itself by its widespread and efficient application in public projects. The RRA launched its SPIU in 2016, securing funding from multiple development partners to ensure the effective management of projects. This unit plays a role in enhancing the capacity for planning, monitoring, and evaluation, as well as in developing and implementing future

operating models, along with conducting impact assessments for major projects.

Over the past two decades, there has been a significant shift in Rwanda's revenue composition. Notably, the proportion of grants in the total government revenue has substantially decreased, declining from 52% in 2000 to 22% in 2021. In contrast, tax revenue has experienced a substantial increase, rising from 46% to 67% during the same period. Despite remaining one of the largest recipients of grants in Africa, Rwanda has actively worked to reduce its reliance on grants by boosting its tax revenue. The actual amount of grants has seen a 684% increase, whereas tax revenue has surged by 2,599% over the same period. This strategic approach reflects Rwanda's aim to utilize external grants for development purposes while simultaneously enhancing its capacity for independent revenue mobilization.

**[Figure III-4] Total Tax Revenue and Grants as % of Total Tax and Non-Tax Revenue in Rwanda, 2000-2021**

(Unit: Percentage)



Source: OECD, Tax Statistics – Rwanda,

[https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics\\_tax-data-en](https://www.oecd-ilibrary.org/taxation/data/oecd-tax-statistics_tax-data-en), (accessed on October 3, 2023), combined by author

In the enhancement of the institutional framework, Rwandan tax authorities have placed a strong focus on boosting tax compliance through a combination of policy measures and the implementation of e-system solutions. Beginning in the 2000s, the RRA took proactive steps by introducing taxpayer-friendly policies, including the establishment of a taxpayer appreciation day in 2001. The annual tax service and education campaign, accompanied by the Best Taxpayer Awards and various events, has been implemented rigorously. This initiative has been recognized as ‘an effective program of community information dissemination, perhaps one of the best in Africa’ (DFID/FIAS 2005). In 2003, efforts to enhance tax compliance included the establishment of divisions based on taxpayer size, tailoring services to the specific needs of different taxpayer categories. Furthermore, in 2007, the RRA introduced a toll-free hotline for taxpayer inquiries. Since 2017, the authority has been providing a handbook, serving as a simplified guide to help taxpayers comprehend tax laws and procedures across all tax types. This underscores the RRA's commitment to its motto ‘Here For You, To Serve’.

The RRA has strategically focused on the e-tax system since the 2010s, with the objective of enhancing taxpayer compliance and expanding the tax base. Notably, the EBM has played a central role in fortifying VAT compliance (Okunogbe and Santoro 2023). Initially funded by the government, the EBM underwent significant advancements through a funding project by the Korea International Cooperation Agency (KOICA) for EBM 2.0, spanning from 2014 to 2016 and amounting to 2.8 million USD. This initiative transitioned from a hardware device system to a software-based electronic billing system, aiming to improve VAT data collection and reduce tax compliance costs for businesses, aligning with Rwanda’s current needs. Building on the success of EBM 2.0, another KOICA project, EBM enhancement (EBM 2.1), and taxpayer management system development were undertaken with a funding of 6 million USD from 2018 to 2023. This project aims to enhance operating systems for cash payment management and simplify software, making it more user-friendly, especially for small businesses.<sup>21)</sup>

21) Under the new KOICA project, the MyRRA online single portal system for taxpayers was launched in December 2024. It is currently restricted to specific taxpayers, such as VAT-registered businesses, but

While the EBM still has room for further compliance improvement<sup>22)</sup>, the RRA has observed significant enhancement in its internal capacities over time. This stands in contrast to its early e-system projects that were funded and predominantly led by external partners. These advancements have empowered the RRA to assume greater ownership and achieve substantial progress in the development of its systems. The RRA's new 5-year strategic plan, currently under development for the upcoming fiscal years 2024/25 to 2028/29, focuses on advanced technologies such as big data and AI to provide new digital services with increased automation and even self-learning capabilities. Although there is still a long way to go, this approach aims to enhance Rwanda's DRM capacity, considering the expected reduction of partner support in the future.

〈Table III-11〉 VAT Taxpayers with EBM and Non-EBM, FY 2014/15-2021/22

(Unit: Person)

No. of taxpayers	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
EBM	8,046	11,434	14,518	17,681	19,516	23,885	31,307	34,828 (87%)
Non-EBM	8,001	5,464	7,778	6,354	4,731	4,363	2,228	5,050 (13%)

Source: RRA(2020-2021, 2023)

〈Table III-12〉 Cost of Tax Collection, FY 2014/15-2021/22

(Unit: Billion RWF, Percentage of Total Tax Revenue)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Cost of collection	17.8	22.8	33.9	35.1	39.5	43.7	44.8	50.4
Total ax revenue (inc. LGT)	859.1	1,067.7	1,190.7	1,361.4	1,546.4	1,644.9	1,732.3	1,985.7
Cost as % of tax revenue	2.1%	2.1%	2.8%	2.6%	2.6%	2.7%	2.6%	2.5%

Note: Including LGT collection

Source: RRA(2020-2021, 2023)

there are plans to extend its services to all taxpayers in the future.

22) During FY 2016/17, the external discrepancy stood at 18%, representing the observations reporting the same VAT amount across buyers and sellers. This share rises to 40 % when buyers' reports are compared to sellers' EBM records. (Mascagni et al. 2019)

### C. DRM Challenges Post-Covid-19 Pandemic

The recent global economic shifts triggered by the Covid-19 pandemic, coupled with worldwide inflation, have mandated a renewed phase of the DRM enhancement challenge for Rwanda. While nations worldwide grapple with these economic challenges, the enduring medium- and long-term consequences will persist for developing countries, impacting domestic financial resources, public debt levels, trade flows, investments, and more. Despite Rwanda's efforts to boost spending for sustainable economic growth in recent years and enact expansionary fiscal and monetary policies to address global challenges, the country is not exempt from these difficulties.

Responding to the Covid-19 pandemic, the Rwandan government implemented measures to stimulate spending, particularly in support of its thriving industrial sector, aiming to mitigate economic repercussions. In the 2020/21 budget plan, the government introduced the Economic Recovery Plan (ERP) with a budget of 900 million USD. A notable component of this strategy was the Manufacture and Build to Recover Program (MBRP).<sup>23)</sup> The program seeks to reduce operational costs for both new and existing companies, providing incentives such as exemptions from import duty and VAT, along with tax credits on PAYE and CIT, and reduced PAYE rates. Despite limited current data, the associated VAT tax expenditure for the MBRP is estimated based on relevant provisions. In FY 2021/22, for example, the 'zero-rating for goods and services intended for people of a special category' increased to 7% (12.9 billion RWF) of total provisions, compared to 4% (6.2 billion RWF) in the preceding fiscal year.<sup>24)</sup> The overall VAT tax expenditure has increased from 172.6 billion RWF to 205.46 billion RWF.

In this context, the financial standing has been adversely affected by the escalation of public debt and the urgent need for DRM enhancement. Compared

23) Among various initiatives, the Economic Recovery Fund (ERF) was also implemented, amounting to 358 million USD. Its objective was to improve access to finance for heavily impacted industry sectors and promote economic recovery and resilience in businesses through strategic investments.

24) The special category, excluding government-led projects, is chiefly driven by construction projects.

to the fiscal year 2019/20, there has been a significant increase in the public debt level, especially in external debt, since the onset of the Covid-19 pandemic in the 2020/21 fiscal year. External debt rose from 44.3% to 56.4% of GDP during the same period, contributing to an overall increase in public debt from 56.8% to 72.4% of GDP. Despite efforts to address various indicators, the burden of debt is expected to persist in the coming years.

To effectively manage this situation, the Rwandan government has adapted its recent fiscal approach in its budget plan for FY 2022/23, prioritizing fiscal consolidation as a response to the current circumstances. Specifically, the government has introduced a budgetary framework aligned with the mid-term revenue plan. This framework involves the rationalization of expenditures, the expansion of the tax base, and the enhancement of tax compliance, all geared towards ensuring the credibility of DRM. Notably, this initiative is part of a broader integration of financing and non-financing instruments, including the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF).

⟨Table III-13⟩ **Public Debt Statements, FY 2019/20-2025/26 (forecasted)**

(Unit: Percentage of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24f	2024/25f	2025/26f
Public Debt	56.8	72.4	73.4	67.1	69.1	74.4	79.2
– External	44.3	56.4	54.6	48.7	54.1	60.9	68.6
– Domestic	12.4	16.0	18.8	18.4	15.0	13.5	10.6

Source: IMF(2023)

Looking ahead, the next stage of DRM enhancement necessitates not only streamlining public finances but also addressing persistent challenges in Rwanda, such as the informal sector and the low-value-added structure of industries. Overcoming these challenges is crucial for making further progress. From 2016 to 2022, the average informal employment rate hovered around 90%. By 2022, it had slightly increased to 90.8%, but when agriculture, forestry, and fishing

were excluded, the figure decreased to 83%. Notably, within the top five hiring sectors, the average informal employment rate surged to 98.3%, underscoring the substantial challenge in broadening the country's tax base (Table III-12). This issue requires particular attention in tax policies to bring as many tax bases as possible into the tax net. Despite its chronic nature, the informal economy has the potential to integrate into the official market system as markets and transactions increasingly utilize digital technologies, such as e-commerce and mobile payments. This presents an opportunity for the government to devise new strategies to address limitations in the previous system.

Furthermore, Rwanda needs to persist in its industrialization efforts while navigating the constant influence of the global economy. Like many other African and developing nations, attracting foreign investment and businesses is paramount for Rwanda's development. However, its ability to manage this situation and respond to international initiatives needs to be strengthened. In this regard, efficient participation in international and regional cooperation remains crucial.

⟨Table III-14⟩ **Formal and Informal Employment in 2022**

(Unit: Person, Percentage)

Activity	Total	Formal	Informal	Informal/ Total Employment
Total	3,546,352	3,247,40	3,221,612	90.8%
– Excluding agriculture, forestry and fishing	1,886,167	317,149	1,569,017	83.2%
– Top five (5) hiring sectors	2,784,226	48,647	2,735,580	98.3%

Note: 1. Agriculture, forestry, and fishing constitute 47% of total employment.

2. The top five (5) hiring sectors include i) agriculture, forestry and fishing, ii) wholesale, retail trade, repair of motor vehicles, motorcycles, iii) construction, iv) transportation and storage and v) manufacturing.

Source: NISR(2022)

## 5 Conclusion

As highlighted in previous sections, Rwanda's tax system development from the late 1990s to the 2010s followed common trends observed in Africa, reflecting international and regional initiatives. Despite the considerable distance remaining for DRM to fully support national development goals, Rwanda's sustained growth is noteworthy, both independently and compared to other African nations. Given that reliance on external resources such as grants is inevitable during the development phase, the increase in tax collection underscores the improved financial capacity of the country.

Rwanda shares some aspects of tax reforms with other African nations but stands out as a case study due to several distinguishing factors. These include long-term and cohesive collaborative efforts with development partners, a robust governance system, and demonstrated autonomy in project implementations. These efforts have led to the overhaul of institutional and organizational structures and system modernization. Notably, advancements in human resources have been made to facilitate effective analysis, evaluation, and management within the Rwandan government, enabling more efficient cooperation with international partners.

A series of global economic pressures, ranging from the Covid-19 pandemic crisis to the climate emergency, have placed Rwanda in a challenging position. This is particularly impactful for developing countries. Although its economy is currently showing signs of an active reboot, the continuous implementation of expansionary policies has weakened public finance stability. Additionally, chronic challenges such as advancing the economic structure and addressing informal sectors persist, posing primary issues for both tax policy and administration systems.

Facing a new phase of DRM challenges, further internal endeavors and improved partnerships are required. The partnership and support between Rwanda and development partners are now interdependent. Enhanced human capacity holds the promise of yielding improved outcomes for ongoing projects, creating a virtuous circle of continuous and advanced development partnerships.

# IV

## Findings and Suggestions

A comprehensive examination of DRM enhancement trends in Africa, featuring a case study of Rwanda, highlights significant achievements and key drivers of tax reforms. The history of DRM policies in this region began mostly in the 1990s under the guidance of international organizations, with tax reforms preceding these efforts. Regional initiatives also influenced economic integration and related tax systems.

In the early stages of the reforms, adjustments to the institutional and legal framework were essential. However, administrative and organizational improvements were also vital drivers. Strengthening administration is especially critical in developing countries as it directly impacts tax collection, resolves inefficiencies, and manages the tax base. As of the 2000s, tax administration had evolved, requiring advancements beyond just institutions. The computerization of data and the digitalization of core systems and taxpayer services have been developed up until the 2020s to reduce administrative and compliance costs. Currently, the focus is on expanding the tax base through user-friendly policies and systems. Projects implemented during the 1990s and 2010s by international organizations such as the World Bank and IMF, along with distinct donors, uncover key findings for successful DRM enhancement: efficient tax reforms are contingent upon long-term partnerships and involve capacity building to increase the autonomy of host countries.

In this context, Rwanda serves as a model case for tax reforms and DRM enhancement in Africa, showcasing its determinants through a detailed and

structured approach. The Rwandan government has depended on external support in both financial and technical aspects. This reliance is a significant factor in why the patterns of African tax reform, influenced by international organizations, are clearly evident in Rwanda's case. However, the sustained focus on building internal capacity has been a crucial component in the success of its tax reforms. This analysis of the Rwanda situation leads to the conclusion that the partnership between the country and its partners becomes interdependent over time. The sustainability of reforms depends on the competence and commitment of the involved country.

In preceding chapters, it has been noted that the collaboration between development partners and the respective country in the DRM field has reciprocally influenced and sustained their efforts. International organizations and donors acknowledge the considerable impact of tax policies on both tax revenue collection and a nation's economic and social environment. Consequently, they emphasize the necessity of accurately assessing tax reform strategies in African countries. Within the context of long-term partnerships, the continuous involvement of partners in management and research evaluation is considered indispensable.

The pursuit of enhancing DRM in Africa has reached a pivotal moment, demanding a transformative and adaptive approach that considers the continent's current economic trajectory and both internal and external fiscal pressures. Despite notable progress in economic growth and fiscal stability, African nations remain vulnerable to global economic fluctuations and their repercussions. The integration of advanced technologies into tax administration has recently increased to strengthen DRM efforts. However, this progress faces challenges, primarily due to limitations in financial and human resources. Additionally, each country is now at a different stage of development capacity. In light of this, the need for country-specific tax reform strategies becomes apparent, marking a departure from one-size-fits-all solutions. This underlines the significance of collaborative efforts among development partners, emphasizing the need for cooperation both among them and with the respective countries.

Such collaboration is essential for addressing the distinct challenges ahead and ensuring a customized and efficient approach to DRM enhancement in Africa. Donor organizations, including countries like Korea, need to establish structured methodologies and actively engage in research, leveraging their expertise and strengths. Although there have been recent advancements in project development, it is still necessary to increase expert involvement and ongoing evaluation efforts to ensure partnerships in this sector are effective and sustainable.

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