TAXATION AND GOVERNMENT ACCOUNTABILITY AND RESPONSIVENESS IN RWANDA

by

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Abstract

This thesis examines the extent to which a hybrid regime, specifically a dominant authoritarian state, in a low-income country in sub-Saharan Africa –when faced with acute revenue pressure- is willing to cede power, accept increased political accountability, and become more responsive to the needs of its citizens through explicit or implicit tax bargaining. To investigate this issue, the research focuses on Rwanda in the period 2012 to 2020, and specifically on the interaction between government and citizens in relation to two reforms undertaken in the wake of the 2012 fiscal crisis, namely a revision of income tax law, and the rollout of VAT electronic billing machines.

Although Rwanda can be characterised as a typical low-income country in sub-Saharan Africa in terms of the challenges it faces to raise sufficient domestic revenue, it is nonetheless relatively distinct because of its governance arrangements and development model, and therefore deviates from generalized theory. Rwanda's recent history and broader political economy factors have helped shape a state where the government's authoritarian traits sit alongside the leadership's stated commitment to drive forward broad-based and inclusive socio-economic development. Parallels can therefore be drawn between Rwanda and other dominant authoritarian developmental states in East Asia as well as in Africa, in countries such as Ethiopia and Botswana.

To examine the central question, this thesis adopts a theoretical model developed by Pritchard (2015) in his book "Taxation, Responsiveness and Accountability in Sub-Saharan Africa", which outlines broad mechanisms linking taxation to improved responsiveness and accountability, and which identifies causal processes through which contestation between taxpayers and tax-reliant governments results in expanded responsiveness and accountability. This thesis draws on in-depth qualitative research, using a single-case study with embedded units (in-case studies), to examine, at country level, Rwandan government strategies in relation to particular taxes, the relative bargaining power of specific taxpayer groups, and how different groups of taxpayers respond to the imposition of a given tax. This approach enables three secondary questions to be posed. First, what are the contextual factors that determine the likelihood of tax bargaining in dominant authoritarian contexts such as Rwanda? Second, how do local actors cooperate, coordinate and conflict with regards to the formulation of tax policy in contexts such as Rwanda? Third, what does the Rwandan experience tell us about development partners' role in fostering governance dividends in low-income dominant authoritarian countries? The research therefore contributes to several strands of the academic literature, complementing the existing body of work on development economics, and shedding new light on the political economy, organizational theory, political sociology, governance, public administration, and formulation of public policy in contemporary dominant authoritarian states.

In Rwanda, little evidence was found of direct tax bargaining, or of positive outcomes from the causal processes envisaged in the theoretic model during the period under observation. This is primarily because of the extent of state authoritarianism in Rwanda, which became increasingly evident as the research progressed. Government was predisposed to coercive expansion of taxation to finance its legitimization strategy. On the demand side, state repression eliminated any prospect of tax resistance envisaged in the model, while those that may have sought to challenge government's tax plans faced

insurmountable collective action challenges. On the supply side, the research provides further evidence how normative institutions and *de jure* institutional checks and balances established in hybrid authoritarian regimes –in this case the semi-autonomous revenue agency model strongly promoted by donors in SSA- are overridden by *de facto* systems and practices arising from relationships, interests and incentives of policymakers and bureaucrats within the system. Rwanda’s governance arrangements -with accountability invariably inward and upwards to the President- generated strong perverse incentives that negatively affected the behaviour of decision makers on tax policy. This was compounded by the *de facto* practice of delegating tax policy formulation to the revenue authority -an entity with a vested interest in coercive expansion of taxes- and a lack of oversight and scrutiny by the Ministry of Finance.

Despite these factors, the research finds evidence of mutual behaviour adjustment. This raises the prospect of governance dividends emerging more incrementally through tax bargaining in Rwanda over a longer timeframe. Two promising developments identified in the thesis point to more positive outcomes in future, and these developments call for further research. The first development is the creation of new institutions for tax policy formulation and dialogue. These reforms appear driven by the realisation by policymakers that flawed processes combined with insufficient consultation and scrutiny during formulation of tax laws made for bad policy. The second development arises from a controversial policy choice in the revised income tax law to tax surplus incomes of non-governmental organizations, which may have inadvertently made taxation a more politically salient issue for civil society, spurring them to engage in tax advocacy and bargaining in future.

Dedication

This thesis is dedicated to my wonderful wife Oanh, who has supported me professionally and personally over the years, and to my sons, Dewi and Dai, who have waited, sometimes patiently but more often not, for daddy to finish “work” so that he can come out and play.

A decision to undertake a PhD was also inspired by my father Stanley Morton, who not only became the first member of his family to go to university, but who also acquired a PhD of his own. I am also grateful to my mother Rita for the support and encouragement shown throughout.

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List of Acronyms

AAGR	Average Annual Growth Rate
AfDB	African Development Bank
ARA	Autonomous revenue authorities
ATAF	African Tax Administration Forum
AUC	African Union Commission
BFP	Budget Framework Paper
CG	Commissioner General of RRA
CIT	Corporate Income Tax
CLADHO	Collectif des Ligues et Associations de Défense des Droits de l'Homme au Rwanda (Umbrella organization for civil society organizations)
COFOG	OECD Budget Classification of the Functions of Government
COVID-19	Coronavirus disease
DFID	UK Department for International Development
DGs	Directors General
DPCG	Development Partner Consultative Group
DRC	Democratic Republic of Congo
DRM	Domestic Revenue Mobilisation
EAC	East African Community
EBMs	Electronic VAT billing machines
EDPRS II	Economic Development and Poverty Reduction Strategy II (2013-2018)
EICV	Integrated Household Living Conditions Survey
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FBO	Faith Based Organisation
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
GDP	Gross Domestic Product
GIZ	German Development Cooperation
GNI	Gross National Income
GPS	General Public Service Expenditures
HGS	Home Grown Solutions
HIC	High-income country
HQ	Headquarters
HRW	Human Rights Watch
iCPAR	Institute for Chartered Public Accountants Rwanda
ICTD	International Centre for Tax and Development
ICTR	International Criminal Tribunal for Rwanda
IDA	International Development Assistance
IDEC	Rwanda Industrial Development and Export Council
IFC	International Finance Corporation

IFI	International Financing Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSDF	Rwanda Interinstitutional Private Sector Development Forum
LMICs	Low- and Lower-Middle Income Countries
LTO	Large Taxpayer Office
MDA	Ministries, Departments and Agencies
MDR	Mouvement Démocratique Républicain (Democratic Republican Mouvement)
MICE	Meetings, Incentives, Conferences and Exhibitions Strategy
MIDIMAR	Ministry of Disaster Relief and Refugee Affairs
MIFOTRA	Ministry of Public Service and Labour
MIGEPROF	Ministry of Gender and Family Promotion
MIJESPOC/MINISPOC	Ministry of Sports
MINADEF	Ministry of Defence
MINAFFET	Ministry of Foreign Affairs and International Cooperation
MINAGRI	Ministry of Agriculture and Animal Resources
MINALOC	Ministry of Local Government
MINEAC	Ministry of East African Community
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MINICOM/MINEACOM	Ministry of Tade and Industry
MINICT/MYICT	Ministry of Information and Communication Technology and Innovation
MINIJUST	Ministry of Justice
MINILAF	Ministry of Lands and Forestry
MININFRA	Ministry of Infrastructure
MININTER	Ministry of the Interior
MINIRENA	Ministry of National Resources
MINISANTE	Ministry of Health
MINIYOUTH	Ministry of Youth
MITEC	Ministry of Information Technology and Communications
MNEs	Multi-national enterprise
MOE	Ministry of Environment
MSMEs	Micro, Small and Medium Enterprises
NFPO	National Consultative Forum of Political Organisations
NGOs	Non-Governmental Organisation
NISR	National Institute of Statistics of Rwanda
NPM	New Public Management
NPPA	National Public Prosecution Agency
NURC	National Unity and Reconciliation Commission
OAG	Office of the Auditor General

OBI	Open Budget Initiative
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECD GRSD	OECD Global Revenue Statistics Database
OHCHR	Office of the High Commissioner on Human Rights
OoO	Office of the Ombudsman
OSF	Open Society Foundation
PAYE	Pay-as-you-earn withholding tax
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIT	Personal Income tax
PPD	Public-private dialogue
PPP	Purchasing-Power-Parity
PRESIREP	Office of the President
PRIMATURE	Office of the Prime Minister
PSA	Private Sector Association
PSD	Private Sector Development
PSF	Rwanda Private Sector Federation
RCSP	Rwanda Civil Society Platform
RDB	Rwanda Development Board
RGB	Rwanda Governance Board
RoR	Republic of Rwanda
RPA	Rwandan Patriotic Army
RPF	Rwandan Patriotic Front
RPPD	Rwanda Public-private dialogue forum
RQ	Research questions
RRA	Rwanda Revenue Authority
RWF	Rwandan Franc
SARA	Semi-autonomous revenue authorities
SSA	Sub-Saharan Africa
TI-R	Transparency International Rwanda
TPC	Tax Policy Committee at MINECOFIN
TPU	Tax Policy Unit
TWG	Technical Working Group
UN	United Nations
UNCPD	United Nations Commission on Population and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
USDOS	United States Department of State
VAT	Value Added Tax
WB	World Bank
WEF	World Economic Forum

Glossary

Akazu	"Little House." An informal organisation of Rwandan elites surrounding the leader. In the Habaryimana era, the Akazu became seen as Hutu extremists that took a leading role in the genocide. In the post-genocide era, Akazu became a derogatory reference to the coterie surrounding Kagame
Gacaca	Traditionally, local-level dispute processes. Post-genocide, community-based courts outside the formal judicial system
Hutu	Largest ethnic group in Rwanda. Estimated to be around 80-85% of the population
Inararibonye	Group of "experienced taxpayers"
Ingando	Re-education camps
Interahamwe	Militias implicated in the Rwandan genocide of 1994
Parmahutu	A radical anti-Tutsi party that took power at independence
RRA Iwacu	RRA Campaign to encourage voluntary payment of land lease fees
Tutsi	Second largest ethnic group in Rwanda, from which President Kagame hails. Estimated to be around 10-15% of the population
Umuganda	Community work
Umushyikirano	National Dialogue / National Dialogue Council
Umwiherero	National Leadership Retreat

1. The relationship between taxation and government accountability and responsiveness

Domestic revenue mobilization is at the forefront of the sustainable development agenda. At the Third International Conference on Financing for Development in 2015, governments and development partners adopted Addis Ababa Action Agenda (UN, 2015a), which committed signatories to modernizing revenue administration and developing fair, transparent, efficient, and effective tax policy and systems. Also emerging from the Conference, a multi-stakeholder partnership -the Addis Tax Initiative- was established to implement the domestic revenue mobilisation pledges made in the Action Agenda. The founding declaration of the Addis Tax Initiative (UN, 2015b, p.1) underscores the importance of mobilizing domestic revenues, not least since they represent “a more stable and sustainable source of income, they also strengthen a legitimate relationship between citizens and the state and foster good governance”.

Yet, relatively little is known about the actual processes through which taxation can contribute to positive governance outcomes, in the form of enhanced government accountability and responsiveness, in contemporary low- and lower-middle income countries, particularly those in sub-Saharan Africa, where most of such countries are found. [1]

Within the academic literature, scholars provide hypothetical support, as well as more limited country case study evidence, for the general proposition that when governments are reliant on revenues from taxation to finance public expenditures, this can elicit what Moore (2003; 2004) terms a “governance dividend” in the form of increased state accountability and responsiveness to citizens. He argues that tax systems contribute to improved governance through three main channels. Firstly, where the health of state revenues is dependent on taxation, governments have an incentive to promote economic growth and thereby improve the prosperity of citizens-taxpayers. Secondly, reliance on tax revenues motivates governments to strengthen the state apparatus to better collect taxes. Finally, the experience of being taxed encourages citizens to become more involved in politics. Citizens are likely to demand reciprocity for their taxes either in terms of increased representation, involvement in decision-making processes, improved public services or indeed policy concessions. A “fiscal-social contract” (Moore, 2004) is thus formed, with governments compelled to respond to the demands of citizens if they are to acquire sufficient public revenues from taxation to finance investments in human capital, infrastructure, and the provision of public services necessary for sustainable economic development. This fiscal-social contract is mutually beneficial, since governments receive larger and more stable revenue flows, while citizens enjoy more accountable and responsive governance.

While the idea of a virtuous cycle created by taxation is attractive, the theories underpinning the notion of governance dividends are drawn from periods of history and specific geographical locations. First, from the process of establishing modern states with durable administrative, financial, judicial, and military apparatus in Europe and North

[1] In 2020, forty-one of forty-eight sub-Saharan African states (SSA) were classified, by World Bank's *Atlas method,* as low-income or lower middle-income countries, with 24 SSA (fifty percent) classified as low-income, including the focus of this study, Rwanda

America, admittedly under conditions vastly different from those faced by developing countries today. Second, from a counterfactual case observed in natural resource rich developing countries, the so called “rentier states.” In such countries, the existence of non-tax sources of revenue (rents), such as large oil reserves, reduces the need for government to seek domestic revenue from taxation. This has, in turn, as argued by Beblawi (1987), Auty (1993), Karl (1999) and others, contributed to negative governance outcomes.

This thesis aims to address gaps in the literature on the institutional and political mechanisms, practices and processes that shape citizen-government interaction over taxation in a low-income country in sub-Saharan Africa by exploring the contingent factors that can contribute to, and undermine, positive governance outcomes emerging from enhanced taxation.

The research focuses on a particular subset of low-income countries, namely those that Cheeseman and Klass (2018) define as “dominant authoritarian regimes” with tight state control over the coercive, economic, and political resources, and which -despite the existence of formal institutions of democracy and accountability- display significant governance deficits. In doing so, this provides an opportunity to better understand the extent to which taxation may be able to elicit a “governance dividend” in a country that otherwise provides limited space for political participation. Rwanda, the country selected for this case study, is one where recent history and broader political economy factors have shaped a state where the government’s authoritarian traits sit alongside the leadership’s stated commitment to good governance, ensuring broad-based socio-economic development, and improving living standards for all in Rwanda. Taking contemporary Rwanda as a case study, the *primary question* of this thesis is as follows:

- How has revenue pressure influenced the Rwandan government’s willingness to make concessions to citizens –or specific groups of citizens- in the form of government accountability and responsiveness in exchange for citizens acquiescence to pay taxes?

To examine the central question, theoretical framework for this thesis adopts a model developed by Pritchard (2015) in his book “Taxation, Responsiveness and Accountability in Sub-Saharan Africa”, which outlines broad mechanisms that link taxation to improved responsiveness and accountability, and which identifies causal processes through which contestation between taxpayers and tax-reliant governments results in expanded responsiveness and accountability. The model distinguishes between *direct tax bargaining* that emerges from explicit haggling and agreement through formal dialogue and institutionalized decision-making processes, and *implicit and indirect tax* bargaining, which occurs through indirect strategic interaction and mutual behaviour adjustment without direct negotiation (Moore 2008; Pritchard, 2025). While the latter may lack immediate impact, it can nonetheless contribute to longer-term political change through tax evasion and tax avoidance, which undermines the fiscal health of the state and precipitate political change, and a gradual process of citizen political organisation and mobilisation.

In Pritchard's model, the outcome of the broad mechanisms and causal processes outlined above is strongly influenced by contextual factors. The first structural factor is the revenue pressure facing government, with the main assumption that a government's willingness to bargain with taxpayers reflects the degree to which it is reliant on taxation to finance its legitimization strategy. The second structural factor is the potential and scope for tax resistance, specifically the political leverage taxpayers hold over governments. The ability of taxpayers to mobilise for collective action is the third structural factor, with the extent of political openness the crucial contextual variable. Institutions represent the fourth pillar of the framework. Representative and inclusive institutions facilitate direct tax bargaining between citizens and government and reduce transaction costs, and their absence raises the likelihood of indirect bargaining. The final pillar refers to the political salience of taxation. Different forms of taxation have varying impacts on stakeholder groups. Accordingly, tax reforms will spur different patterns of tax bargaining.

Use of this model enabled the research to pose three secondary questions, namely:

- What are the contextual factors that determine the likelihood of tax bargaining in a dominant authoritarian state such as Rwanda?
- How do local actors cooperate, coordinate and conflict with regards to the formulation of tax policy in Rwanda?
- What does the Rwandan experience tell us about development partners' role in the fostering governance dividends in low-income dominant authoritarian countries?

. Keeping in mind Bird's (1993, p.2721) observation that "fiscal crisis has often proven to be the mother of tax reform", this thesis examines tax reforms in Rwanda introduced in the wake of a major fiscal crisis, and the interaction between government and key stakeholder during reform design and implementation. The year 2012 is selected as a starting point for the research, because this was a year that Rwanda experienced a fiscal crisis sparked by the suspension of aid by Rwanda's major donors, primarily in response to allegations that the Rwandan government was actively supporting rebel groups in the Democratic Republic of Congo (DRC). For the country's leadership, the crisis posed a significant threat to the country's stability and development, undermining the government's legitimisation strategy, ensuring that domestic resource mobilization became a more politically salient issue. A cut-off date 2020 was adopted because of the significant distortionary impact of the COVID-19 pandemic on the economy and on tax policy and administration thereafter.

A single-case study with embedded units (in-case studies) is selected for the thesis in the knowledge that different taxes impact separate groups in different ways. The type of tax, its visibility, and political salience and other factors determine whether and how citizens engage with government during tax reform, and governments can be expected to be most responsive to those taxpayer groups upon whom they are most reliant. This not only offers the possibility to examine government strategies in relation to particular taxes and the relative bargaining power of specific taxpayer groups, but also how distinct groups of taxpayers respond to the imposition of a given tax. It reveals with whom the government is willing to negotiate and bargain, and ultimately to whom the government is likely to be more responsive and accountable. A single case study with embedded units is also paradigmatic since it also sheds light on the more general characteristics of the society in question.

Two major tax reforms introduced in the wake of the fiscal crisis, namely the revision of the Income Tax Law and the rollout of Value Added Tax (VAT) Electronic Billing Machines (EBMs), are selected as in case studies. Income taxes and VAT are the most important taxes in terms of revenue generated for the Rwandan government, collectively responsible for over three quarters of total tax receipts each year. Income tax reform was selected because of the proposition made by scholars such as Moore (2007), Fairfield (2013) that since direct taxes are highly visible and are more likely to be felt by high-income groups in developing countries, they are more likely to generate protest from better organized and more powerful elite groups with common interests in opposing progressive tax reforms. These groups would also be expected to engage in formal, organised collective action, which is more likely to be observable during the research. VAT reform was selected as an in-case study for two main reasons. Firstly, VAT is politically salient for business because of the tangible administrative burden it imposes (Moore, 2007). The private sector, which have both the motivation and resources to organise and engage in dialogue, can also find governments more receptive to their demands since they are drivers of economic growth and job creation (Klitgaard & Paster, 2020). Secondly, VAT is often perceived as a regressive taxes that disproportionately affect low-income citizens in developing countries (UN, 2024), and popular protest against the introduction or reform of VAT has been observed in many countries in SSA, which eventually drew concessions from governments.

Taking account of the polarized nature of the research on Rwanda, and acknowledging known knowledge gaps prior to the start of the research phase, a set of initial assumptions about the prospects for tax bargaining were made. First, it was assumed that the revenue pressure facing the Rwandan government would be significant enough to incentivise the government to bargain and compromise. The aid shock exposed the vulnerability of ruling elites and hit right at the heart of the government's political legitimisation strategy. Second, it was assumed that the fiscal power of taxpayers -other than large enterprises in the formal sector- would be relatively limited, with the majority of economic activity taking place in the informal sector. Third, acknowledging the limited political space for contestation of government, and the high levels of economic inequality, it was also assumed that any taxpayer capacity for collective action would be limited to a small number of better-resourced taxpayer groups, primarily drawn from elite circles, such as business associations. Fourth, it was assumed -erroneously as it turned out- that the institution and political processes that had been established in Rwanda -earning it "donor darling" status- would provide a platform for formalized tax bargaining.

Data and evidence were collected through a mix of desk research and fieldwork, including document collection, interviews, budget analysis, informal exchanges, and observations. In total, sixty-two interviewees participated in this research project. The research contributes to several strands of the academic literature, complementing the existing body of work on development economics, and shedding new light on the political economy, organizational theory, political sociology, governance, public administration, and formulation of public policy in contemporary dominant authoritarian LMICs in SSA. New evidence is presented that the emergence of governance dividends from taxation is far from assured in dominant authoritarian countries in SSA.

In Rwanda, little evidence was found of direct tax bargaining, or of positive outcomes from the causal processes envisaged in the theoretic model during the period under observation. Government was predisposed to coercive expansion of taxation to finance its legitimization strategy. On the demand side, the extent of state repression eliminated any prospect of tax resistance envisaged in the model, while those that may have sought to challenge government's tax plans faced insurmountable collective action challenges. On the supply side, the research provides further evidence how normative institutions and *de jure* institutional checks and balances established in dominant authoritarian regimes – in this case the semi-autonomous revenue agency model strongly promoted by donors in SSA- are overridden by *de facto* systems and practices arising from relationships, interests and incentives of policymakers and bureaucrats within the system. Rwanda's governance arrangements -with accountability invariably inward and upwards to the President- generated strong perverse incentives that negatively affected the behaviour of decision makers on tax policy. This was compounded by the de facto practice of delegating tax policy formulation to the revenue authority -an entity with a vested interest in coercive expansion of the tax policy framework- and a lack of oversight and scrutiny by the Ministry of Finance.

Despite these factors, the research does find some evidence of "mutual behaviour adjustment without direct negotiation" as predicted by Moore (2008, p. 37). This, in turn, opens the prospect of governance dividends emerging more incrementally in Rwanda over a longer timeframe. Two promising developments identified in the thesis point to more positive outcomes in future and call for further research. The first development is the creation of new institutions for tax policy formulation and dialogue, namely the Tax Policy Committee and a strengthened tax policy unit at the Ministry of Finance (MINECOFIN). These reforms appear driven by the realisation by policymakers that flawed processes combined with insufficient consultation and scrutiny during formulation of tax laws made for bad policy. The second development arises from a controversial policy choice in the revised income tax law to tax surplus incomes of non-governmental organizations (NGOs), which may have inadvertently made taxation a more politically salient issue for NGOs, spurring them to engage in tax advocacy and bargaining in future.

The thesis is structured as follows. Chapter 2 reviews the literature on the nexus between taxation and good governance. In doing so, it explores the theory underpinning the notion of governance dividends and identifies the few examples where positive governance outcomes from taxation have been observed in contemporary low-income countries, upon which this thesis will build. Chapter 30 presents the theoretical framework and methodological approach for the research. In Chapter 4, the analysis focuses on the historical trends in Rwanda and identifies the contingent factors that have shaped the fiscal-social contract between Rwandan citizens and its government. Chapter 5 examines the extent of revenue pressure faced by Rwanda, and how the various constraints the government faces on its ability to raise revenue influences its tax policy options. Chapter 6 analyses the scope for tax bargaining in Rwanda, by examining the key institutions and processes relating to the design and implementation of tax policy. In Chapter 7, attention turns to functioning of normative institutions where tax bargaining takes place and examines taxpayer capacity to engage. Chapter 8 examines the 2018 revision of the income tax law in Rwanda and on the interaction between government and taxpayers in its formulation and approval. Chapter 9, also an in-case study, focuses on an administrative reform to improve VAT compliance, namely the roll-out of VAT EBMs, and the impact on relations between government and taxpayers. The main conclusions of the thesis are found in Chapter 10.

2. Literature Review: tax and the governance dividend

This chapter reviews the academic literature on tax compliance in low- and lower-middle income countries (LMICs[2]) and the applicability of the governance dividend theory to such contexts. It is organised as follows. Section 2.1 analyses the theoretical literature on tax compliance, namely the degree to which citizens observe relevant tax laws. The literature indicates that taxpayer behaviour is influenced by a complex interaction of personal issues, societal contexts, institutional frameworks, and other environmental factors. Since the theoretical literature on tax compliance is primarily drawn from high-income countries, Section 2.2 focuses on the additional challenges of collecting and administrating taxes in LMICs. The review concludes that not only do these challenges further undermine tax compliance in LMICs, but that many LMICs can find themselves self-reinforcing vicious cycles where revenue authorities in their desperation to raise revenue resort to aggressive tax administration, which in turn encourages even more non-compliance. The body of literature suggesting that such vicious cycles can not only be hated but also reversed through the emergence of "governance dividends" is examined in greater detail in Section 2.3, drawing on the historical experience of state formation in Europe, on the one hand, and counterfactual case studies from natural resource-rich contemporary countries on the other. Section 2.4 examines the relatively small body of evidence of governance dividends arising from state reliance on taxation in contemporary LMICs in Sub-Saharan Africa (SSA).

2.1. Why do people pay tax?

The earliest models on tax compliance (Allingham and Sandmo, 1972; Yitzhaki, 1974) are derived from "economics-of-crime" theories (Becker, 1968). These models assume that individuals make rational choices to pay or evade taxes, with the financial benefits of tax evasion weighed against the probability of detection and the costs of punishment. Citizens aim to maximise their expected utility given their circumstances and preferences. In such models, tax evasion reflects (i) individual's attitude towards legality or risk; (ii) the perceived effectiveness of tax administration, determining the probability of detection; and (iii) the tax structure, determining the financial return of evasion and the costs associated with punishment (Bosco & Mittone, 1997). These models typically conclude that governments can best ensure tax compliance through deterrence and coercion.

Although the notion that coercive enforcement discourages tax evasion is broadly supported in the literature, economic deterrence models are nonetheless criticised for lacking realism, humanity, and dynamism. In recent years, field experiments in Denmark (Kleven et al., 2011), Israel (Barak, 2012), the United Kingdom (Haldsworth et al., 2014), Uruguay (Berdolo et., 2017), and elsewhere provide empirical evidence that deterrence models overpredict expected non-compliance, which indicates that compliance is not solely determined by rational economic behaviour (). Accordingly, deterrence models have been expanded to incorporate contextual variables and more realistic behavioural

[2] For the purposes of this thesis, LMIC are defined in accordance with the World Bank's *Atlas method.* For the 2020 fiscal year, low-income countries are defined as those with a GNI per capita of USD 1,025 or less; lower middle-income economies are those with a GNI per capita between USD 1,026 and USD 3,995; upper middle-income economies are those with a GNI per capita between USD 3,996 and USD 12,375; high-income economies are those with a GNI per capita of $12,376 or more.
https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

considerations that reflect the "values, attitudes, perceptions and morals of economic actors" (Cullis & Lewis, 1997, p.309).

A second strand of the literature on tax compliance is fiscal exchange theory, which incorporates public expenditure into the deterrence model. In Levi's (1988) model, taxation becomes part of reciprocal fiscal contract between taxpayers and the state. Levi claims that "rulers are predatory in that they try to extract as much revenue as they can from the population," whether this is for personal, social, altruistic, or ideological reasons (Levi, 1988, p.3). However, they refrain from revenue maximisation through coercion alone, because of practical constraints. Throughout history, even the most absolute rulers have bargained with, and made concessions to, powerful constituents, with public policies emerging as "the outcome of an exchange between the ruler and the various groups who compose of the polity" (Levi, 1988, p.11). In fiscal exchange models, rulers deploy both coercion and incentives (e.g. exemptions; public spending; patronage) to encourage *quasi-voluntary* tax compliance. According to Levi, bargains made between the ruler and citizens reflect the ruler's degree of control over the coercive, economic, and political resources within a state. The more that rulers monopolise these resources, the better their chances of extracting taxes on terms favourable to them, but when others possess these resources, rulers are obliged to bargain and make concessions.

A third strand of the literature on tax compliance identifies a dynamic psychological contract between taxpayers and states, extending beyond fiscal incentives and coercion. Feld and Frey (2007), for example, suggest that citizens' perception of the political legitimacy of government, which Coicaud (2009) defines as recognition of the government's right to govern, is central to tax compliance. They argue that when political processes are perceived as fair and legitimate, citizens are predisposed to see taxation as reasonable and will comply with the state's tax demands. Conversely, citizens are less likely to accept, and may even tacitly or explicitly oppose, taxation when they perceive political processes as unfair or governments as illegitimate. Accordingly, Feld and Frey (2007, p.107) conclude that "it will be difficult to think of a psychological tax contract in autocratic regimes".

Scholars such as Feld and Frey (2002), Torgler, et al. (2003) and Torgler (2007) claim that psychological contracts are strengthened through citizen involvement in political decision-making processes. Based on a survey of tax authorities in 26 Swiss cantons, Feld & Frey (2002, p.88) found higher "tax morale", defined as citizens' "intrinsic motivation to pay taxes", in cantons with constitutions that allowed citizens to directly participate in referenda and initiatives. They conclude that, "taxpayers perceive their civic duty more strongly if they are directly involved in political decisions of content instead of solely electing representatives" and the "more developed the institutions of direct citizen participation are" (Feld & Frey, 2002, p.89-90).

Fauvelle-Aymar (1999) notes that even when political processes are perceived as fair and legitimate and there is citizen participation, governments still lose legitimacy. In democratic systems, governments that fail to deliver on their pledges see their legitimacy erode and they are voted out of office. In contrast to Feld and Frey, she indicates that non-democratic governments can still be considered legitimate by taxpayers if they are able to deliver. This chimes with the work of Dukalskis and Gerschewski (2017), Von Haldenwang (2017), Isaacs and Du Boulay (2019), and others, who find that non-democratic regimes lay claim to performance legitimacy, while simultaneously suppressing political space. Von Soest and Grauvogel (2018), in a study of 98 authoritarian states for the period 1991–2010, for example, found that all based their legitimacy claims on their purported success in providing security and improved standards of living for citizens. A fourth strand of the literature focuses on the perceived fairness of the tax system and of the allocation of public goods among societal groups. Spicer and Becker’s (1980) laboratory experiments, for example, found that perceived inequity in an individual’s tax burden compared to others societal groups was a significant determinant of tax evasion. Using survey data from a representative sample of the adult population in Norway, Barth et al. (2006) also found individuals working long hours for low wages were more likely to redress perceived imbalances in the tax burden and justify "fair tax evasion". Again, using laboratory experiments, Fortin et al. (2007) found that perceived unfairness in the taxation of individuals with similar income levels increased tax evasion, suggesting that more horizontally equitable taxation improves compliance.

The behaviour of tax officials also impacts on citizen's perceptions of the fairness of tax systems. Feld and Frey (2007), Kirchler et al. (2008), Gangl et al. (2015) and others found that trust in tax authorities is built through respectful and fair treatment of taxpayers, clear and transparent procedures that are consistently applied, and provision of relevant taxpayer support services. Citizens pay taxes when they trust tax authorities but will resist when poorly treated. Lisi (2014) found that successful tax administrations deploy coercive measures to control tax avoiders and persuasive instruments for more compliant taxpayers. Torgler (2003a, 2003b), based on econometric analysis survey data from Switzerland, also suggests that public trust in institutions other than the tax authority, such as the judiciary and the legal system, are equally crucial determinants of tax morale.

A final strand of tax compliance theory is advanced by behavioural scientists. One such group theorize that tax morale is shaped by the social norms. According to Tyler (2006, p.378) "people who internalize social norms and values become self-regulating, taking on the obligations and responsibilities associated with those norms and values as aspects of their own motivation". It follows that individuals willingly pay taxes when it is the socially accepted norm. The game theoretical models of Gordon (1989) and Erard and Feinstein (1994), for example, suggest that in tax compliant societies, individuals will forego tax evasion to avoid social stigma in the event of detection. A second group of behavioural scientists argue that citizens who have less faith in the honesty of others are more likely to engage in tax evasion. Where tax evasion is perceived as widespread, citizens are likely to mimic such behaviour (Spicer & Lundstedt; 1976; Spicer & Hero, 1984; Andreoni et al., 1998). Hammar et al. (2009, p.5), using data from a survey of a representative sample of Swedish citizens, found that the behaviour of political and economic elites had a particularly strong effect on tax compliance, noting that “the most common argument legitimizing tax evasion among Swedes is that those in leading positions in society violate the social norms” (p.5). Moral leadership by elites established social standards, whereas violation of social norms by the elites, encapsulated by high-profile tax evasion cases, negatively affected tax compliance.

A third group of behavioural scientists hypothesise that the personal values and beliefs influence tax morale. Alm et al. (1995), argue that tax compliance disparities in countries with similar fiscal systems are explained by different social identities. Altruism, civic duty, community spirit, political inclination, patriotism, and religious convictions are all linked to citizens' willingness to pay taxes to contribute to societal wellbeing (Orviska & Hudson, 2002; Torgler, 2007; Feld & Frey, 2007; Lagos-Peñas & Lagos-Peñas, 2010; Alm et al., 2017). Individuals may be more inclined to pay taxes if they value the social impact of public goods and recognise that their own compliance may be necessary to ensure that others contribute (Alm et al., 1991) or that they believe that evasion will damage the welfare of their local communities (Bosco & Mittone, 1997). Orviska and Hudson (2002), using data from a British Social Attitudes survey, found older citizens less likely to evade taxes than younger citizens since they highly valued civic duty and law abidance. Similarly, by matching International Social Survey Programme findings with datasets on tax burdens in OECD countries, Qari et al. (2012) and Konrad and Qari (2012) found a strong correlation between patriotism and tax morale. Conversely, elevated levels of ethnic or linguistic fragmentation within a state, has been correlated with lower tax morale (Alesina et al. 2003; Lagos-Peñas & Lagos-Peñas, 2010, Li, 2010).

The literature analysed above, drawing on the experience of developed countries, indicates that tax compliance is highly context specific, and is influenced by a complex interaction of personal issues, societal relationships, institutional frameworks, governance arrangements, and other environmental factors. Yet, as will be shown in the next section, there additional factors must be considered when discussing tax compliance in LMICs.

2.2. The challenges of taxation in contemporary low-income countries

Empirical evidence indicates that LMICs consistently underperform on tax revenue collection. The tax-to-GDP ratio for African countries averaged 15.6% in 2021[3] and this figure remained unchanged since 2000 (OECD, 2023). By comparison, the average tax to GDP ratios for Asia and the Pacific, Latin America and the Caribbean, and the OECD were 19.8%, 21.7% and 34.1% respectively in 2021 (OECD, 2023) L. Pessino & Fenochietto (2010, 2013) found that tax effort (the gap between the revenue potential of a country given its inherent economic, social, institutional and demographic characteristics and actual revenue collected) was also significantly higher in LMICs. As will be demonstrated in the subsequent sections, additional challenges faced by LMICs can be grouped into four sets of issues, namely: structural economic factors, political economy issues, weak institutional capacity, and the international dimension.

2.2.1. Structural economic factors

Socio-economic contexts within LMICs in SSA are inauspicious for taxation. LMICs, by definition, have lower levels of gross national income (GNI) per capita, a less developed industrial base, and lower levels of human development. The sectoral composition of the economy also affects tax performance. Chelliah (1971), Tanzi (1992, 1997) and Gupta (2007), found a strong empirical correlation between per capita GNI and tax revenues, and between high agriculture-to-GDP ratios and low tax yields (see also Leuthold 1991; Burgess & Stern, 1993; Fenochietto & Pessino, 2010). The high contribution of the agricultural sector to GDP in most African countries underlines the lack of economic diversification. On average, agriculture contributed over 15% to the GDP of African countries in 2014 and employed more than half the labour force (OECD-FAO, 2016). The

[3] Based on data from 26 African states.

agriculture sector is hard to tax since economic activity takes place in remote rural areas and is often small-scale, generating high costs and inefficiencies for tax authorities (Bird, 1974; Khan, 2001). Moreover, with the bulk of agriculture sector workers living below or close to the poverty line, taxing the agriculture sector often becomes politically unacceptable due to concerns over equity, food-security, or public order (Khan, 2001; Gupta, 2007; Bird et al., 2008). Politically powerful rural elites with vested interests in maintaining exemptions also impede agriculture sector tax reforms in LMICs (Khan & Khan, 1998; Khan, 2001; Aksoy, 2012; Mizuno, 2016).

LMICs are commonly have large informal sectors that fall outside the tax net (ILO, 2018). Although economic informality is difficult to quantify, Schneider et al. (2010) estimated that informal economies in LMICs in SSA over the period 1999-2007 were equivalent to 40% of GDP on average. Similarly, LMICs have higher shares of informal employment than high-income countries. ILO (2018) estimated that 85.8% of employed Africans worked in the informal economy in 2016. While many micro, small and medium sized enterprises (MSMEs) in LMICs choose informality to avoid taxation, others are unable to comply with complex and costly business regulations (Joshi et al., 2014) or lack understanding of the tax system (Aiko & Logan, 2014; Tanui, 2016; Kira, 2017). Chasing informal MSMEs requires high effort by tax administrations for a low tax yield (Keen, 2012; IMF, 2015). However, wilfully ignoring smaller informal taxpayers can undermine longer-term efforts. When agriculture and the informal sector are untaxed, those in the formal sector invariably face heavier tax burdens, which may incentivise tax avoidance and evasion.

Finally, the demographic characteristics of LMICs narrow the tax base. High birth rates, youthful age structures, and a lack of social welfare for the elderly render a large part of the population economically inactive and reliant on a small number of wage earners within families. Gender norms in LMICs often mean that women forego paid formal sector work, to the detriment of the tax base (OECD, 2012; ILO, 2018). Low levels of basic education have also been found to hinder tax compliance (Pessino & Fenochietto, 2010). Additionally, many LMICs in SSA are blighted by ethnic patronage politics and intergroup discrimination (Easterly & Levine, 1997; Ilorah, 2009), which undermines trust in government and negatively impacts tax morale. It is to such political factors that attention now turns,

2.2.2. The political economy of taxation in low-income countries

Unlike European states where, tax policies and systems arguably evolved over centuries through ‘revenue bargaining’ and the incremental establishment of institutions (see Section 2.3.1 below), institutions and tax systems in SSA countries were often imposed by colonial administrations and taxation aggressively enforced. Researchers such as Acemoglu et al. (2000a), Lieberman (2001), Mkandawire (2010), Keen (2012), and others argue that colonial legacies continue to negatively impact tax systems across SSA. Ferger and Asafu-Adjaye (2014) indicate that the colonisation strategy employed significantly affected the nature and quality of institutions, tax systems and legal frameworks inherited upon independence[4], while Fjeldstad et al. (2012, p.8) claim that "colonial histories affect attitudes towards the role of the state, governance and the type of public institutions, including tax administration". Keese (2019, p.274), for example, found that in post-colonial Benin, locals' collective memory of colonial taxes became a point of reference for resisting the tax demands of the state, while government officials "used colonial memories of violence to intimidate the locals into paying the taxes".

Gardner (2012) posits that the fiscal institutions inherited upon independence, and the narrow base from which colonial taxes were levied proved unsustainable for newly independent states. She argues that post-colonial disillusionment within independent states at government's inability to provide services, particularly education, at a more generous level than colonial authorities had allowed created widespread public disillusionment and paved the way for single-party autocracy and military rule seen in countries across the continent today.

Yet, it is over half a century since most SSA states gained independence, providing them with ample time to develop their own tax systems. Thus, several alternatives to "colonial legacy" explanations for low tax compliance in SSA have been advanced. Using Afrobarometer survey data from a range of African countries, researchers such as D'Arcy (2011), Fjeldstad et al. (2012), Ali et al. (2014), Gobena and van Dijk (2015), Yessegat and Fjeldstad (2016) and Isbell (2017) find a strong positive correlation between coercive tax administration and tax compliance in SSA countries. Yet, similar survey research by Modugu et al. (2012) suggested that coercive tax enforcement had negligible impact on tax compliance in Nigeria.[5]

Fiscal exchange theories link tax compliance to the provision of public goods and services, yet in many SSA LMIC governments are unable or unwilling to meet the needs of taxpayers (Pritchard, 2010). Several cross-country surveys using Afrobarometer data (D'Arcy, 2011, Sacks, 2012; Aiko & Logan, 2014; Isbell, 2017) as well as country case studies (Fjeldstad, 2001; Fjeldstad & Semboja, 2001; Modugu et al., 2012; Ali et al., 2014) suggest that SSA citizens' willingness to pay is correlated to their perceptions of government performance in the delivery of public goods and services. Drawing on fieldwork in Tanzania, Ali et al. (2014) found, however, that it was the responsiveness of public administration to the needs of citizens, rather than the mere provision of goods and services, which was correlated to improved tax compliance.

Tax compliance can be influenced by citizen's perceptions of the political legitimacy of government, the fairness of electoral processes, and the degree of public participation in decision making. Yet, despite the existence of formal democratic constitutions, laws, and

[4] The empirical work of Ferger and Asafu-Adjaye (2014) suggests that in West Africa and the Congo Basin, where imperial strategies were primarily to exploit resources, authoritarian states were established, with the purpose of controlling populations and extracting resources through coercive means. In such countries, colonial powers had little incentive to invest in institutions and infrastructure or to diversify economies. According to the authors, contemporary countries in this cluster continue to rely on exports of primary commodes and suffer from institutional and political deficiencies commonly associated with "rentier states" (see section 2.3.2). By contrast, in the cluster of countries where colonists chose to settle, such as Eastern and Southern Africa, more effort was made to develop, invest in, and formalise, the local economy and to establish centralised bureaucracies. These countries inherited relatively elaborate tax collection mechanisms and taxpayer compliant cultures upon independence.

[5] One explanation for the contrasting findings of survey work on taxation is raised by Tsui et al. (2018), who argue that taxpayer surveys -given their sensitive information being requested and the ethical-issues being raised- are often undermined by "social desirability bias", where respondents present what they believe to be a more positive response.

institutions, LMICs frequently exhibit democratic deficits (Gumede, 2017; Beresford et al., 2018). Gumede (2017) notes that many LMIC in SSA are characterised by ambivalence to democracy and the rule of law; one-partyism; the fusion of party and state; centralisation of decision- and policy-making; cultures of secrecy; intolerance of dissent and the elimination of legitimate opposition; uncontested elections; the genesis of leadership cults; the domination of small cliques, often from ethnic groups; and the normalisation of state violence as a political tool. Freedom House (2024) categorized only 9 of Africa's 54 countries as "free" in 2023, with 25 classified as only "partially free" and the remaining 20 as "not free", noting that 2023 was the 10th successive year in which freedom in Africa receded.[6]

There is, however, relatively little empirical research on political legitimacy and its impact on tax compliance in SSA. D'Arcy (2011), drawing on Afrobarometer survey data from 17 SSA countries, found that "satisfaction with democracy" has a positive relationship with tax compliance. Similarly, McGuirk (2013) finds a positive relationship between tax enforcement and the demand for democratic accountability using household survey data from 15 SSA countries. Several researchers examine legitimacy and taxation thought the prism of public trust in government and perceptions of government impartiality and fairness. Levi and Sacks (2009), using Afrobarometer survey data from 18 SSA countries, found that trust in government and perceptions of rule of law were fundamental determinants of tax compliance among citizens. D'Arcy (2011) concluded that citizen perceptions of unfair treatment of individuals and their ethnic groups in SSA resulted in reduced tax compliance. Fjeldstad (2005) found that those evading tax often justified it because of pervasive public sector corruption.

Perceived unfairness in the tax system, and immoral behaviour by elite groups, can undermine tax morale. According to the IMF (2015, p.26), tax evasion by elite groups in LMICs has a "significant direct impact on revenue as well as compromising the perceived fairness of the tax system". Taxing elites is particularly challenging for tax administrations in LMICs, given their typically complex business affairs, ability to conceal assets abroad, and ability to acquire specialist tax advice. Elite groups in many LMICs also enjoy a disproportionate political influence over tax policy (Keen, 2012; Mascagni et al., 2014), enabling them to acquire fiscal benefits and resist tax reforms that threaten to redistribute wealth or erode their power (Pritchard, 2010).

As will be further demonstrated in Section 2.2.3, the behaviour of tax authorities, specifically perceptions of unfair application of tax legislation and unduly coercive enforcement, is associated with lower tax morale (Fjeldstad & Semboja, 2001). In many LMICs in SSA, corruption and politicisation within revenue authorities is a significant problem (IMF, 2015). Using Afrobarometer survey data, Aiko (2013), Aiko and Logan (2014) and Isbell (2017) found SSA citizens to have low levels of trust in tax administrations due to elevated levels of perceived corruption. According to Moore (2013) governments in SSA have frequently used taxation as an instrument of political power, treating allies favourably while harassing political rivals. Keen and Slemrod (2021, p.328),

[6] Freedom House's "Freedom in the World" report scores countries according to political rights and civil liberties. According to the methodology, "free" denotes a country with comparatively more freedom than those rated "Partly Free" or "Not Free" but does not mean that a country enjoys perfect freedom or lacks serious problems. Countries or territories within any one category, especially those at either end of the range, can have quite different human rights situations.

for example, document political opponents in Rwanda (see section 6.3.2), dissenting tabloids in Zambia, and “NGOs that had challenged election results” in Kenya being shut down for alleged tax improprieties. Moreover, as will be further demonstrated in the subsequent section, deficiencies in tax administration, exacerbated by the short-term political imperative of meeting annual revenue targets, can incentivise under-resourced tax administrations to unfairly target tax compliant companies, eventually driving many towards informality and tax evasion (Byiers & Dalleau, 2011).

2.2.3. Tax systems and tax administration in low-income countries

Bird (2004) highlights three general problems that LMICs face in building tax systems, namely deficiencies in the legal and policy framework, inefficient institutional infrastructure of, and weak human and organizational capacity within tax administrations. As noted in Section 2.2.2, tax systems inherited from the colonial era unsuitable for newly independent states, and tax administrations lacked qualified staff. From the 1980s onwards, tax reforms in LMICs have typically followed a standardised approach regardless of country context (Pritchard et al., 2012; Bird, 2013; Moore, 2014). Fjeldstad and Moore (2008, p.238) refer to a “global tax reform agenda”, imposed by international financial institutions (IFIs) in the wake of fiscal crisis or driven by epistemic communities of tax professionals with common backgrounds. Dom and Miller (2018) claim that proscribed reforms reflected the "Washington Consensus", according to which tax policy’s function is to raise revenue without creating market distortions, rather than function as tool for state intervention in support of socio-economic development.

Tax policy reforms commonly pursued under the “global tax reform agenda” include: simplification of tax codes; the elimination of trade taxes; cuts in income tax rates; expansion of indirect taxes on goods and services, particularly VAT; and the elimination of tax incentives (Bird & Zolt, 2005; Pritchard et al., 2012; Bird, 2013; Mascagni et al., 2014). Arguably, these reforms failed to meet expectations (Fjeldstad & Moore, 2008; Dom & Miller, 2018). Rather than broadening the tax base, trade liberalisation deprived LMICs of easy-to-collect border taxes (Khattry & Rao, 2002). LMICs were pressured into adopting advanced tax instruments, such as VAT. Baunsgaard and Keen (2005, 2010) and Keen and Mansour (2009), using panel data from over a hundred countries over a 30-year period, found that the transition was problematic in LMICs, with many SSA countries unable to fully compensate for the loss of revenue from foregone trade taxes. Ahlerup et al., (2015), focusing specifically on 47 SSA countries over a 30-year period, came to the same conclusions.

In response to perceived flaws in "Washington Consensus", a new wave of tax reforms was promoted from the 1990s onwards, inspired by new public management (NPM) theories (Dom & Miller, 2018). The IFIs advocated for apolitical technocratic reforms to remedy that they perceived to be key institutional weaknesses, namely: unclear division of power and responsibility; incoherence between tax policy and tax administration; insufficient managerial, administrative and budgetary autonomy; inappropriate organisational structures; poorly defined procedures for internal and external activities; and weak human capacity (Barbone et al., 1999; Dom & Miller, 2018). These reforms typically included: diffusion of information and communication technologies; introduction taxpayer registration systems (tax identification numbers); taxpayer segmentation[7]; and separating back-office (tax liability assessment) from front-office (collecting money) functions (Fjeldstad & Moore, 2008). Prompted by IFIs and donors, primarily the UK, whose government was championing NPM reforms at the time, many anglophone LMICs in SSA established (semi-)autonomous revenue authorities (ARAs) operating at arm's length[8] from Finance Ministries (Di John, 2006; Fjeldstad and Moore, 2008, 2009).

This second wave of technocratic reforms also had a limited impact on tax performance, since their design failed to consider the prevailing socio-political context (Fjeldstad & Moore, 2008; Andrews, 2013; Dom, 2018; Dom & Miller, 2018). Authors such as Andrews (2013) suggest that in environments characterised by low human capacity, corruption or politicisation of tax processes, externally imposed tax administration reforms merely resulted in "isomorphic mimicry", the adoption of superficial de jure legal and institutional changes that had little de facto impact. Fjeldstad and Moore (2008, p.248) also claim that many of the adopted tax administration reforms have been "window dressing: taxpayers continue to experience extortion, bribery and obstructiveness rather than willing, responsive service."

Empirical research carried out by Ebeke et al. (2016), using a dataset covering 41 SSA countries over the period 1980-2010, found ARAs to have a "significant and positive" on the tax-GDP ratios. Using similar datasets, however, Ahlerup et al. (2015) conclude that ARAs produced an initial, but un-sustained, increase in tax revenues, while Sarr (2016) and Dom (2019) found no revenue impact from the establishment of ARAs. Baskaran and Bigstein (2013) criticise the ARA model for having "weakened the link between fiscal capacity and accountability", since ARAs were only indirectly accountable to Finance Ministries. Feldstad & Moore (2009), by contrast, found that ARA did not de-politicise tax administration, since the managerial autonomy required for the ARA model to work failed to materialise: Most ARAs remained under the direct financial control of government, and with close relationships between chief executives of ARA and the political leadership the norm, tax administrations continued to be used to serve the political interests of ruling parties.

2.2.4. International factors that impact taxation in developing countries

From the 1980s onwards, globalisation and trade liberalisation have profoundly impacted border taxes, upon which many LMICs were reliant, negatively impacting state revenues (see Section 2.2.3 above). In parallel, corporate tax rates fell and tax exemptions rose, as LMICs strove to attract foreign direct investment (FDI) and stimulate domestic private enterprise (Abbas et al., 2012; OECD, 2015a; Oxfam, 2016; ActionAid, 2016), despite empirical evidence suggesting that tax regimes tend not to drive FDI decisions (IMF et

[7] Taxpayer segmentation is the practice of structuring tax administration around the major taxpayer segments, typically: (1) individuals; (2) micro and small businesses; (3) medium-size businesses; (4) large businesses; (5) non-profit organizations; and (6) government organizations (Russel, 2010). It replaced the previous practice of organising tax administrations around specific taxes.

[8] Under the) NPM inspired ARA model, revenue authorities are given the financial autonomy and managerial flexibility to improve tax administration. Typically, the principal-agent relationship between ministry and ARA is formally outlined in performance contracts, according to which goals and targets are defined *ex-ante*, while results are measured and performance assessed *ex-post.*

al., 2011, 2015; UNIDO, 2011; Kinda, 2014).[9] According to OCED (1998), competition for FDI creates a "race to the bottom" on taxation. Moreover, poorly conceived exemptions and incentives –in addition to revenue foregone– create economic distortions and are associated with increased corruption and poor tax compliance (Fjeldstad, 2013; ActionAid, 2016; Oxfam, 2016).

The tax base of all countries is eroded by tax evasion and avoidance (Oxfam, 2016; Cobham & Janský, 2017; Andersen et al., 2020) and aggressive tax planning by multinational enterprises (MNEs) (OECD, 2013a). While posing challenges for all governments, a study by Abbas and Klemm (2012) of corporate income tax regimes in 50 developing economies over 1996–2007 revealed that such practices had a greater negative revenue impact on LMICs, whose tax base is typically narrower, and their tax administrations have less capacity to respond. Often, capable tax officials are enticed to leave tax administration for tax planning professions in the private sector, which further diminishes institutional capacity and expertise. Salomon and Spanjers (2017) estimate that LMICs lost USD 970 billion in taxable income in 2014 through tax avoidance by MNEs, while illicit outflows from SSA over the period 2005-2014 were equivalent to 7.5-11.6% of total trade, far outstripping inward ODA.

Many LMICs inevitably find themselves caught in "low-revenue traps" (Byiers et al., 2011) or self-reinforcing vicious circles. When citizens, for example, perceive a lack of state legitimacy or credibility, they are incentivised to conceal their assets and avoid taxation, manifested by informality and illicit financial flows. Faced with limited capacity and a narrowing tax base, under-resourced tax authorities resort to aggressive tax enforcement, targeting the few large taxpayers in the formal sector (Abbas & Klemm, 2012). This exacerbates inequalities in the tax system and incentivises even more tax evasion, further undermining state revenue, and so on. Yet, there is evidence that this process is far from inevitable. Indeed, as will be seen in section 2.3, there is a body of literature indicating that not only can this process be halted, but it can also be reversed. This literature suggests that taxation can foster virtuous circles and the emergence of a so-called "governance dividend."

2.3. Taxation and the "governance dividend"

Some scholars contend that taxation can improve the quality of governance in LMICs by making governments more responsive and accountable to their citizens (e.g., Bräutigam, 2002, 2008; Moore, 2003, 2004, 2007 & 2008; Fjeldstad, and Moore, 2008; Pritchard, 2015). This literature draws on a central proposition first made by Shumpeter (1918) that taxation played the defining role in state formation in Western Europe. This proposition is further reinforced by the subsequent work of economic historians (Tilly, 1990; Brewer 1988 & 1989; O'Brien, 1988; Hoffman & Norberg, 1994), political scientists (Bates & Lien 1985; Levi, 1988; North & Weingast, 1989), and development practitioners (Braütigam 2002, 2008), for whom the study of the complex processes and institutional contexts related to public financial management, offer the prospect of better understanding social, economic and political behaviour.

[9] UNIDO's (2011) survey of 7,000 enterprises, for example, found that tax incentives ranked 11th out of 12 factors determining the location of capital investments in SSA. James (2014), using data from the World Bank's FIAS investor motivation surveys found tax incentives to be wholly ineffective in East Africa.

Moore (2003, 2004) has been a leading exponent of the argument that taxation can elicit more inclusive, responsible, accountable, and capable government in LMICs. This dynamic, he argues, is accrued through three main channels. Firstly, where the state is reliant on taxation, governments are incentivised to promote economic growth and improve the prosperity of citizens-taxpayers. Secondly, reliance on tax revenues motivates governments to strengthen public administration to collect and administer taxes effectively. Finally, the experience of being taxed encourages citizens to become more involved in politics, demanding reciprocity for their taxes in terms of increased representation, involvement in decision-making processes, improved public services and public policy, or indeed policy concessions. Thus, Moore (2003, 2004) argues that good governance and taxation can be mutually reinforcing. This, he referred to as a “democracy-accountability-state effectiveness dividend” or a “governance dividend.”

Moore (2003, 2004) claims that while Schumpeter’s earlier work had been important in promoting the notion of fiscal-social contracts between the state and citizens emerging through taxation, two further sets of literature provide scope for a deeper understanding of the dynamics between taxation and government accountability and responsiveness. Firstly, historical accounts of state formation in Europe, where increased state reliance on taxation led to the emergence of representative government. Secondly, the literature on contemporary natural resource rich countries in the developing world, so-called “rentier states,” where windfall wealth has been documented to weaken state responsiveness and accountability. These two sets of literature are briefly examined in the subsequent sections to draw out some of the key factors that will underpin the theoretical model for the thesis.

2.3.1. Taxation and state formation in Europe

The emergence of pre-modern states in Europe between the 16th and 19th centuries is linked to successive financial crises brought on by the intense inter-state conflict that characterised the period (Krüger, 1987; Brewer, 1988, 1990; Levi, 1988; Tilly, 1990; Braddick, 1996; Hoffman & Rosenthal, 1997; Kiser & Linton, 2001; O’Brien, 2006, 2009). Faced with existential threats, rulers became preoccupied with obtaining sufficient resources to repel external aggression and stave off internal challenges, usually through warfare (Tilly, 1990). Yet, mounting military expenditures strained state finances. When monarchs’ traditional demesne revenues proved insufficient to wage perpetual war, they increasingly turned their attention to taxation. However, constraints on rulers’ coercive power, coupled with the threat of mobile capital (merchants) relocating to rival territories, forced rulers to consult, bargain, and make concessions to elite social groups (Bates & Lien, 1985; Levi, 1988; Hoffman & Norberg, 1994). Bargaining between monarchs and elites over taxes led to new constitutional settlements, institutionalised political representation, more coherent and longer-term public expenditure plans, and the establishment of bureaucratic apparatus to raise and administer taxes.

Support for this proposition is found in the contrasting fortunes of England, a high performing tax-state able to leverage its tax system to borrow at favourable rates, and autocratic regimes like France, with its inflexible political arrangements and ineffective tax systems (North and Weingast, 1989; Tilly, 1990; Brewer, 1988, 1989; Scott, 2009; He, 2013). In North and Weingast’s (1989) account, struggles between the English monarch and elites over taxation led to the "Glorious Revolution", a pivotal event that heralded parliamentary sovereignty over public finances, curtailed Royal powers, and secured an independent judiciary in exchange for elite acquiescence to taxation. Pritchard (2015, p.52) refers to the culmination of such a historical process as the “classic tax bargain, as taxpayers agreed to accept increased tax collection in exchange for the institutionalized expansion of governmental accountability”.

Several key factors explain the positive development trajectory of the English tax state. Firstly, England’s national representative institutions were relatively strong, providing a forum for voicing demands, negotiating compromises, and making credible commitments. Eventually, parliamentary oversight of public finance and approval of tax legislation, and its ability to hold the executive to account, increased the legitimacy of the state and the credibility of institutions, reducing public opposition to taxes (Brewer, 1988; Hoffman & Nordberg, 1994; Daunton, 2010). In absolutist France, by contrast, representative institutions were weak and fragmented or absent, providing no restraints on royal prerogative power (Bonney, 1999; Felix & Tallet, 2009). Lack of political representation, coercive taxation, and resentment over elite behaviour contributed to frequent and violent political crises, culminating in revolution (Collins, 1995; Ertman, 1997; Rosenthal, 1998).

A second crucial factor in England was state administrative capacity. England successfully established a centralised fiscal system and a relatively effective civil service earlier than its European rivals. High levels of professionalism among public officials, and a more uniform application of tax legislation made taxation in England fairer than on the continent (Brewer, 1988, 1989; Braddick, 1996). By comparison, French civil service was crippled by politicisation and nepotism (due to widespread “venality” -sale of offices to elites). Moreover, French tax policy was widely perceived as unfair, and tax administration ineffective and corrupt (Ertman, 1997; Rosenthal, 1998; Munro, 2013).

Increased government credibility -through a sound tax system- and improved predictability and accountability of public finances proved vital to the establishment of a market-based system of long-term credit in England, which allowed the government to finance war at unprecedented levels (North & Weingast, 1989; He, 2013). The interlinked reforms also allowed the English to overcome problems that plagued the French state. They were able to significantly reduce -but not eliminate- threats of state capture by economic and political elites (Brewer, 1988). The inequitable and inefficient French tax system not only proved incapable of responding to fiscal crises (it was rendered sclerotic by vested interest), but its unpopularity coalesced with broader social grievances, leading violent political conflict, and revolutionary change.

While the narrative presented by Tilly (1990), North and Weingast (1989), Brewer (1988, 1989) and others is alluring, it is not without its critics. A first group of scholars dismiss what they perceive to be a simplistic reading of history, insisting that state formation was incremental rather than defined by pivotal events like the Glorious Revolution (Acemoglu et al. 2000b; Kiser & Linton, 2001; Dinecco, 2015). These scholars emphasize the importance of uncertainty, contingency and agency in the trajectory of state development.

A second group argue that England benefitted from a favourable geographic and socio-economic context, which not only allowed for administrative innovation over taxation but also facilitated collective action in response to the king’s call for taxation (Vries, 2012; He, 2013). The British Isles, they claim, were isolated from the perpetual inter-state warfare among land-based armies on continental Europe, providing greater stability and security for commerce and investment. Commercialisation, in turn, facilitated collection of indirect taxes, making it easier to raise revenue without provoking revolts. Finally, rapid urbanisation, resulting in a concentration of merchants, not only provided access to taxable capital but also made collective action among powerful stakeholders more likely (Bates & Lien, 1985; Hoffman & Nordberg, 1994).

A third group highlight the importance of the navy in cementing mutually beneficial elite pacts (Acemoglu et al., 2000b; Moore, 2004; O'Brien, 2006; Rodger, 2011). With French military expenditure consumed by the high recurrent costs of land-based armies, the English concentrated on naval warfare, which proved advantageous (O'Brien, 2006). Firstly, naval power was ill-suited to subduing local populations, making merchants more amenable to taxes for military expenditure (Moore, 2004). Secondly, the state and merchants both benefitted from investment in advanced naval technology and port capacity, and of naval protection of commercial shipping. Rodger (2011, p.123) characterises this elite bargain as a "military-industrial complex".

While the historical experience of state formation in Europe certainly complements the general theories on tax compliance (Section 2.1), its relevance for contemporary LMIC is also questioned. Tilly (1990) and Moore (2004, 2007, 2008), among others, acknowledge several crucial differences between contemporary LMICs and pre-modern European states. Firstly, taxation in pre-modern Europe was primarily for warfare, making the politics of public expenditure relatively uncomplicated. Contemporary LMICs spend public resources on a broader range of activities. Secondly, state accountability in early modern states was to wealthy elites alone, with the masses disenfranchised (Rosenthal, 1998; Moore, 2004). Public institutions, parliament, and commerce were bound by exclusive class-based social structures. In contemporary LMICs, however, broad representative institutions are the norm, despite the enduring presence of powerful elites. Finally, in early modern Europe, a shared existential threat provided stimulus to revenue raising and facilitated collective bargaining between elite groups and government (Pritchard, 2015). While many LMICs continue to face external aggression from neighbouring states, the broad scope of public expenditure and greater heterogeneity among taxpayers in contemporary LMICs implies more multifaceted interest group politics and higher barriers to collective action and tax bargaining (Moore, 2004).

Consequently, Moore (2003, p.21) conceded that "fiscal contract theories derived from European history score more highly on inherent appeal and plausibility than they do on rigorous specification or testing", and that taken in isolation "they might have little resonance for scholars seeking to understand contemporary polities in [LMICs]". Yet, when this historical narrative is held up alongside another parallel body of research, namely the literature on contemporary rentier states -to which attention now turns- the argument that there are similar causal connections between taxation and good government in contemporary LMICs to those in emerging European States, is strengthened.

2.3.2. The "resource curse" and its effect on low-income states in sub-Saharan Africa

Prior to the 1980s, conventional wisdom held that windfall wealth benefitted state formation in LMICs by providing additional revenues for development (Rosser, 2006).

Since then, scholars have highlighted adverse economic, political, and social outcomes in so-called “rentier states,” countries in which a substantial part of state revenue is derived natural resource rents (e.g. oil, minerals), on the one hand, and strategic rents (e.g. ODA, military assistance), on the other.

"Unearned” revenue or "windfall wealth" from natural resource rents is acquired "with little organisational or political effort on the part of the state apparatus" (Moore, 2004, p.304), as opposed to "earned income" from taxation. There is intense debate in the literature about how ODA affects the linkage between taxation and accountability. Critics of ODA argue that it can spur the same negative outcomes as those observed in natural resource rich rentier states. Pointing to the experience of several aid-dependent countries, most notably in SSA, critics argue that ODA can undermine government accountability, dis-incentivise state capacity building, distort decision-making and discourage domestic revenue mobilisation (Braütigam & Knack, 2004; Moss et al., 2006; Smith, 2008; Kono & Montinola, 2009; Bueno de Mesquita & Smith, 2010). Moss et al. (2006), contend that significant levels of ODA, over time, negatively affect the relationship between government and citizens, since aid-dependent governments "will devote less time and resources to explaining and defending policy decisions to their citizens, and will underfund the kinds of public institutions that encourage popular participation". In their view, aid-recipient governments calculate that it is easier to satisfy donor demands rather than undertake the politically challenging task of acquiring the public support for tax reform. Proponents of ODA, by contrast, argue that fundamental differences in the way natural resource and aid resources are transferred to recipient governments mean that the effects are dissimilar (Collier, 2006; Atlincekic & Bearce, 2014). While natural resource rents are fungible and can be spent on whatever the state chooses -including defence, internal security, largesse, and patronage- the fungibility of ODA is reduced by donor conditionality and aid modalities that bypass government systems entirely. Both Kilby (2006) and Tavares (2003) provide empirical evidence that aid conditionality was effective in improving regulatory environments by providing additional incentives and critical resources in support of governance reform efforts. Researchers such as Dunning (2004) Wright and Winters (2010) and Atlincekic and Bearce (2014) suggest that since the emergence of the “good governance” agenda in the post-cold war period, ODA is associated with higher levels of democracy and good governance. Clist and Morrissey (2011) found that from the mid-1980s onwards that ODA grants had a positive effect on tax revenue.

As will be demonstrated in the subsequent sections, a body of literature posits that among the undesirable consequences of reliance on natural resource rents are sluggish economic growth and development, weakened democratic processes, institutional degradation, and unresponsive and unaccountable government. In extreme cases, windfalls intensify rivalry between competing groups, leading to political and social instability or violent conflict. The various negative effects of unearned income from natural resource rents, documented below, are commonly referred to as the “resource curse.[10]

[10] The term “resource curse” was first coined by Auty (1993).

2.3.2.1. The negative economic impact of unearned revenue

Decades after the initial windfall, many natural resource-rich states experience sluggish growth and economic volatility. Several rentier states have experienced economic polarisation and atrophy in productive sectors, commonly known as "Dutch Disease" (Gelb & Associates, 1988; Sachs & Warner, 1995).[11] Other resource-rich countries have experienced acute rent-seeking behaviour, driven by a skewed set of market incentives (Karl, 1999; White & Taylor, 2001). With wealth centred on a small part of the economy, where rents are generated, economic actors gravitate towards activities related to the distribution and utilisation of such rents (Beblawi, 1987; Luciani, 1988). This can undermine long-term economic development and reduce economic diversity, since only a small fraction of the population is directly involved in wealth creation and the remainder focus on exploiting state largesse (Lane & Tornell 1999; Mehlum et al., 2006). Thirdly, economic polarisation and reliance on a few export commodities renders rentier states highly vulnerable to exogenous shock (Iimi, 2007; Frankel, 2010).

2.3.2.2. Unearned income leads to institutional degradation

Unlike the bureaucracies of tax states, which play a redistributive role by extracting and reallocating resources, rentier state bureaucracies focus solely on the distribution of windfall wealth (Chaudhury, 1989; Karl, 1999; Frankel, 2010). This results in skewed institutional capacities, with the needs of institutions related to the extraction (e.g. national oil companies), distribution (e.g. Ministries of Finance) and protection (security services) of rents elevated above all others (Shambayati, 1994; Amundsen, 2014). There is little need to invest in establishing meritocratic bureaucracies or in institutions that administer complex tax systems and gather information necessary to manage the economy. Rentier state bureaucracies therefore tend to be inefficient, characterised by patronage politics and bloated civil services (Robinson et al., 2006), and prone to corruption (Leite & Weidmann, 1999; Bueno de Mesquita et al., 2003; Alvarez, 2010; Arezki & Brukner, 2011; Busse & Gröning, 2013).[12]

The decay of public institutions in rentier states leads to systemic policymaking weaknesses, which are often exposed by exogenous shocks. Not only do rentier states lack the policy tools to make essential fiscal adjustments, but perverse political incentives also lead to policy inflexibility at times of crisis (Mahdavy, 1970; Luciani, 1988; Karl, 1999). In Karl's (1999, p.37) view, "oil-exporting states have no immediate incentives to be frugal, efficient and cautious in policymaking". According to Mahdavy (1970, p.437), immediate increases in consumption and welfare spending, or public expenditure programmes that create "an impression of prosperity and growth" take precedent over investments in human capital or technological advancement for long-term socio-economic transformation. Iimi (2007, p.667) claims that rents "imbue policymakers with overconfidence in their economies and relieve them from appropriate but sometimes

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[11] This occurs when a natural resource sector boom draws capital, labour, and materials away from other sectors, reducing overall productivity. In parallel, windfall wealth increases domestic demand, which coupled with rising production costs, generates inflation and exchange rate appreciation. As a result, the relative prices of exported goods increase, rendering them less competitive on world markets.

[12] This dynamic has been documented in both oil-rich Arab states (Mahdavy, 1970; Beblawi, 1987; Chaudhry, 1989; Alvarez, 2010) and resource-dependent SSA states (McFerson, 2009) including Angola (Amundsen, 2014), Nigeria (Orogun, 2010, Sala-i-Martin, 2012) and Chad (Winters & Gould, 2011).

unpopular economic policy decisions". Alvarez (2010) observed that in rentier states, public expenditures expand dramatically during commodity price booms, leading to waste, while price contractions invariably lead to increased public debt, as sharp cuts in public expenditures and taxation are considered politically unpalatable. As Karl (1999, p.44) notes, "reforms prove difficult because they require very inflexible political economies to reinvent themselves".

2.3.2.3. Unearned income undermines democratisation

Cross-country empirical studies indicate a strong correlation between sizeable rents and autocratic government in LMICs (e.g. Ross, 2001; Smith, 2004; Andersen & Alasken, 2013). By providing a substantial incumbency advantage, windfall wealth can prolong the durability of non-democratic regimes (Ramsay, 2011; Tsui, 2011; Andersen & Ross, 2014), and reverse democratic transitions in LMICs where state institutions and the rule of law are weak (Wantchekon, 2002; Brollo et al., 2013). Abundant rents provide *incentive* (Robinson et al, 2006; Caseli & Cunningham, 2009; Andersen & Alasken, 2013) and *means* for incumbent governments to remain in power (Jansen & Wantchekon, 2004; Morrison, 2007). They can more easily co-opt or coerce politically pivotal groups. Citizens' loyalty is bought through low taxation and state largesse, while repression can be maintained for longer when state finances are less vulnerable to tax resistance from disgruntled citizens. Moore (2004), Blum (2000, 2014), Stone and Kuznick (2013), and others also note that rentier states are often subject to external intervention, with wealthy nations often propping up autocratic regimes in rentier states to ensure the continued supply of natural resources. A clear example is the United States' continued support of authoritarian oil-rich Persian Gulf states throughout the twentieth century (Jones, 2012). Abundant rents can also undermine political stability in democracies (and autocracies) by escalating competition between domestic groups(Caseli, 2006; Caseli and Cunningham, 2009). According to Moore (2003, p.15), unearned income reduces the likelihood that citizens will engage in deliberative, institutionalised, compromise-prone politics. Intensified rivalry in rentier states has been documented to lead to a rise in extremism in countries such as in Türkiye and Iran (Shambayati, 1996), or violent conflict and even state collapse in Africa (Collier and Hoeffler, 1998, 2002, 2004; Jansen & Wantchekon, 2004)).

2.3.2.4. How does windfall wealth affect government responsiveness and accountability?

Another group of scholars argue that the financial autonomy provided by unearned income leads to lower government responsiveness and accountability. Resource rents make it easier for governments to ignore legitimate demands from citizen-taxpayers (Shambayati, 1994; White & Taylor, 2001; Caseli & Cunningham, 2009). With unearned wealth, ruling classes can isolate themselves from the domestic population and become insensitive to societal needs. Not only do elite groups benefit from allocation of rents according to political and patrimonial criteria, but they also obtain undue influence over economic, fiscal, and social policy (Schwartz, 2008). McFerson (2009) documents how resource allocation, including social spending on health and education, in resource rich African LMICs strongly favours elite interests.

Rent-fuelled state largesse is also associated with a lower demand for government accountability and responsiveness among citizens. Herb (2005, p.298) refers to the establishment of “rentier social contracts” whereby resource abundance enables governments to buy the acquiescence of the population through a combination of low taxation and state spending. McGuirk (2013, p.285), using data from fifteen SSA countries, concluded that excessive rents prompted governments to deliberately "lower the burden of taxation in order to reduce demands for democratic accountability". Provided that state largess continues, citizens in rentier states may be less incentivised to seek political representation or engage in collective action.

2.4. Governance dividends in sub-Saharan Africa

Rentier state theory, as briefly summarized above, offers a credible counterfactual to the proposition that taxation can elicit a governance dividend in contemporary LMICs. Unearned income enables governments to isolate themselves from citizens and facilitates government repression. Fiscal independence from taxation also reduces the need for governments to be accountable and responsive to citizens, while citizens themselves have less opportunity or reason to demand political representation and meaningful participation. In the vicious circle that ensues representative institutions and state administrative capacity degrades, while social ills such as political patronage and corruption take root. While the literature on rentier states is extensive, only a small body of work tests the assertion that greater reliance on taxation can create “governance dividends” in present day LMICs. However, much of the available academic research draws on the experience of Latin America (e.g. Lledo et al., 2004; Profeta & Scabrosetti, 2007; Fairfield, 2010; and Mendalo, 2016) or European countries in transition (e.g. Easter, 2002), and less attention has been paid to SSA.

Several cross-country studies find a strong empirical correlation between taxation, democratisation, and good governance. Ross (2004), for example, using data from 113 countries between 1971 and 1997, found that there were pro-democratic effects in authoritarian states where taxes had been raised without commensurate spending on desirable government services, or where taxes had remained constant, but services had been cut. Ross (2004, p.248) concludes that "when citizens are faced with an undemocratic government that is charging unreasonably high prices for its services, they tend to demand democratic reforms". These findings are consistent with Levi’s fiscal exchange theory (see Section 2.1).

Baskaran and Bigsten (2013), covering 31 SSA countries over the period 1990–2005, and Baskaran (2014), using data from 122 countries over the period 1981–2008, conclude that the government reliance on taxation is positively correlated with good governance indicators, including low levels of corruption, and greater democratization. Baskaran and Bigsten (2013, p.105) surmise that a higher tax-to-GDP ratio "enhances the quality of government because citizens demand more accountable administration when they have to bear a larger fiscal burden". Similarly, Ehrhart (2009), using data from 66 developing countries (of which 36 were in SSA), found a positive and significant correlation between the tax-to-GDP ratio and democracy, while Asongu (2015), using data from 53 African countries for the period 1996-2010, provides empirical evidence that government reliance on local tax revenues provides leverage for better political governance.

Pritchard et al. (2018, p.300), using a dataset covering 188 countries during the period 1990–2012, found that "countries that are more reliant on tax revenue, and less reliant on non-tax revenue, tend to be more democratic". They also found a significant negative relationship between total non-tax revenue and democracy, in keeping with "resource curse" theory. The researchers claim to have found clear empirical evidence of a positive long-term relationship between taxation and accountability. They nonetheless conclude that except for "more democratic states, where 'tax bargaining' is more likely to be linear and immediate", the short-term impact of taxation on democracy in most LMICs is less clear (Pritchard et al., 2018, p.300).

Pritchard (2009, 2015) provides the most comprehensive case study analysis of governance dividends at the national level in SSA, claiming that in Ghana, Kenya, and Ethiopia, bargaining over taxation "played an important role in spurring expanded responsiveness and accountability" (Pritchard, 2015, p.2). While he documents examples of explicit tax bargaining, with government making concessions in response to protest and tax resistance by citizens, he concedes that tax bargaining was often more indirect and implicit. He also notes that popular resistance to taxation did not always result in immediate change but may have instead undermined the fiscal position of the state and provided a catalyst for greater political engagement among citizen-taxpayers over the longer term.

In Ghana, Pritchard (2009, 2015) documents how fiscal crises in the early 1990s forced the military government to undertake tax reform. Coercive imposition of Value Added Tax (VAT) in 1995 prompted unprecedented nationwide protests, despite the repressive strength of the state and fragmented political opposition. The widespread protests not only forced the government to repeal VAT to restore order, but according to Pritchard (2015, p.91) "the protests came to encompass broader demands for democratization, reduced corruption and improved public services, and prompted the government to adopt a fundamentally more open governing style thereafter". This raises the prospects that governance dividends can emerge even in authoritarian contexts.

In contrast to Ghana, Pritchard (2015) reports that the introduction of VAT in Kenya in the 1990s, again in response to fiscal crisis, did not lead to public protest nor did catalyse broad-based political mobilization. In fact, he found little evidence of open and direct tax bargaining in Kenya, with Kenyan politics invariably taking place behind closed doors and "debates over tax policy largely restricted to MPs and elites who have merely sought to defend established privileges and exemptions" (Pritchard, 2015, p.140). He nonetheless contests that indirect tax bargaining took place through politically motivated tax evasion, which "contributed to the fiscal weakness of unpopular governments and has provided added pressure for changes in government and positive incentives for subsequent reform" (Pritchard, 2015, p.141). Yet, this assertion can be questioned on the grounds that it would be challenging to distinguish between politically motivated tax evasion and other explanations for low compliance with the VAT reforms, such as lack of public awareness, an inability by poorer citizens to pay higher prices, or price competition between traders (further insight from the author's research is provided in Chapter 9). Nevertheless, Pritchard claims that in Kenya's case, tax resistance led to electoral defeat for the incumbent government, with the fall in state revenue preventing it from financing popular public programmes and dispersing patronage during election campaigns.

According to Pritchard (2015, p.141), “tax resistance… also created strong incentives for the incoming government to expand responsiveness and accountability in order to secure improved tax compliance and collection”.

In Ethiopia, Pritchard (2015) found little evidence of taxation playing a pivotal a role in political reform or enhanced governance at the macro level, which he attributed to the highly authoritarian nature of the Ethiopian state together with culturally ingrained conservatism and deference to established authority, reducing the scope for collective action. Moreover, high levels of aid dependency reduce revenue pressure on government. He notes that in contrast to Kenya and Ghana, there was no public response to the introduction of VAT in 2001, including from the political opposition and business associations. He nonetheless found evidence that public unhappiness with government in general, and over tax in particular, curtailed the government’s ability to raise taxes, and even prompted government to make pre-emptive concessions. Pritchard (2015, p. 178) claims that in the runup to the 2005 national elections, the Ethiopian government sought to buy political support through tax concessions which he claims is an indication “that the government perceived a meaningful link between taxation and its political popularity, even in the absence of visible public opposition to taxation”. Yet, the election saw a decline in support for the ruling party. While in the first instance the government resorted to greater political repression in the wake of the election, it also took steps to try to shore up its popularity outside the capital. The government held regional consultations to better understand the root causes of political opposition. Public unhappiness with taxation, particularly with the presumptive tax regime for MSMEs, emerged strongly as an issue, with the government then responding with a dramatic cuts to the presumptive tax. Pritchard also notes a sharp fall in tax receipts in the wake of the controversial 2005 elections. This stagnation in revenues, he claims, was partly due to political considerations, with government expanding tax exemptions and taking a less coercive approach to tax administration, but he also alludes to quiet protest by taxpayers, through expanded evasion and avoidance efforts, impacting rax receipts (although little tangible evidence is provided on the latter).

While Pritchard (2015, p. 194) concedes that “tax bargaining, and public engagement with taxation, has been rare at the national level in Ethiopia”, given the prevailing social, economic and political conditions, he nonetheless provides evidence of more constructive engagement between citizens and government, and gains in responsiveness and accountability over tax matters, at the sub-national level, again in in relation to the presumptive tax on MSMEs.[13] The 2005 cuts to presumptive taxes were more acutely felt by sub-national governments, where they resulted in an estimated 25% fall in regional tax receipts. According to Pritchard, this resulted in local governments in some regions making “significant efforts to improve public dialogue and consultation surrounding the tax” through new consultative bodies, which proved to be more effective in raising revenues than a coercive approach (Pritchard, 2015, p. 179). He argues that the experience led to more systemic dialogue and engagement on regional tax matters

[13] Ethiopia’s federalization and extent of fiscal decentralization is relatively unique in SSA. The presumptive tax on SMEs in Ethiopia is formally under the control of regional governments. Regional governments collect more than 25% of total government revenue, with the most important revenue coming from the presumptive tax, land use fees, regional sales and excise taxes, in addition to various non-tax fees and levies.

through these consultative bodies. Pritchard notes that while the gains may have been modest in absolute terms, they still contributed to reshaping political expectations and providing space for political engagement and dialogue that did not previously exist within authoritarian Ethiopia.

Eubank (2012) found that government reliance on tax revenue in Somaliland[14], provided taxpayers with the “leverage needed to force the development of inclusive, representative and accountable political institutions”. He reports that when Somaliland first seceded, attempts were made by elites to establish "a relatively unaccountable and unrepresentative national government" by force (Eubank, 2012, p.469). Faced with strong opposition from various traditional Somali clans to the transitional government's perceived illegitimacy and lack of accountability, the elites backtracked. He found evidence of explicit revenue bargaining in subsequent national conferences, whereby in exchange for being allowed to collect customs duties and direct financing from the private sector, the government acquiesced to "a new set of national political institutions that not only embodied a much broader base of support, but also included internal checks and balances, including a bicameral legislative branch" (Eubank 2012, p.469). He contends that the government was forced to negotiate because of opposition groups' control over crucial sources of revenue (notably the main port of Berbera), their common interest in political stability and inclusive government, and crucially the absence of non-tax revenues.

A limited number of statistical studies, including in Côte d'Ivoire (Sanogo, 2019), and in Tanzania and Zambia (Hoffman & Gibson, 2005), have found a positive correlation between locally sourced revenue (as opposed to fiscal transfer from the central level) and sub-national government responsiveness and improved service delivery. Jibao and Pritchard's (2015, p.407) found evidence that electoral competition at local government level in Sierra Leone encouraged a “shift toward more transparent, inclusive, and equitable approaches to reform, which in turn increase popular support for tax collection and quasi-voluntary tax compliance”. This dynamic was more pronounced in councils run by opposition parties, where “fear that [fiscal] transfers may be politicized or delayed” provided “stronger incentives to strengthen tax collection than councils dominated by the ruling party, in order to increase their fiscal autonomy” (Jibao & Pritchard, 2015, p.404&407).

The experience of Lagos, Nigeria, merits particular attention. Here the transformation of taxation and governance systems is widely credited with the revival of the city and is cited as a positive example of taxation solidifying the fiscal-social contract at sub-national levels. The Lagosian case is even more surprising given Nigeria's reliance on natural resource wealth, its reputation for systemic corruption, the authoritarianism and predation of the ruling party as well as the country's ethnic and religious diversity (Yagboyaju & Akinola, 2019; Akinola, 2022), all of which would be expected to undermine broad-based consensus over taxation and development.

[14] Somaliland is a self-declared independent state, having unilaterally seceded from Somalia in 1991. However, Somaliland has never been internationally recognised as a sovereign state and consequently has never been eligible for foreign assistance.

According to Bodea and Labas (2015) and Cheeseman and de Gramont (2017), the 2003 fiscal crisis, prompted by the suspension of federal transfers by the national government, motivated Lagosian authorities to reform local tax systems, professionalise local revenue administration and launch campaigns to highlight the importance of locally collected income taxes for the city's development. Raising own revenues enabled Lagosian authorities to finance visible infrastructure projects and expand budgets for public services such as policing, health, and education, providing tangible benefits to taxpayers. Goodfellow and Owen (2018) also argue that the local government's decision to tackle elite tax avoidance and to establish an inclusive process for setting and renegotiating local tax rates helped foster an implicit fiscal-social contract with the broader citizenry. They also claims that the experience of participating in in direct bargaining contributed to the formation of organised issues groups and helped to build and consolidate broader political alliances in the city (Goodfellow & Owen, 2018). In Cheeseman and de Gramont's (2017) account, several factors were crucial to the success of the Lagosian tax reforms. Firstly, the Nigerian federal system, with devolved tax powers, gave local politicians a legal mandate to instigate reform. Secondly, local level electoral competition and the need to maintain popular support among a "particularly well-informed and demanding electorate", incentivised politicians to improve public administration and service delivery (Cheeseman & de Gramont, 2017, p.466). Thirdly, the acquiescence of elite groups to taxation was obtained by emphasising an external threat from a predatory national government, on the one hand, and by presenting an appealing high-modernist vision for the city's development, on the other.

The relatively small body of literature, with scholars such as Pritchard (2015) at the forefront, provides general support to the assertion that governance dividends can occur through tax bargaining in contemporary LMICs in SSA, even in authoritarian states such as Ghana and Ethiopia, when the state is reliant on taxation. Yet, the emergence of governance dividends appears far from guaranteed. Cheeseman and de Gramont (2017), for example, express scepticism that the Lagosian model could be replicated elsewhere in Africa, because of increasing authoritarianism and a lack of political competition across the continent. In other words, context matters, and the literature highlights various contingent factors that contributed to the positive outcomes observed. In many of the cases observed, tax reform is precipitated by fiscal crisis, with revenue pressure making governments more likely to bargain. The decree of political openness is a critical factor in the ability of taxpayers to make demands on the state, with electoral competition a driver of government responsiveness. State capacity, in the form of a functional bureaucracy and the existence of formal institutions, are not only important to facilitate tax bargaining, but also to ensure that the state is credible in the eyes of citizens and able to fulfil its part of any fiscal contract. The nature of elite relationships is also important, determining the extent to which the state will be supported or challenged by powerful economic and political groups. Yet, further research is needed to better understand the interplay between the various contingent factors, and to identify different pathways through which taxation can contribute to improved government responsiveness and accountability. There is a clear opportunity to complement the existing studies with new research in different country context while providing scope for cross country comparability. A particular typology that merits further scrutiny is that of dominant authoritarian states, such as Rwanda, which simultaneously exhibit authoritarian and democratic traits, where many of the contingent factors that contribute to positive outcomes appear in competition or conflict.

3. An analytical framework and methodology to examine the tax and government accountability dynamic

Building on the foundations of Chapter 2 this chapter lays out the analytical framework and methodology for a case study on the tax and government accountability dynamic in a dominant authoritarian state in SSA, namely contemporary Rwanda. Section 3.1 presents the theoretical framework for the project, outlining the theoretical model and defining key terms. In Section 3.2, the methodological approach is elaborated, and the rationale behind the selection of both the case and in-case studies is explained. Section 3.3 highlights the specific challenges and constraints of the research assignment and identifies risk mitigation actions. Finally, in Section 3.4, the data collection strategy, using a combination of methods, is outlined.

3.1. Theoretical Framework

3.1.1. A theoretical model to test the governance dividend from taxation

This thesis adopts a theoretical model presented by Pritchard (2015) in his book "Taxation, Responsiveness and Accountability in Sub-Saharan Africa", which arguably provides the most comprehensive operational framework to explain how and when links between taxation, responsiveness and accountability have emerged in contemporary LMICs in SSA. His model outlines "broad mechanisms" that link taxation to improved responsiveness and accountability, and "causal processes," defined as "sequences of events through which these mechanisms combine with other contextual factors to produce particular outcomes" (Pritchard, 2015, p.54-55). Building on the previous theoretical frameworks (Bates & Lien, 1985; Levi, 1988) and others (section 2.1), outcomes are framed as the result of contestation between taxpayers and tax-reliant governments, "with expanded responsiveness and accountability resulting when citizens are able to wield sufficient political power to demand concessions from governments" (Pritchard, 2015, p.55). Referring to Moore's (2008, p.37) observation that "bargaining ranges from (a) direct and explicit haggling and agreement to (b) indirect strategic interaction and mutual behaviour adjustment without direct negotiation", Pritchard's model distinguishes *direct tax bargaining* from more *implicit and indirect tax* bargaining, and based on his research in Ghana, Kenya and Ethiopia suggests that the latter are more prevalent in contemporary LMICs.

According to the model (see Figure 1), tax reforms are typically a policy response to fiscal crisis (section 2.3.1). In the absence of alternative sources of revenue (i.e. rents), tax-reliant governments must raise taxes to meet their budgetary needs. The model presents government with two options. Under a coercive approach new taxes are simply imposed and aggressively enforced. Alternatively, governments can pre-emptively bargain with taxpayers, with concessions negotiated by taxpayers in exchange for greater tax compliance, including as part of longstanding political processes. The latter represents *direct tax bargaining*. Mahon (2018), for example, documents how politicians seeking election across Latin America instigated pre-emptive anti-poverty spending programs in response to vocal opposition from the urban poor to increased taxation.

If direct pre-emptive bargaining does not take place, or the government's concessions are perceived as insufficient, then taxpayers have three choices. First, they can accept the new taxes without question, in which case no tax bargaining taxes place. According to Pritchard (2015, p.58), the two other options unleash causal processes that "lack an immediate and explicit element of exchange between taxpayers and governments but capture often-overlooked ways in which taxpayer responses to taxation may nonetheless contribute to longer-term political changes". One such process is that citizens resist through tax evasion and tax avoidance, which undermines the fiscal health of the state and precipitate political change. Another process is that citizens become politically organized and mobilise to demand greater responsiveness and accountability.

In some instances, highly visible collective action against tax reforms, such as mass protest, prompt concessions from government or contribute to rapid political change. Tax protests have contributed to the collapse of unpopular regimes not only in pre-modern European states (see section 2.3.1), but also in contemporary states. One clear example is the introduction in 1989/90 of Community Charges ("Poll Tax") on every British adult - regardless of wealth or income- to replace property-based local taxes ("rates"). The perceived regressivity of the tax reforms led to coordinated protests -including a large demonstration in London in March 1990 that descended into mass rioting- and widespread tax evasion (Keen & Slemrod, 2021). Besely et. al (2019) estimate that average evasion in English and Welsh councils during 1990-92 rose from under 3% to 10-15%, equivalent to £5 billion in foregone revenue.[15] Sustained opposition led to the resignation in 1990 of British Prime Minister, Margaret Thatcher, and the abolition of the tax in 1993. Rugonzibwa (2015) and Nyareru et al. (2017) also document how mandatory adoption of electronic VAT billing machines in Kenya and Tanzania prompted organized strikes and street demonstrations by traders, eventually drawing concessions from government (this topic is further explored in Chapter 9).

Pritchard (2015, p.57), however, notes that "it is the potential for taxation to act as a broader and more ubiquitous spur to collective action and political organization that is most provocative". This, he characterises as "a gradual strengthening of civil society and of demands for responsiveness and accountability" or "more focused, behind-the-scenes organizing by elite groups" (Pritchard, 2015, p.57). The most iconic historical example stems from a decision by the British Parliament in the late 18th Century to impose direct trade taxes on its American colonies. Opposition to the taxes led to demonstrations, organized by elite merchant groups, including the highly symbolic "Boston Tea Party" where protesters destroyed shipments of imported British tea. The taxes also fuelled broader grievances among elites over the way Britain governed its colonies, including the lack of colonial representation at the British Parliament, the body with the power to levy colonial taxes. This is famously captured in the slogan "no taxation without representation." Mounting anger over taxation and governance paved the way for the American Revolutionary War and independence (Keen & Slemrod, 2021). Similarly, Cheeseman and Hinfelaar (2010) and Mosley and Abdulai (2016) suggest that light tax treatment of mining companies in Zambia came to symbolize elite privilege in the country,

[15] The study was based on 346 English and Welsh councils over a 30-year period. The data excludes Scotland, where the tax was introduced a year earlier. The authors also note that after the Community charge was abolished, average evasion only gradually returned to pre-poll-tax levels, indicating a more dynamic effect on public revenues over a decade from the initial poll tax shock.

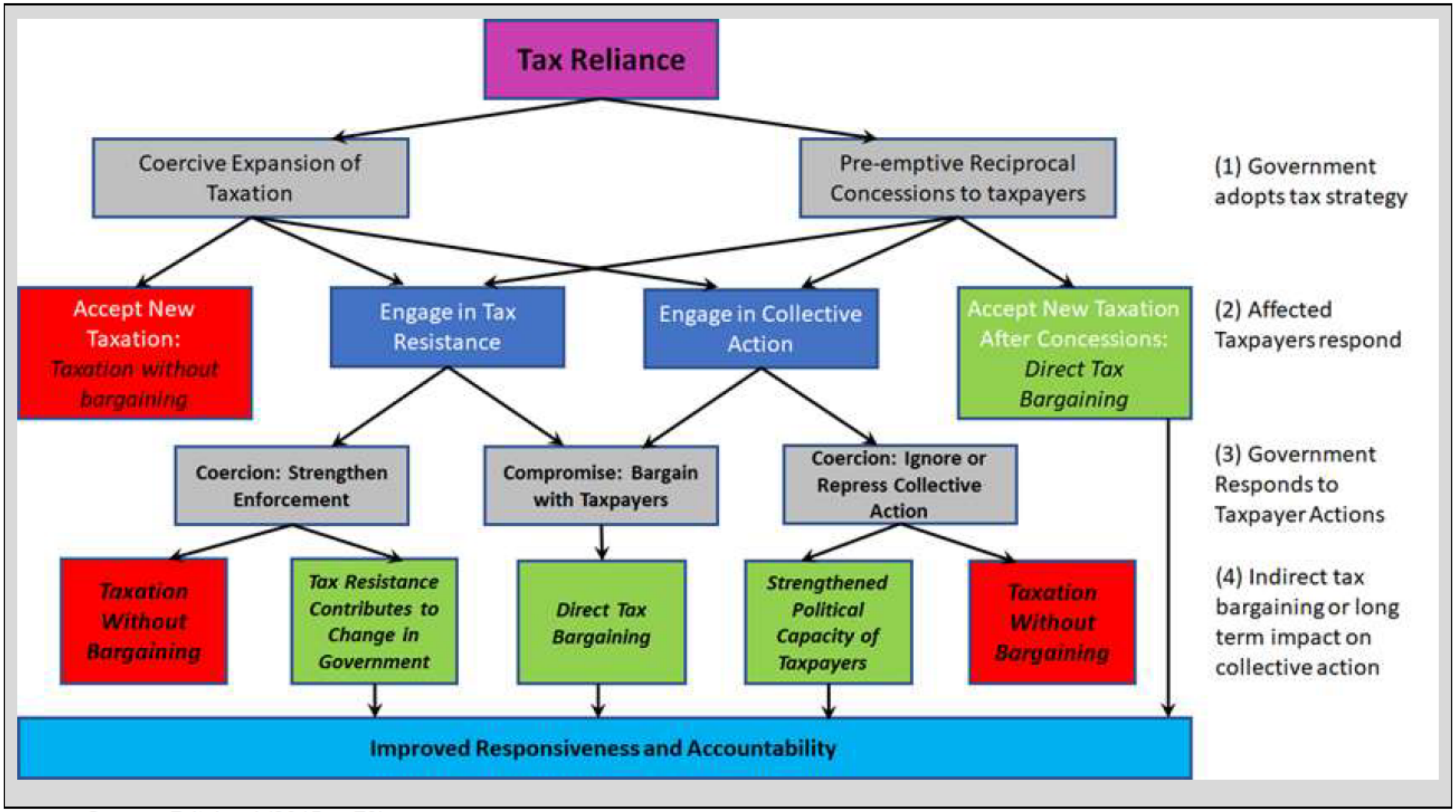
turning into an issue around which Zambia's urban poor coalesced to demand more responsiveness from government on a broader range of issues.[16]

In the face of collective action or tax resistance, the model predicts that government will again have two choices. It can compromise with taxpayers, in which case direct tax bargaining ensues. Alternatively, and as in the case of the British government and its American colonies (above), the authorities may refuse to compromise and resort to aggressive tax enforcement or broader political repression.

Finally, the model addresses the long-term implications of government refusal to compromise. In one scenario, taxpayer resistance and collective action fails to achieve meaningful change, momentum fades, and taxpayers concede defeat. Pritchard's model suggests, however, that coercively imposed taxes may continue to be disputed by taxpayers, in turn generating indirect pressure for political reform. In such cases, citizens may continue to resist through non-compliance, undermining the fiscal position of tax-reliant states, and increasing the chances of a change in government, as in Pritchard's account of VAT in Kenya (section **Error! Reference source not found.**). Alternatively, citizen's anger about tax policy may spark broader political mobilisation around a single issue of common interest, thereby helping to overcome disincentives to collective action. Both these dynamics have been evident in Latin America in recent years. Increasing social unrest across the continent -violent protests against inequality, corruption, and unfair taxation– have led to the collapse of governments, political realignment, and urgent progressive tax reforms (Al Jazeera, 2019; Deutsche Welle, 2019; Reuters, 2019; Vergara, 2019; Sherwood, 2020). Equally, researchers like Salvador (2012) and Walner (2019), document how coalitions of NGOs in Brazil, Chile and Guatemala were able to come together and work behind the scenes to block regressive tax reforms that would have increased tax breaks to the wealthy and cut social spending.

[16] The authors suggest that the Zambian government's decision to impose a windfall tax on mining companies and earmark part of the revenues to improving public services in poor areas, as being responsive to increasingly vocal demands of poor citizens.

FIGURE 1: STRATEGIC INTERACTIONS AND TAX BARGAINING



Source: Pritchard (2015, p.79)

Pritchard (2015, p.59) believes that linear processes and straightforward outcomes are "likely to be infrequent" and governments more frequently resort to repression than compromise when faced with tax resistance or public mobilisation. Moreover, higher coordination costs, because of gaps in information, insufficient resources, low human capacity, weak institutional and governance mechanisms, or indeed government repression, can create higher barriers to collective action in LMICs. In such contexts, citizens may have little option but to tacitly resist through what Scott (1987, p.419) in his study of Malaysian peasant resistance to religious tithes describes as "the ordinary weapons of relatively poor groups", namely foot-dragging, false compliance, or feigning ignorance, which can otherwise be defined as tax avoidance and evasion.

In Pritchard's model, the outcome of the broad mechanisms and causal processes outlined above is strongly influenced by contextual factors. Drawing on the earlier work academics (see Chapter 2), Pritchard summarises key contextual variables that provide pathways to tax bargaining and arranges them into an analytical framework organised around five structural factors (Table 1).

Table 1: Contextual Factors Shaping the Potential for Tax Bargaining

Structural Factor	Pathway of impact on tax bargaining	Relevant contextual variable
Revenue pressure facing government	Increases incentives for governments to bargain and compromise	• Foreign Aid • Natural Resource Wealth • Fiscal crises • External Shocks
The potential and scope for tax bargaining	Shapes the fiscal power wielded by taxpayers, and their ability to create fiscal incentives for government concessions	• Strength and autonomy of the private sector • Extent of reliance on direct taxes • Effectiveness of tax administration • Politicization of tax policy and collection
Taxpayer capacity for collective action	Shapes the ability of taxpayers to become collectively mobilized and make effective demands on government	• Extent of political openness or repression • Strength of elite leadership • Strength of business associations • Unity of taxpayer interests • The nature of expectations
Institutions for bargaining	Shapes the feasibility of more direct forms of tax bargaining	• Effectiveness of parliamentary processes • Effectiveness of forums for engaging with taxpayers • Informal institutions shaping trust and bargaining
The political salience of taxation	Increases the likelihood that particular groups will engage in tax resistance or collective action	• Incidence and visibility of different taxes • The visibility of the tax reform process • The role of the media and elites in publicizing tax issues • Historical legacies • Specific events raising the profile of specific taxes

Source: Pritchard (2015, p.71)

The first structural factor is the revenue pressure facing government. As noted in Chapter 2, willingness to bargain with taxpayers reflects the degree to which governments are reliant on taxation. As highlighted by Chaudhury (1989), Karl (1999) and others (see section 2.3.2), when governments derive most of their resources from non-tax sources (i.e. rents) they are more inclined to forego tax revenues, removing a need to bargain with taxpayers. Revenue pressure also reflects the sustainability of public finances, measured in terms of a country's vulnerability to fiscal crises and exogenous macroeconomic shock, and the effectiveness of the fiscal policy levers at the disposal of governments.

The second structural factor is the potential and scope for tax resistance, specifically the political leverage taxpayers hold over governments. Here, the strength and autonomy of the private sector is a key variable. Historically, the mobility of capital between jurisdictions enabled merchants to extract concessions by threatening to relocate (Bates and Lien, 1985). The salient features of the tax system and effectiveness of tax administration are two other important variables that influence the scope for tax resistance and evasion by separate groups. A highly politicised tax system with generous exemptions for elites can provide the justification for excluded groups to evade (Hammar et al., 2009; Traxler, 2010), while a weak or corrupt tax administrations may provide incentive and opportunity for tax evasion (Kirchler et al., 2008; Gangl et al., 2015).

The ability of taxpayers to mobilise for collective action is the third structural factor, with the extent of political openness the crucial contextual variable. Open political systems provide space and opportunity for collective action, whereas repressive regimes actively prevent contestation. In repressive systems, quiet resistance through tax evasion is more likely than visible confrontation (Scott, 1987). The strength, organisational capability, and extent of common interest among elite groups is an important contextual variable. Throughout history, powerful and autonomous business and social elites have enjoyed greater leverage over government due to the political and economic resources in their possession (Levi, 1990). A final variable is stakeholder expectations, namely the extent to which citizens perceive their demands as fair and reasonable, their expectations around state reciprocity, and their perceptions of whether government will compromise or retaliate. Authoritarian governments usually respond with coercion when citizens demand political reform (Carey, 2006; Davenport, 2007; Davies, 2016), but sometimes tolerate protest and offer concessions to appease protesters or divide the opposition (Conrad, 2011; Leuchner & Hellmeier, 2024). Moreover, according to Ritter and Conrad (2016) governments and protesters act in response to each other's behaviour, with the expectation of repression making protest less likely.

Institutions represent the fourth pillar of the framework. Representative and inclusive institutions facilitate direct tax bargaining between citizens and government and reduce transaction costs (Levi, 1988). The absence of such institutions raises the likelihood of indirect bargaining, with citizens expressing discontent through less civic means, including protest and violent confrontation. The political settlement within a country also determines the shape and content of bargains, since they empower some groups and disenfranchise others. Informal institutions are also important, with underlying social norms or behaviours defining relationships between the government, the political elites, tax administrations and citizen-taxpayers. A final variable is the time horizon of political leaders. In Levi's (1988) view, insecure leaders bargain with those whose support is necessary to remain in power, while secure leaders may be more inclined to make short-term concessions if they perceive that they will benefit over the longer-term through increased revenues.

The final pillar refers to the political salience of taxation. Different forms of taxation have varying impacts on stakeholder groups. Accordingly, tax reforms will spur different patterns of tax bargaining. In LMICs, where a relatively small proportion of the population pay direct taxes (section 2.2), formal enterprises and salaried employees are those most likely to engage over income tax reforms. Likewise, property tax reforms in LMICs will be of concern to political elites. Pritchard also suggests that the visibility of a particular tax reform influences the likelihood of political engagement, arguing that direct taxes will be more visible to taxpayers, and thus more politically salient. Political debate or media scrutiny can increase the visibility of reforms, making them more politically salient.

3.1.2. Key term definitions

This section provides more precise definitions of key concepts that feature prominently throughout this thesis. Two central concepts are "responsiveness" and "accountability", both of which are acknowledged as central to good public governance.[17] Public accountability occurs when an actor ("agent") is required to explain or justify conduct in the implementation of a delegated responsibility to a significant other (a "principal"), who in turn has the capacity to sanction misconduct (Schedler, 1999; Bovens, 2004[18]; Lindberg, 2009). Thus, public accountability has two distinct pillars: "answerability" of public agents to the principals and "enforcement" by principals of set of standards for public agents in the exercise of the delegated powers (Schedler, 1999).

Bovens (2004) identifies three core functions of public accountability. First, as a function of *democratic control* over those to whom powers are delegated. Second, it enhances the *integrity* of government, functioning as a safeguard against unethical behaviour and abuse of power (Rose-Ackerman, 1996; Lambsdorf, 2006). Third, it *improves performance* through institutional learning. By monitoring the state's ability to meet defined goals, public policies can be adjusted or rules guiding the behaviour of individuals and organisations can be amended. These three functions help maintain and enhance the "legitimacy" of government, which as noted in section 2.1 is a core determinant of tax compliance.

Lindberg (2009) conceptualizes three dimensions of accountability within the public domain. First, the "source of accountability" can be considered as internal, whereby superiors hold subordinates to account within the bureaucracy, or external, when the government itself is being held to account. Second, is the "direction of the accountability relationship". Internally, upward vertical accountability exists where civil servants are accountable to managers who, in turn, answer to Ministers. Externally, the legislature and judiciary, provide horizontal accountability over executive power, with the former enforcing political accountability and the latter legal accountability.[19] In representative democracies, the executive and legislature are also subject to downward vertical accountability, including representational accountability to voters, or societal accountability to the media and civil society. A third dimension is the degree of control exerted by principals over those in positions of power, which varies according to context. In aid-dependent LMICs, an additional dimension of accountability is often that of governments to their donors.

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[17] While there are many differing interpretations of "good governance", common elements include participation, responsiveness accountability, transparency, rule of law, the control of corruption and high standards of public sector management (OECD-DAC, 1995). According to the World Bank (1994, vii), "*Good governance is epitomized by predictable, open and enlightened policy-making, a bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption*."

[18] Bovens (2004) characterises modern states as a series of principal-agent relationships, including: between citizens and their political representatives; between the legislature and the executive; between the executive and civil servants within ministries; and between ministries and autonomous agencies and public bodies.

[19] The oversight work of the legislature and judiciary is often facilitated by formal institutions, independent from the executive, such as supreme audit institutions, ombudsmen and anti-corruption agencies.

In keeping with Pritchard (2015, p.64), responsiveness is defined as “the range of concrete actions that governments may take in order to respond to the interests and preferences of citizens, which may be expressed in both explicit and implicit ways”. Vertical accountability through national elections may only lead to broad-based responsiveness since citizens choose between politicians or parties with manifestos that cover various policy issues. By contrast, frequent and more focused interaction between policymakers and other stakeholders, whether they are citizens or their representatives, during policy making processes may result in more policy-specific responsiveness (Lindberg, 2009).

There is also an informal dimension to accountability, where formal chains of accountability and decision-making norms give way to the prevailing organisational or bureaucratic cultures (Jenkins, 2007). Even when *de jure* institutional checks and balances exist, these are commonly supplanted by *de facto* systems and practices arising from relationships, interests, and incentives of policymakers and bureaucrats (Schick, 1998; Brinkerhoff & Goldsmith, 2002). Jenkins (2017, p.141) highlights the twin problems of institutional “capture and bias”. Institutional capture in LMICs is most often associated with corruption, clientelism and patrimonialism, often rooted in traditional social systems built on kinship, religion, or tribalism. However, it can also reflect other forms of undue influence, such as political interference and intimidation.[20] Institutional bias involves allocative or regulatory decisions that benefit advantaged groups, including those linked to dominant political parties (Jenkins, 2006). In chapters 4, 6 and 7 of this thesis, government accountability and responsiveness in Rwanda are analysed in the broader sense, in keeping with the definitions above.

Governance dividend theories (see section 2.3) suggest that, when faced with systemic political threats, governments may, for reasons of self-interest, be more willing to be accountable and responsive to citizens in exchange for increased tax compliance (Moore, 2015). Tax bargaining is defined as a dynamic process through which governments and citizens negotiate the terms of taxation (Levi, 1988; Moore, 2007; Pritchard, 2015). As presented in this thesis’ theoretic model (section 3.1.1), tax bargaining can be both direct and indirect. Direct tax bargaining occurs when governments explicitly engage with taxpayers through formal institutions and transparent and inclusive processes when making changes to a country's tax policy or tax system. It produces positive governance outcomes when -as a result of the negotiations- governments make clear concessions designed to reduce public opposition and boost tax collection. Governments must also deliver on the promised concessions. Indirect tax bargaining takes place when there is little explicit interaction between taxpayers and governments over changes to country's tax policy or tax system, and no explicit concessions are made by government during tax policy decision making processes. Nevertheless, these tax events can still contribute to mounting pressure for political change over a longer-term.

Related to the concept of direct and indirect tax bargaining, is the notion of coercive taxation. Taxes are not paid on a purely voluntary basis, and taxation always contains an element of coercion. States claim the right to impose taxes on individuals or entities, often

[20] Speck and Fontana (2011) and Richie and Shein (2017) for example, draw attention to the abuse of the state’s financial and physical resources to provide electoral advantage to incumbent governments.

with no explicit guarantee of reciprocity, and more often than not accompanied by the explicit or implicit threat of state power to deter or punish non-compliance. There is therefore a broad spectrum of government behaviour in relation to taxation that could be considered as coercive taxation. At one end of the spectrum is where taxpayers comply with tax obligations not solely out of fear of punishment, but also because they perceive the tax system, the processes through which changes to the tax system are made, and the way taxes are enforced as legitimate and fair. The opposite would be coerced compliance, where taxes are enforced with no consideration for taxpayer interests, and an adversarial or conflictual relationship exists between the state and its citizens over tax. This thesis therefore defines coercive taxation as changes to a country's tax policy or tax system that are designed "in the absence of any representation for taxpayers in tax policy decisions" (Moore, 2008, p.40), and implemented "in ways that are likely to be validly perceived by taxpayers as arbitrary, extractive, unfair, or brutal" (Moore, 2007, p.91).

Finally, it is necessary to discuss regime types and to settle on a typology that applies to Rwanda, the country upon which this thesis focuses. This is because, Rwanda is subject to competing narratives about the nature of the state (see section 3.3). Some argue that Rwanda's governance model is a template for African countries emerging from violent conflict, while acknowledging continued restrictions on civil liberties in the interest of unity and stability. Others categorize Rwanda as a brutal dictatorship masking itself with a façade of democracy. Rwanda therefore can be considered a hybrid regime, which are commonly defined as political systems that blend elements of both democracy and authoritarianism that emerge as a result of incomplete transitions between authoritarian and democratic governance (Van de Walle, 2002; Carothers, 2002; Diamond, 2002; Schedler, 2002; Levitsky & Way ,2002; Robertson, 2011; Riaz, 2019). The Economist Intelligence Unit defines hybrid regimes as countries where accountability is undermined because:

> "Elections have substantial irregularities that often prevent them from being both free and fair. Government pressure on opposition parties and candidates may be common… Civil society is weak. Typically, there is harassment of and pressure on journalists, and the judiciary is not independent." Economist Intelligence Unit (2016, p.45)

Robertson (2011, p.24), argues that "hybridity is not simply a midpoint between democracy and closed authoritarianism" but that "both the quality and quantity of protest will vary among different kinds of hybrid regimes depending on the ecology of organizations in a particular state, the mobilization strategies adopted by the state, and the extent and nature of competition among elites". Cheeseman and Klass (2018) describe four basic political systems along a spectrum of democracy. First are pure authoritarian regimes, which do not hold elections. Second are dominant authoritarian states, which hold elections that are uncontested in reality because of significant restrictions on political rights and civil liberties. Third are competitive authoritarian states where elections are competitive, but where the opposition compete at a significant disadvantage. Finally, electorally democratic states hold reasonably free and fair elections, that can also sometimes be flawed. Cheeseman and Klass (2018, p. 13) describe the second and third systems as “counterfeit democracies”.[21] Alternative definitions of such states have been put forward by other scholars, including a "façade electoral regime" (Levitsky & Way, 2002), "hegemonic electoral authoritarian" regimes (Diamond, 2002), an "electoral autocracy" (Kailitz, 2013), or an "illiberal democracy" (Zakaria, 1997), to name a few. This thesis argues that Rwanda can be found at the more authoritarian end of spectrum of African hybrid regimes, characterised by tight state control over the coercive, economic, and political resources, and which -despite the existence of formal institutions of democracy and accountability- display significant governance deficits. As such, it aligns with Cheeseman and Klass’ (2018, p. 12) classification of Rwanda as a dominant authoritarian state.

With these definitions in mind, attention now turns to the research design and methodology adopted for the thesis.

3.2. Research methodology

3.2.1. The methodological approach

For this thesis, a single-case study with embedded units (in-case studies) is selected to examine, at country level, the circumstances under which a contemporary SSA government’s reliance on taxation elicits a *governance dividend* in the form of increased state accountability and responsiveness. This approach is chosen since it “is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident and the investigator has little control over events” (Yin, 2009, p.13). Case studies are particularly advantageous “when the topic is broad and highly complex, when there is not a lot of theory available, and when ‘context’ is very important” (Dul & Hak, 2008, p.24).

Taxation, given its highly technical nature, inherently complex. It can also be approached from several academic perspectives. Taxation is intertwined with law, economics, political science, sociology, and philosophy. Taxation is central to the multifaceted relationship between citizens and the state, and is key to the functioning of government and the implementation of public policy (Salanié, 2003; Frecknall-Hughes, 2012). Historically, taxation played a fundamental role in the establishment of representative governments and meritocratic bureaucracies (Section 2.3.1). Not only are tax and governance systems a product of a country’s history, but a host of structural, political, and institutional factors determine the ability of states to tax effectively and the willingness of governments, particularly in LMICs, to engage with, and make explicit or implicit concessions to, citizens over public policy.

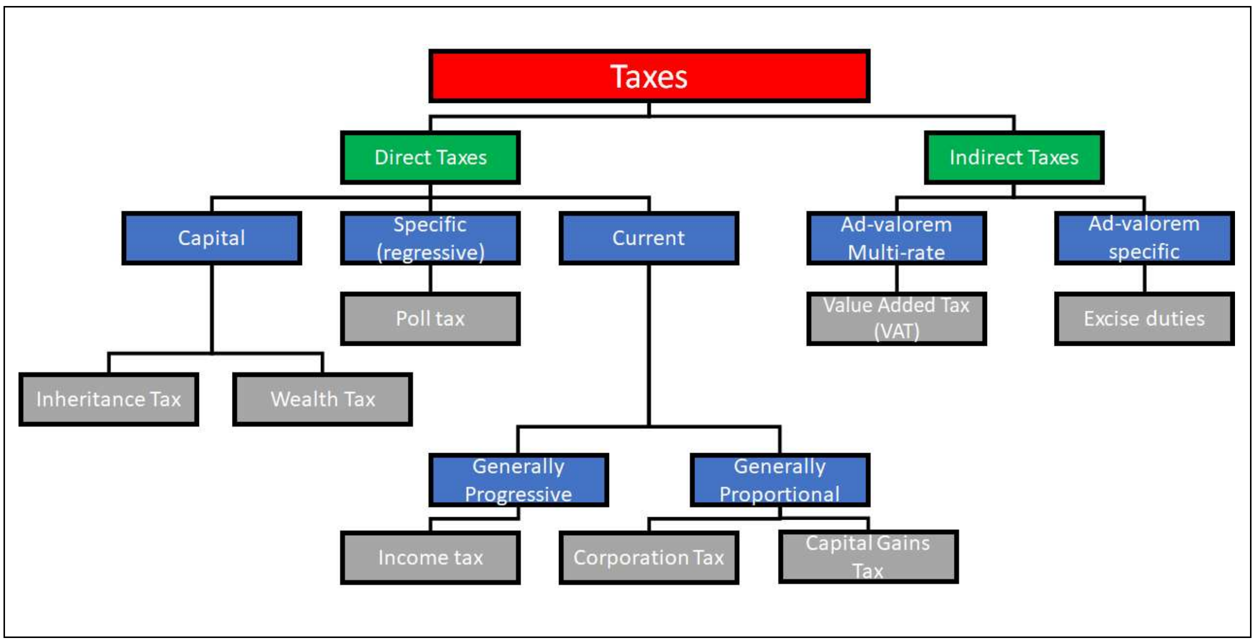
As noted by Pritchard (2015, p.48), “moving from broad propositions about taxation and governance to detailed empirical research at the country level confronts two closely related challenges”. The first is that most existing (quantitative) models focus on broad causal arguments but reveal less about the exact ways in which bargaining over taxation

[21] In their book, “How to Rig an Election”, Cheeseman and Klaas (2018) identified Tajikistan, Turkey, Thailand and Uganda as examples of dominant authoritarian regimes, and Cambodia, Malaysia, Tanzania and Zimbabwe as examples of competitive authoritarian states.

plays out. A second challenge is that bargaining over taxation is often indirect and plays out through strategic interaction and mutual behaviour adjustment, rather than visible public haggling and clear-cut agreements (Moore, 2008). Given such constraints, the advantage of the case study approach, using an established theoretical model (as outlined in Section 3.1.1) is that it illuminates both the causal processes and the contextual factors that shape outcomes within and across countries.

The theoretical model for this thesis outlines the mechanisms linking taxation to government responsiveness and accountability across a variety of contexts and identifies specific causal processes (see Section 3.1.1). The model aims to transform a very broad research question into a more clearly defined framework of possible courses of action, based on the literature, while acknowledging that every conceivable process through which taxation influences government accountability and responsiveness cannot be captured.

FIGURE 2: CLASSIFICATION OF TAXES



Source: Adapted from James & Nobes (2012, p.15)

The choice of a single-case study with embedded units is made because different taxes impact separate groups in different ways, which influences how specific groups react to a tax reforms. Taxes can be classified: as *direct or indirect*; according to *what is being taxed* (e.g. income, capital or consumption), and; according to *volume* (unit) or *value* (ad-valorem) (see Figure 2). The way in which taxes are classified and levied determined how the tax burden is distributed within society, and particular taxes can be considered as progressive, proportional, or regressive (James & Nobes, 2012).

The type of tax also influences the willingness of authorities to offer concessions. Levi (1988) and Timmons (2005) argue that throughout history tax-reliant governments have behaved as rational discriminating monopolists offering different concessions to taxpayer groups. Moreover, governments will be most responsive to groups upon whom they are most reliant for revenue, and who hold most leverage (see section 2.3). It is also necessary to acknowledge that the tax base in LMICs differs from that in HICs (Section 2.2), meaning that the dynamics of fiscal exchange will differ.

Baxter and Jack (2008, p.550) also argue that careful selection of in-case studies supports meaningful disaggregation of country-level data, by enabling analysis "within the subunits separately (within case analysis), between the different subunits (between case analysis), or across all of the subunits (cross-case analysis)". Undertaking a single case study with embedded units in a contemporary LMIC not only permits examination of government strategies in relation to particular taxes and the relative bargaining power of specific taxpayer groups, but also how different groups of taxpayers respond to the imposition of a given tax. Accordingly, such analysis should reveal with whom the government is willing to negotiate and bargain, and ultimately to whom the government is likely to be more responsive and accountable. Thus, the single case study with embedded units is also paradigmatic, by shedding light on the more typical characteristics of society (Flyvbjerg, 2006).

According to Patton (1990), Stake (1995), Rowley (2002), Yin (2003, 2009), Seawright and Gerring (2008) and others, single case studies are appropriate when the selected case is relatively distinct, and for some reason deviates from generalized theory.[22] According to Fljvberg (2006, p.229), "atypical or extreme cases often reveal more information because they activate more actors and more basic mechanisms in the situation studied" as well as shed light on the "deeper causes behind a given problem and its consequences". Stake (1995) suggests that particularistic single case studies create a slightly new group from which to generalize, providing the opportunity to modify or strengthen existing theoretical models. Undertaking a single-case study, focusing on an atypical case -in this case a hybrid regime where many of the contextual factors outlined in Table 1 appear in conflict3.2.2- with in-case studies focusing on different tax reforms, offers the possibility to expand –albeit modestly- on Pritchard's operational model.

A final, more practical reason for the methodological approach is that that research was undertaken in a part-time capacity, while the author was in full-time employment (section 3.3.2). While multiple-case studies can provide methodological advantages over the single-case study (Stake, 2005; Yin, 2009), they are nonetheless acknowledged to be more time-consuming and logistically complex (Rowley, 2002; Baxter & Jack, 2008; Bamberger et al., 2010; Baškarada, 2012).

3.2.2. Case selection: The Republic of Rwanda

This thesis focuses on Rwanda, a LMIC in SSA that struggles to raise sufficient domestic revenue because of the country's levels of development (section 2.2). What makes Rwanda relatively distinct, however, is the nature of the state and its development model. The country's recent history and broader political economy factors have shaped modern Rwanda into a state where the government's authoritarian traits sit alongside de jure democratic institutions and processes, as well as the leadership's stated commitment to

[22] Yin (2009), for example, refers to critical cases, extreme cases, unique cases and prelude case strategies. Stake (1995) categorises case studies as intrinsic, instrumental, or collective, where an intrinsic study is that of a unique situation. Seawright and Gerring (2008) define case-studies as typical, diverse, extreme, deviant and influential.

improving living standards and ensuring broad-based and inclusive socio-economic development (Chapter 4).

Given the leadership's developmental vision, the government's political legitimisation strategy, the closely intertwined business and political sectors, and the country's relatively effective public bureaucracy (see section 4.2 for more detail), parallels have been drawn between Rwanda and East Asian "developmental states" (Evans, 1998; Fritz & Menocal, 2007a&b; Haggard, 2018) as well as developmental states in Africa such as Ethiopia and Botswana, countries with formal multi-party systems but dominated in reality by a single party with authoritarian traits (Kelsall & Booth, 2010; Routley, 2014; Biedermann, 2015). A case study of Rwanda therefore offers the prospect of generalisation across a small sub-group, namely dominant authoritarian developmental states.

While Pritchard (2015, p.215) suggests that positive outcomes are less likely in authoritarian states, he nonetheless documents tax bargaining in Ethiopia "where social, political and economic conditions would seem to militate against it". Despite their strong grip on power, autocratic leaders still struggle to hold ruling coalitions together in the absence of explicit power-sharing arrangements. They must also find ways of responding to citizens in the absence of broad-based political legitimacy. For the author, a development practitioner (section 3.3.2) whose professional experiences have been acquired almost entirely in dominant authoritarian countries, better understanding the implicit processes though which taxation can spur autocratic governments facing acute revenue pressure to respond to countervailing pressure from citizens and thereby improve governance is a professional preoccupation. Moreover, leading development agencies such as the UN (2015), World Bank (2017), DFID (DFID, 2017; Greening, 2015) and the EU (2016, 2017) all highlight the importance of taxation for spurring sustainable development and inclusive governance, and all acknowledge the need for more targeted and context-specific approaches to support such dynamics. From a practitioner perspective, researching tax bargaining in dominant authoritarian countries may help identify the role that international actors can play in facilitating positive outcomes in authoritarian contexts.

Returning to the contextual factors outlined in the theoretical framework (see Table 1), the author made several assumptions at the start of the research that also influenced the choice of case study. Taking account of the polarized nature of the research on Rwanda (see section 3.3.1), and acknowledging known knowledge gaps prior to the start of the research phase, the author was careful to make balanced set of assumptions at the outset when selecting the case study.

First, the author assumed that the revenue pressure facing the Rwandan government would be significant (see Table 2). Rwanda's small, open economy is highly vulnerable to external shock. Rwanda has little natural resource wealth, and the primary commodities it exports are highly sensitive to global price changes. Since the turn of the millennium, ODA has accounted for between 30-50% of central government expenditures, making Rwanda one of the world's most heavily aid reliant countries. This reliance was brutally exposed in 2012, when donors suspended aid in response to a UN Panel of Experts report (UN, 2012) on Rwandan government support to armed rebel groups in the Eastern

DRC, and plunder of DRC's natural resources.[23] As a result of this exogenous shock, the economy collapsed, and the government struggled to mobilise sufficient funds to pay for crucial public expenditures (WB, 2014b).[24]

Acute revenue pressure, it was assumed, would not only increase incentives for the government to bargain and compromise, but also a case study of developments in tax policy and administration since the 2012 fiscal crisis would provide an opportunity to examine whether the increased revenue pressure incentivised the government to bargain and compromise over taxation, as predicted in the theoretical model. The aid shock exposed the vulnerability of ruling elites and hit right at the heart of the government's political legitimisation strategy (section 4.2). It made taxation a more politically salient issue. Since 2012, enhancing domestic resource mobilisation (DRM) became more prominent in Rwanda's socio-economic development strategies (MINECOFIN, 2013) and in the rhetoric of Rwanda's leadership, framing taxation as a question of "dignity" (*Agaciro)* and "self-reliance" (Kagame, 2012a, 2013, 2014; Gatete 2013[25]). Two of the tax reforms introduced in the wake of the crisis form the basis of the in-country studies (section 3.2.3).

Second, the author assumed that the fiscal power of taxpayers -other than large enterprises in the formal sector- would be relatively limited. As in many developing countries, the Rwandan private sector is characterised by a small number of large companies in the formal sector, with the majority of firms as MSMEs operating in the informal sector. Rwanda is a country where direct income tax and consumption taxes, most notably VAT, collectively account for over three quarters of tax revenues (see section 3.2.3). The government is not only primarily reliant on large firms for income taxes but is also reliant on the same firms to collect and remit VAT on its behalf. These factors should provide larger firms with economic leverage over the government. As a donor darling on tax reform, Rwanda had also established a relatively effective tax administration -by African standards- and de jure processes for tax policy reform consistent with good international practices. It was assumed that the government would be aware of the needs of taxpayers through interactions with these institutions and processes.

Third, acknowledging the limited political space for contestation of government, and the high levels of economic inequality, the author assumed that any taxpayer capacity for collective action would be limited to a small number of better-resourced taxpayer groups, primarily drawn from elite circles. As with many low-income countries, the Rwandan government has limited fiscal space to enhance infrastructure and provide public services, which it was assumed would reduce expectations among the masses. By contrast, the Rwandan leadership and the political elite share several common goals for,

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[23] The EU, the USA, Germany, the UK, Sweden, the Netherlands, and other donors partly suspended or withheld aid funds equivalent to "about 3 per cent of GDP" (IMF 2013, p. 4).

[24] Given the state's dominant role in the economy, reduced public spending negatively impacted the private sector, especially the services and construction sectors. According to the World Bank (2012, 2014a), growth during the preceding decade was primarily driven by high levels of public investment, most notably in construction and real estate, made possible by the significant aid inflows.

[25] Interestingly, "Striving for self-reliance and dignity" was the official "theme" for the 2013/14 State Budget, the first post crisis budget delivered by MINECOFIN to parliament (Gatete, 2013).

which it was assumed would allow elite groups to influence policy provided that it was broadly in line with the government's overall vision for the country's development.

TABLE 2: AUTHOR'S ASSUMPTIONS ON CONTEXTUAL FACTORS SHAPING THE POTENTIAL FOR TAX BARGAINING IN RWANDA

Structural Factor	Pathway of impact on tax bargaining	Relevant contextual variable
Revenue pressure facing government	Increases incentives for governments to bargain and compromise	• Heavy reliance on foreign aid • Little natural resource wealth* • Frequent fiscal crises driven by vulnerability to external shocks
The potential and scope for tax bargaining	Shapes the fiscal power wielded by taxpayers, and their ability to create fiscal incentives for government concessions	• Small number of large and medium sized enterprises in formal sector. Preponderance of MSMEs in informal sector • Highly reliant on direct taxes (and VAT) • Relatively effective tax administration by SSA standards • De jure processes for tax policy and collection in line with donor promoted "international good practice"
Taxpayer capacity for collective action	Shapes the ability of taxpayers to become collectively mobilized and make effective demands on government	• Limited political openness • Strong elite leadership, supported by elite groups • Normative business associations established with donor support • Some unity of interest among specific taxpayer groups • Relatively low taxpayer expectations
Institutions for bargaining	Shapes the feasibility of more direct forms of tax bargaining	• De jure parliamentary processes established to promote inclusiveness • De jure forums for citizen engagement established • Informal institutions shaping trust and bargaining unclear
The political salience of taxation	Increases the likelihood that particular groups will engage in tax resistance or collective action	• De jure tax reform process in place • Limited media contestation of government • Historical legacies (authoritarianism, genocide)

** While Rwanda has little natural resource wealth of its own, it has frequently been accused of illegally exploiting the natural resource wealth of its neighbour, the DRC.*
Source: Author (adapted from Pritchard, 2015)

Fourth, it was noted that since the 1994 genocide, the government has actively sought to reconstruct the country's human capital, its public institutions, and the economic infrastructure, ostensibly in line with good international practices promoted by Rwanda's donors. In doing so, Rwanda earned the reputation of being a "donor darling" attracting in the process large sums of aid (Beswick, 2007; Hayman, 2009; Zorbas, 2011). It was therefore assumed that de jure parliamentary processes and forums for citizen engagement had been established in Rwanda, though which tax bargaining could take place in principle. There are also formal associations established in Rwanda through which the collective voice of the private sector can be articulated. However, the extent to which these de jure institutions and processes were influenced by de facto norms and informal behaviours was less clear at the outset, but the prospect of being able to shed a light on these factors made the prospect of researching the topic even more attractive.

A final consideration for the selection of Rwanda as a case study was one of opportunity. From March 2015 to August 2020, the author was posted to Kigali as a diplomat (see Section 3.3.2). During this time, he engaged in extensive policy dialogue with the Rwandan government and managed technical assistance projects to support public financial management (PFM) and DRM. This allowed the author to observe, first-hand, the functioning of the Rwandan state and to engage with practitioners within the country, in turn enabling in-depth analysis of the political economy and its de facto impact on policymaking processes and the behaviour of key actors.

3.2.3. In-case studies: reforming income taxes and value added tax in Rwanda

As noted in section 3.1.1, the type of tax, its visibility, and political salience determine whether and how citizens engage with government during tax reform, and governments will be most responsive to those taxpayer groups upon whom they are most reliant. Three strands of the academic literature in particular influenced the choice of in-case studies.

Firstly, reference was made to the body of literature that argues that governments are more likely to be responsive to those taxpayers they are most reliant on (Bates and Lien, 1985; Levi, 1988; Timmons 2005, Moore, 2024, 2007; Brautigam et. al. 2008 – see also section 2.3). Analysis of the Rwandan state budget reveals that there is typically a 60:40 split in Rwanda between indirect taxes -levied on domestic goods and services, and taxes on international trade and transactions- and direct taxes on income, profits and capital (see Chapter5). The most important taxes in terms of revenue generated are personal income taxes (PIT) and corporate income taxes (CIT), which are regulated by a single law, and Value Added Tax (VAT) on goods and services. Collectively, these taxes account for over three quarters of total tax receipts each year. Significant reforms to Rwanda's income tax and VAT regimes were made in the wake of the 2012/13 fiscal crisis, providing opportunity to study the impact of both reforms on responsiveness and accountability.

Secondly, many scholars have advanced the hypothesis that since direct taxes are highly visible, they are more likely to generate protest from elite groups with common interests in opposing progressive tax reforms (Moore, 2007; Fairfield, 2013). Elite groups in developing countries may constitute a small minority of the population, but in such highly unequal countries they often control a significant portion of the national income, along with the power that accompanies it (Everest-Phillips, 2009). Elite groups find it easier to mobilise, wield political influence, shape the public discourse around tax policies, access policymakers through social networks and personal relationships, and to leverage concessions from government (Fairfield, 2015; Wilson & Hageman, 2022). The private sector, which have both the motivation and resources to organise and engage in dialogue, can also find governments more receptive to their demands since they are drivers of economic growth and job creation, and a significant source of tax revenue (Klitgaard & Paster, 2020).

Rwanda enacted a new Income Tax Law (RoR, 2018a) in April 2018. Given that in LMIC contexts, where the poorest individuals are exempt from income taxes and most MSMEs are found in the informal economy (section 2.2), a logical conclusion is that revision of the Income Tax Law would be most keenly felt by formalised businesses and salaried professionals. These groups would also be expected to engage in formal, organised collective action, including through business or professional associations and to lobby through social networks and personal relationships. The first in-case study (Chapter 8) therefore focuses on reform of the Rwandan Income Tax Law and the interaction between government and formalised interest groups during its formulation, because this enables testing of assumptions in the literature that direct taxes are more visible to taxpayers, and therefore more politically salient. The first case study examines whether the government chose to make pre-emptive concessions to, or negotiate with, taxpayer groups during formulation of the law, and the extent to which direct and indirect tax bargaining took place through the causal processes envisaged after its enactment.

Third, some scholars also advance the notion that consumption taxes, rather than income taxes, can be more politically salient to specific taxpayer groups. Martin and Gabay (2017), for example, using data on aggregate protest behaviour from 20 rich democracies during the period 1980 to 2010, concluded that the most protested taxes over the period were those that imposed concentrated costs on well-defined and bounded social groups. They found that in rich democracies it was indirect taxes that proved to be the most politically contentious, since “in the case of VAT, they imposed especially heavy burdens, or because, in the case of excise taxes, their burdens were concentrated on particular groups that had the wherewithal to protest” (Martin & Gabay, 2017, p.17). Moore (2007) and Pritchard (2015) highlight strong resistance to the introduction or reform of VAT in many countries in SSA, which has led to protest and drawn responses from governments (see section 2.4). Moore (2007) argues that in developing country contexts, VAT is highly salient for businesses, particularly MSMEs, because of the tangible administrative burden it imposes. Similarly, consumption taxes, such as VAT are also often commonly perceived as regressive taxes that disproportionately affect low-income citizens in developing countries, since they tend to spend a higher proportion of their income on consumption (UN, 2024).

The roll out of VAT EBMs in Rwanda therefore serves as the second in-case study (see Chapter 9). In the wake of the aid crisis, legislation was rapidly passed in Rwanda in November 2012 (RoR, 2012e), mandating that businesses first purchase, and then use EBMs to generate certified sales receipts and to automatically transmit all sales transaction data to the revenue authority in real time. The devices proved salient for both Rwandan businesses and consumers. As well as improving VAT compliance, the EBMs were meant to reduce compliance costs for businesses. Not only did the EBMs create new financial and operational costs for businesses, but their rollout also proved problematic, creating widespread discontent. Price differences between VAT compliant and non-compliant businesses also appears to have influenced the behaviour of consumers and businesses. Examining how the government introduced the EBMs, and then how it subsequently responded to taxpayer resistance and collective action by businesses and consumers sheds light on how these groups choose to organize and engage with government, on the one hand, and the willingness of government to compromise and negotiate with taxpayer groups, on the other.

3.3. Specific challenges encountered during the research and strategies used to overcome them

Before explaining the approach taken for data collection, it is important to highlight context specific challenges relating to the research project that are of direct relevance. The data collection methodology subsequently outlined in Section 3.4, responds to the challenges outlined below.

3.3.1. The difficulty of undertaking independent research in Rwanda

While Rwanda offers an interesting case study, researching the country poses challenges. Firstly, the academic research is polarised (Hintjens, 2014; Fisher, 2015; Beloff, 2016). In fact, Fisher (2015, p.138) claims that "Rwanda scholarship operates in a framework which is more polarized, personalized and partisan than in relation to perhaps any other part of the African continent". Hintjens (2014, p.133) describes "two Rwandas" of contemporary scholarship. One portrays Rwanda as a country successfully rebuilt after the genocide, led by benevolent elites and well-educated technocrats.[26] This literature praises the economic, social, political, and military developments in Rwanda under the leadership of President Paul Kagame and the Rwandan Patriotic Front (RPF). The other describes Rwanda as a closed, repressive, authoritarian state ruled through fear and intimidation, and focused on defending the political and economic interests of the President and the ethnic group from which he hails.[27] This literature takes a critical view of the government and questions the inclusivity and sustainability of reforms. Uvin (1998) and Farmer (2004) point to a "structural violence"[28] inherent in the political system, while Ingelaere (2009) and Hasselskog (2015a) deride the negative impact of what they believe to be government's authoritarian social engineering. There is therefore a clear risk of self-classification, by researchers, into one of the two opposing camps prior to undertaking fieldwork (Hintjens, 2014; Beloff, 2016).

A second challenge, highlighted by Fisher (2015, p.135) is that the government is "not only willing to react against academic critics and criticisms but to engage proactively in the process of knowledge production about itself and the country it rules". This tallies Guriev and Treisman (2022), who document how modern authoritarian leaders deploy political spin, misinformation, and concealed censorship to drown out criticism. This poses

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[26] Scholars such as Clark (2013a), Golooba-Mutebi (2008), Booth and Golooba-Mutebi (2012), as well as non-academic researchers such as Kinzer (2008), Gouverich (2009), Ensign (2011) and Crisafulli and Redmond (2012) are commonly associated with this side of the literature.
[27] Prominent scholars associated with this side of the literature include Uvin (1999, 2010), Newbury (1998), Reyntjens (2004, 2006, 2011, 2013, 2015a, 2015b, 2018), Ansoms (2009), Clark (2010), Waldorf (2010), Purdekovà (2011a&b), Longman (2011a&b), Thompson (2011, 2012, 2013, 2018), Strauss and Waldorf (2011) and others, whose work is often complemented by the research of international NGO such as Human Rights Watch, Amnesty International and Freedom House.
[28] Farmer (2004, p. 8) defines "Structural violence" as "as a broad rubric that includes a host of offensives against human dignity: extreme and relative poverty, social inequalities ranging from racism to gender inequality, and the more spectacular forms of violence that are uncontestably human rights abuses, some of them punishment for efforts to escape structural violence".

an additional risk to researchers. Goodfellow (2017a) highlights the danger of "cognitive dissonance" arising from being presented with widely differing versions of reality. Furthermore, Fisher (2015, p.141) claims that the government openly questions "foreign researchers' capacity—and right—to represent the country and its reality" with a view to undermining their credibility**.** He also refers to "sustained and vicious character assassination" of academic critics (Fisher, 2015, p.139).[29] King (2013), Jessee (2013), Beloff (2016), Wrong (2021a) and others document how space for independent research on contentious topics has been closed through bureaucratic controls.[30] All the above create pressure on researchers to self-censor in exchange for access.

A third constraint is a reluctance by locals to engage openly with independent researchers. Purdekovà documents the pervasiveness of the government's surveillance apparatus at all levels of society, claiming that an ingrained perception exists among Rwandans "that surveillance and locally traced intelligence are ubiquitous, and the effects of this on behaviour are very real" (Purdekovà, 2011b, p.489; 2016). Similarly, Wrong (2021b) argues that citizens' fears over state surveillance, particularly over electronic communication, means that Rwandans "will only stray beyond the prosaic and banal when sitting face-to-face". Beloff (2016) describes the anxiety among Rwandans, particularly public officials, of being associated with research that is later deemed to be critical of government. He also suggests that officials are wary of foreign researchers, which he attributes to the international abandonment experienced by many, particularly former refugees who are well represented in public administration, and a common belief that foreign researchers have pre-conceived notions about the country. Holmes (2014, p.322) notes that officials routinely "introduce biases into their responses" and "present a polished image of Rwanda's development interventions", while King (2009, p.130) draws attention to the reproduction of "politically sanctioned public narratives" by locals and selective disclosure of information by public officials. [31]

Despite the constraints outlined above, Clark (2013) argues that independent research can be conducted in Rwanda, and critical views can be expressed, provided that the researcher adopts a fair and considered tone and that the opinions of Rwandans are well respected. Clark recommends researchers be "discreet, patient and respectful in the field," and make efforts to "build close relationships with local respondents, researchers and (where possible) government officials." Such an approach to this research was facilitated by the author's lengthy posting to Rwanda. Yet, as the subsequent section will demonstrate, this in turn gave rise to additional research challenges.

[29] Clark (2013), although generally dismissive of allegations of excessive government control over research in the country, recalls the Rwandan government's "venomous reaction" to the publication of Strauss and Waldorf's (2011) book *Remaking Rwanda*, with a series of articles in the state-owned *New Times* denouncing the authors as "enemies of Rwanda" and "genocide deniers" (see Rwgatare, 2011; Butamire, 2011).

[30] Some researchers note how pressure to uphold the official narrative is exerted on researchers during fieldwork (Thompson, 2011; Beloff, 2016), by regulating access to people and information (King, 2009) and by overseeing in-country research activities. Jesse (2013), for example, documents how authorities demanded to see unedited work and interview transcripts, which jeopardises participants' confidentiality.

[31] King (2009) notes that assembling socio-economically representative groups of participants is challenging in Rwanda, where ethnic identification is banned (see Vandeginste, 2014). She highlights the risks of partisan bias due to "overrepresentation of Tutsi among urban, educated Rwandans in Kigali", who she argues are invariably pro-government (King, 2009, p. 135).

3.3.2. Practitioner research

Research was undertaken while the author worked as a diplomat for the European Union (EU) in Rwanda from March 2015 to July 2020, where he managed development programs to enhance PFM and DRM. He worked directly with staff from Rwandan public institutions, including those responsible for tax policy and tax administration. In doing so, he attended meetings and conferences in Rwanda, both in public and behind closed doors (section 3.4.5) and engaged in regular formal and informal dialogue with government officials and other stakeholders, including Rwandan civil society.

This thesis can therefore be classified as practitioner research, a form of research that builds on pre-existing specialist knowledge of subject matter, and on first-hand experience of the operational contexts and organisational norms under examination. While providing advantages, practitioner research also poses challenges. The insider positions of practitioner-researchers can impact impartiality and objectivity, highlighting the need to be wary of personal values and potential for bias (Fox et al., 2007). Positionality, particularly as a diplomat, also comes with a constraint of needing to be sensitive to power, privilege, and politics (Fox et al., 2007; Fenge et al., 2019). The duality of roles played by practitioner researchers also raise ethical questions about anonymity and confidentiality (Dahlberg et al., 2010; Bowlin et al., 2016).

More specific issues were also identified in relation to the author's employment status. First, working for a major donor agency carries the risk of distorting the content of interviews -with the positive bias augmented- if it were perceived that responses could be linked to maintaining or augmenting development finance. Second, potential interviewees' willingness to engage could fluctuate according to the prevailing political attitudes towards the EU and other donors. Third, the author's perceived position of authority could directly or indirectly influence potential participants, putting them into positions where they felt compelled to respond to requests for interview.

In response, risk mitigation measures were adopted. First, the author always emphasised the independent nature of the research, making a clear distinction between academic and professional duties. Second, the author communicated to participants that research was being undertaken in an impartial manner and was not influenced by any specific agenda, directly or indirectly. The author also underlined that participation would have no bearing on current or future financing decisions taken by his employer. He also decided against asking for the support of local authority figures (such as professional contacts) to facilitate meetings with their colleagues or subordinates. All prospective interviewees were approached directly. The project information sheet and consent forms, circulated to the potential interviewees in advance (see appendix) and explained orally prior to any interview, were designed to ensure informed consent.

3.4. Data collection

Data and evidence were collected through a mix of desk research and fieldwork, including document collection, interviews, budget analysis, informal exchanges, and observations. Data collection focused on gathering evidence on the impact of income tax and VAT reforms in the period 2012 to 2020, and the interaction between government and key stakeholders during reform design and implementation.[32] The year 2012 was selected as a starting point since Rwanda experienced an acute fiscal crisis sparked by the suspension of ODA. Such a starting point is consistent with the theoretical model, which predicts that revenue pressure -created by fiscal shock- is the primary driver of tax reform. An end date of February 2020, coinciding with the global COVID-19 pandemic, was adopted for two reasons. First, pandemic-related restrictions from March 2020 effectively ended the field research. Conducting face-to-face interviews became impossible, and the author was repatriated in July 2020 after Rwanda reopened its borders to international travel.[33] Second, COVID-19 had a profound distortionary impact on the economy. The crisis created new fiscal pressures, which in turn precipitated a new cycle of tax reforms. These subsequent reforms should be the subject of a separate follow-up research assignment.

3.4.1. Desk research

Given the multifaceted nature of taxation, the literature review encompasses multiple academic fields, including history, law, economics, philosophy, political science, sociology, psychology, and business. Within these fields, particular attention is paid to literature on development economics, the political economy, political sociology, governance, public administration, public policy, public finance, and organizational theory. There is also an international dimension, covering European and African studies, geopolitics and international relations, international development, and globalization. Data is sourced from academic journals, scholarly books, government publications, international organization and non-governmental agency publications, research reports, theses and dissertations, websites, and newspaper articles.[34] Not only does this analysis of the broader literature contribute to the theoretical basis for the thesis, but also sheds light on international experiences that can be benchmarked.

For the case study, multiple sources of data on contemporary Rwanda are scrutinized to better understand the country context and identify the key socio-political, economic, and fiscal junctures in the country (see Chapter 4). The “polarized” academic literature on Rwanda (section 3.3.1) is carefully studied, taking account of both sides of the debate. Government policy documents, laws and regulations, official reports, and public statements by senior officials are also scrutinised to understand official narratives on Rwanda’s development and the stated motives of government, particularly with regards to taxation and governance. The author also scrutinises local news sources, including newspaper and magazine articles, visual media, and other local publications, such as reports or position papers of local NGOs and business associations. With the Rwandan government having carefully constructed an official, one-sided, public narrative on the country’s development (section 4.2), and has strong control over the local media and civil

[32] While data collection focused on the tax reforms during this period, the scope of the research sometimes went back further to obtain contextual information and better understand the rationale reason behind policy decisions.

[33] The first case of the virus was confirmed in Rwanda on 14 March 2020. On 18 March the government closed the borders, suspended international air travel, and imposed lockdowns. International travel to the European Union only resumed in July 2020.

[34] Documents continued to be identified and scrutinised throughout thesis preparation, with the author using “reverse snowballing” techniques, whereby references and citations helped identify other relevant documentation.

society (section 7.2) the author also examines “independent”[35] reports, often prepared or commissioned by donor agencies, relating to the performance of government in terms of the implementation of its development vision, of broader governance reform, and specifically tax-related matters. The author also examines blogs and articles by Rwandan exiles, including those of prominent opponents of the RPF.

A final pillar of the desk research is analysis of quantitative data, derived from both government and international sources, such as World Bank, OECD, or IMF datasets. This analysis not only focuses on fiscal data (see section 3.4.4), but also takes account of key socio-economic development and governance indicators.

3.4.2. Interviews

Interviews allow for a more comprehensive understanding of many of the intangibles that cannot be picked up from desk research alone. They provide further insight into the attitudes and political motives behind formal reform initiatives and help clarify the contextual factors that inform public policy decisions under observation. Interviews are a means of ascertaining whether local actors perceived the types of processes hypothesised in the theoretical model (section 3.1.1) taking place in practice.

In total, 62 interviewees took part in this research project, and all were undertaken in English. Forty interviews were undertaken face-to-face, and the remainder virtually.[36] Three core groups are targeted. First, civil servants in key institutions, specifically those working on economic development, PFM and DRM. Second, stakeholder groups outside government trying to shape policy or those directly affected by policy changes, such as the private sector or professional associations, and other civil society groups. Recognising the danger of positive bias (section 3.3.1), a third group of interviewees includes development practitioners, such as expatriate consultants and staff from embassies and development agencies, who would be less affected by the dynamics outlined in section 3.3.1.

Potential interviewees were initially identified through the author’s professional networks and the desk review.[37] Thereafter, a “snowballing technique” was adopted, whereby information obtained during interviews helped identify the small number of individuals involved in the reforms outlined in the in-case studies. Noting the findings of Iacono et al. (2009) and Clark (2013), the author aimed to build relationships with potential interviewees based on trust, while being equally mindful of risks that the personal

[35] Not all diagnostic work undertaken -particularly published work- by Rwanda’s donors can be considered as fully “independent”. In practice, diagnostic work in Rwanda, although financed by donors, is either government-owned or can only be undertaken with government editorial control in the interest of “ownership”. Donor agencies operating in Rwanda tend to self-censor because of the government’s intolerance to criticism (section 7.3), and because of perverse incentives to demonstrate the “success” of development programs. In several cases, interviewees working for development agencies confirmed that the publication of critical analysis was withheld by their respective organizations, either through self-censorship or because of strong government opposition to research findings.

[36] Virtual interviews took place with some expatriate interviewees only after they had left their functions in Rwanda, enabling them to be more open in their answers. Other virtual interviews took place because of the COVID-19 pandemic and the social distancing measures introduced at the time. No local participant was willing to engage virtually (see section 3.3.1).

[37] Documents (e.g. newspaper articles) frequently named individuals and title holders within specific organisations as having participated in policy formulation, approval, implementation, and appraisal processes.

relationships between researcher and interviewee can influence the substance of discussion.

To mitigate the high risk of positive bias (section 3.3.1) interviewees were undertaken in a phased manner, with development practitioners and stakeholder groups outside government approached before civil servants. This was to obtain a broader range of potentially more independent views at outset to then be able to question the official narrative in later interviews, and to avoid unduly jeopardising professional relationships (sections 3.3.2 and 3.4.6). This strategy was undermined by the COVID-19 pandemic. Not only were the targeted individuals reassigned to priority tasks, but social distancing restrictions prevented face-to-face interaction or interviews. After the author left the country in July 2020, several requests for virtual interview were sent to targeted civil servants via email, including those with whom the author had built a professional relationship for over five years, but not a single official responded.

The interviews were invariably semi-structured. All Interviewees were provided with background information on the research aims and objectives (see appendix). A provisional list of questions –grounded in the desk research (see section 3.4.1) and information obtained from prior interviews- was sent to the participants in advance. This was primarily to provide an opportunity for individuals to reflect on the questions in advance, and to establish a structural outline for the discussion. It was also to reassure potential interviewees, particularly Rwandans, about the subject matter and to allay any perceptions of personal or institutional (relating to professional status of the author) bias. Semi-structured interviews also allowed for flexibility, enabling participants to highlight issues that may not have initially been foreseen. Nonetheless, information from all interviews is triangulated with other sources of data, such as media reports, grey literature, and findings from budget analysis (see section 3.4.4).

All interviewees were notified of the need for informed consent, either in written or oral form, before any formal interview took place. Interviewees were informed of the implications of informed consent, including rights to anonymity and to withdraw from the research project at any time. Interviewees were also informed of the measures taken to protect their identities and how any information provided would be securely stored and used. This information was provided in written form (information sheets/consent forms) when the interviewees were approached, and then orally at the start of each interview. Most interviewees signed consent forms. However, obliging all interviewees to provide a signed consent form was not feasible given the country context (section 3.3.1). Informed oral consent was requested if no prior written affirmation (e.g. text, e-mail) had been provided. If neither formal written nor oral consent was forthcoming, then discussions were classified as “informal exchanges” (section 3.4.3).

Early in the research project a decision was taken to anonymise all interviewees. This was primarily to protect interviewees (section 3.3.1), but also to reduce the possibility of self-censorship on their part. Interviews appear numbered in the text, with as much detail as possible provided on the type of interviewee without jeopardising anonymity. A list providing greater clarity on the identity of interviewees was provided separately to the thesis examiners and destroyed after the thesis defence. Interviews were only recorded with the explicit consent of the interviewees having been obtained in advance. Ten interviews were not recorded at the request of the interviewee. All material pertaining to the interviews was stored on a secure server at the University of Birmingham, accessible only to the researcher and the PhD supervisors.

3.4.3. Informal exchanges

Informal discussions, which regularly occurred during the author's time in Rwanda -both in a professional and social capacity- were an important means of gathering contextual information, identifying potential information biases, and flagging issues for further examination. In some cases, informal exchanges contributed to building trust with potential participants, ahead of formal interviews. Information gathered from informal exchanges was noted in a personal field diary, and securely stored. With informed consent considered a prerequisite for research participation (section 3.4.2), information gathered from informal exchanges, that could not be verified from other formal sources is not used in the thesis.

3.4.4. Budget analysis

Given the non-participation of Rwandan policy makers in the research, budget analysis help shed light on the distribution of power and the balance of interests in government policy. This comes from a practitioner's appreciation of the centrality of the budget to government and the knowledge that PFM is a political, as opposed to a purely technical, process. The author extracted numerical data from nine original and nine revised enacted state budget laws over the period 2011/12 to 2019/20 and compiled a timeseries. To the author's knowledge, this is the first time that such an exercise is undertaken by an independent researcher. Each state budget law is typically over 600 pages in length (including annexes) and presents the budget in revenue, functional, economic/administrative, and programmatic terms. Planned expenditures are broken down into as many as seven levels.[38] Since these laws are published in PDF format, and only provide data for the fiscal year in question, data had to be manually transferred into Excel format and suitably arranged to ensure consistency of the data according to different budgetary classifications over the nine-year period examined.[39] To measure changes in public spending over time, data was also converted from nominal to real terms using a GDP deflator.[40]

While basing the analysis on budget outturns rather than enacted budgets would have been a more accurate way to examine public expenditure trends (since allocations do not automatically translate into spending), a lack of transparency in government expenditure reporting made such analysis impossible.[41] Nevertheless, the analysis still proves useful.

[38] The economic/administrative presentation of the budget, for example, is broken down to: aggregate, budget agency, program, sub-program, sub-chapter, and economic item.

[39] Additional practical challenges were encountered during this process. During the period in question, there were at least three revisions to the national budget classification (including changes to budget nomenclature) and the government repeatedly restructured many of its Ministries and affiliated agencies. Since the format and the level of detail provided in successive state budget laws vary considerably from year to year, a careful mapping exercise was necessary. Furthermore, the different presentations of the budget were cross-checked against each other to ensure constancy (and in the event, identify anomalies).

[40] GDP Deflator obtained from data.worldbank.org (accessed 30/11/2023).

[41] OBI (2018), for example, concluded that since only aggregate level data is provided in official budget execution reports, it is not possible to measure planned expenditures against budget outturns. OBI also confirmed that the government did not publish its consolidated financial statements, nor were audit reports of specific public entities made available on a systematic basis.

First, it enables a factual comparison between political rhetoric on Rwanda's socio-economic priorities, and the reality of government expenditure commitments as captured in law. Second, it is possible to map the fiscal data to key historical junctures in the decade before the COVID-19 pandemic in 2020/21, and thereby visualize the downstream fiscal impact of government policy decisions, and by extension identify the winners and losers of government policy decisions. Finally, drilling down into the data helps identify key expenditures hidden within the state budget, proving that the devil of the Rwandan budget is in the detail. Key findings of the budget analysis are presented in contextual chapters 4 and5, as well as the in-case studies in chapters 8 and 9, while consolidated data tables are presented in annex.

3.4.5. Observations

Observing and participating in the day-to-day or routine activities allows researchers to learn about contexts, relationships, and behaviour of the people under study in the natural setting (Kawulich, 2005). Spradley (1980) explains that observation takes various forms, including: non-participation (activities observed from the outside); passive participation (activities observed in a particular setting but without participation); moderate participation (activities observed in context with partial participation), and full participation (activities observed in a particular setting with complete participation).

While posted to Rwanda (section 3.3.2), the author was at various times a passive, moderate and full participant in relevant events and activities. Attendance at such meetings was invariably in a professional capacity (see section 3.4.6), with the author required to objectively document and analyse discussions and developments. He attended large and open public conferences and events, also covered by the Rwandan media, where he was a distant and passive observer. He attended, by invitation, thematic workshops where he was a moderate participant. He also attended closed technical working group meetings, government-donor dialogue, and donor meetings, where he was a full participant. The author also managed technical assistant projects to support public institutions, enabling observation of civil servant behaviour and of the inner workings of institutions over a longer period.

Inevitably, participant observation creates challenges for any researcher, since their presence can influence decision-making or the way that individuals behave, being either reluctant to speak openly, eager to please, or interjecting their own biases (Iacono et al., 2009). In Rwanda, however, public events are not a platform for frank and open discussion, with self-censorship and positive bias the default setting of participants (see section 7.1). Similarly, in the author's professional experience, closed or restricted participation meetings are also well-choreographed, deliberately limiting room for substantive discussion. Consultation meetings with donors and other stakeholders often serve to "validate" rather than discuss policy, with the policy having already been approved by senior officials within government. As will be shown in the two in-case studies (Chapters 8 and 9), development partners were wholly excluded from the process, with no opportunity to directly influence the tax reforms in question.

Day-to-day observation and interaction with civil servants, combined with professional expertise, enabled the author to assess the capacity of organizations and individuals to formulate and implement coherent policy. Daily interactions with civil servants and civil society also shone light on the more informal drivers of individual and group behaviour in Rwanda (Chapter 6). This information could then be used as a yardstick against which to assess the veracity and credibility of assertions made during interviews.

For this thesis, a distinction is made between participation in public meetings and those meetings taking place behind closed doors. Statements made by government officials in public settings and reported upon by local media, have been used in the thesis without the explicit consent of the individuals concerned. With regards to statements made by individuals in closed group settings, the same restrictions as for informal exchanges have been applied, with information used only where it could be triangulated with publicly available documentation or formal interviews.

3.4.6. Avoiding conflicts of interest

As an EU civil servant during the data-collection phase, the author was duty bound to respect professional and ethical codes of conduct, particularly in relation to data confidentiality and non-disclosure of information. As highlighted above, information obtained solely through the author's employment status, including from access to unpublished documents or participation in closed events (section 3.4.5), does not feature in the thesis.[42]

The author received financial support from the European Commission to partly cover PhD course fees, which his employer classified as "own initiative training" in support of professional development. Prior approval for funding assistance for PhD studies was obtained from the author's hierarchy both in Rwanda and at HQ level, after the author demonstrated that advanced academic qualifications and the research topics were relevant to ongoing and likely future professional activities within the European Commission.[43] Accordingly, a synopsis of the planned research relating to taxation in Rwanda was provided and endorsed in advance. However, at no time was there direction from the author's employer regarding the research questions, nor was there any specific oversight of the research, influence on the direction taken or the interpretation of results. The research work was undertaken independently in the author's spare time.

[42] A prominent example here would be in relation to the reports of OAG. In Rwanda, only annual summary reports on the OAG's activities are published, and the reports on individual entities remain confidential. Through his professional activities, the author had access to a select number of unpublished OAG reports on individual government entities, which provided a wealth of unvarnished information on the reality of PFM and public administration in Rwanda. However, this information is not included in the thesis, and references to OAG findings come solely from published summary reports.

[43] The application for financial support noted that improving domestic revenue mobilisation in developing countries is a stated aim of EU development cooperation and argued that the research could feed back into the EU's future policymaking and programming on DRM in developing countries.

4. Exploring the fiscal-social contract in contemporary Rwanda

This chapter sets the scene by examining key contextual factors that shape the fiscal-social contract in Rwanda, an African dominant authoritarian regime, where despite the existence of formal institutions of democracy and accountability is considered as highly authoritarian (Van de Walle, 2002; Carothers, 2002; Matfess, 2015).[44] Yet, even the most autocratic states must still bargain with citizens to acquire the political legitimacy and financial resources to rule. In Levi's (1988) account, state control over a country's coercive, economic, and political resources increases the likelihood taxes can be extracted from citizens on terms favourable to government, but autocratic regimes nonetheless refrain from coercive revenue maximisation because of the constraints they face as actors within a domestic and international context. Similarly, von Haldenwang (2017, p.270) claims that "even blatantly authoritarian regimes design strategies to substantiate their claim that the political order they impose is the one that under given circumstances serves best the common good".

Von Haldenwang (2017, p.269) further argues that "to be successful, legitimation (the process by which legitimacy is procured) must fulfil two functions: relate demands for legitimation to government performance (the 'demand cycle') and relate legitimacy claims issued by the rulers to behavioural patterns of the ruled (the 'supply cycle')". Dukalskis and Gerschewski (2017), Von Haldenwang (2017), Gerschewski (2018), Isaacs and Du Boulay (2019), and others, argue that non-democratic regimes claim political legitimacy through the supply cycle, while suppressing the demand cycle. Von Haldenwang (2017, p.279) assets that contemporary authoritarian rulers' claims for legitimacy are often "framed with reference to material policies and performance (for instance, social welfare, employment)… [or expressed] as identification with a charismatic leader, with the nation, with overarching goals (for instance, independence from colonial rule)". This certainly chimes with the author's professional experiences in highly authoritarian countries, such as Vietnam and Rwanda, where dominant political narratives focus on performance legitimacy, cults of personality, guardianship of traditional values, and romanticization of pivotal events (including the struggle for independence or freedom from oppression). In a fiscal-social contract, citizens respond to the legitimacy claims of rulers and the state's demand for taxes through acquiescence or rejection, which according to the theoretical framework adopted for this thesis implies compliance with, or resistance towards, taxation.

This chapter explores the legitimisation strategies of Rwandan government, and citizens' reactions to it. The chapter is structured as follows. First, defining moments of the twentieth century that contributed to the rise to power of the RPF are examined to understand how the current Rwandan state was shaped, and to identify the issues that continue to influence political discourses. Second, the nature of the current fiscal-social contract under RPF hegemony is critically examined, demonstrating how the RPF have sought to establish broad-based political legitimacy while simultaneously consolidating

[44] Depending on interpretation, Rwanda's hybrid regime could be defined as a "façade electoral regime" (Levitsky & Way, 2002), a "hegemonic electoral authoritarian" regime (Diamond, 2002), an "electoral autocracy" (Kailitz, 2013) or "an illiberal democracy" (Zakaria, 1997) to name a few.

power and establishing authoritarian rule. Third, the fiscal shock of 2012/13, brought on by the suspension of foreign aid, is examined, since it became a critical juncture in recent Rwandan history, with implications for not only the fiscal-social contract, but also for tax policy and administration within the country. The chapter concludes with an examination of the implications of the government's legitimacy strategy for taxation.

4.1. Historical overview

4.1.1. Governance in colonial and post-colonial Rwanda

Although little scholarly consensus exists on pre-colonial societal relations in Rwanda, given that "the topic has become embroiled in a good deal of controversy linked to contemporary political, social and cultural issues that confront the Republic of Rwanda" (Vasina, 2004, p.3), it is generally accepted that when Europeans first arrived in the late nineteenth century, they encountered a monarchical political system with entrenched social stratification. A Tutsi King controlled the military, political and economic landscape (Uvin, 1997; Smith, 1998; Magnarella, 2005), with power "concentrated in few hands and where the bulk of the citizens were alienated" (Vasina, 2004, p.203). Wrong (2021a, p.115) describes the Kingdom as "one of Africa's most centralized states, highly organized, rigidly disciplined" with the monarchical rule established through "centuries of conquest and subjugation, with rival princes and warlords either killed or co-opted".

Having conquered the country militarily, the colonisers exploited prevailing class structures to forcibly extract resources (taxes and tributes) from the population (Kamola, 2007; Pottier, 2002).[45] Tutsi chiefs, keen to maintain and extend their power, served as "intermediaries" in this effort, propped up by colonial military support (Wrong, 2021a, p.115). To legitimise the rule of their proxies, colonisers promoted a social-Darwinist notion of Tutsi minority racial superiority over the Hutu majority (Smith, 1998; Magnarella, 2005; McDoom, 2011). Consequently, "political, social, and even economic relations became more rigid, unequal, and biased against the Hutu, while the power of many people of Tutsi origin greatly increased" (Uvin 1997, p.255). According to Wrong (2021a, p.118) "while the Belgians put Hutus to work terracing hills, building roads and digging dams under an oppressive system of forced labour, Tutsis were given the majority of administrative posts and privileged access to education" among other benefits.

By the mid-twentieth century, grievances over inequality and ethnic segregation coalesced into Hutu emancipation demands (Uvin, 1997, 1999, 2010; Silva-Leander, 2008), often erupting into ethnic violence. Sensing a turn in the tide, the colonisers cynically switched allegiance to the Hutu majority (Prunier, 1995a). Following a referendum in 1961, the Tutsi monarchy was abolished, and Rwanda was granted independence a year later. *Parmahutu*, a radical anti-Tutsi party, secured electoral victory with its leader, Grégoire Kayibanda, declared President. He quickly established a de facto Hutu one-party regime, by eliminating former Tutsi powerholders alongside his Hutu rivals (Uvin, 1999). Hundreds of Tutsis were killed in violent pogroms, and thousands more driven into exile (Samset & Dalby 2003; Kamola, 2007).

[45] Imperial Germany first colonized Rwanda at the end of the nineteenth century. Control of Rwanda was handed over to Belgium by the League of Nations in 1919, with the victors of the first World War dividing Germany's overseas colonies amongst themselves. Rwanda remained under Belgian colonial rule until independence in 1962.

Independence merely resulted in one elite group replacing another, with insignificant impact on the lives of the majority Hutu population (Uvin, 1997, 1998; Kamola, 2007). In 1973, Kayibanda was overthrown in a coup d'état led by Juvénal Habyarimana (Smith, 1998; Uvin, 1999, 2010). Habyarimana in turn eliminated Kayibanda supporters and set about transforming Rwanda into a *de jure* single-party dictatorship (Brana & Cazeneuve, 1998; Magnarella, 2005; Silva-Leander, 2008). He nonetheless claimed "democratic" legitimacy as the representative of the majority Hutu; promoted "development" legitimacy through the rhetoric of state building and economic development for the masses; and sought "social" legitimization through self-proclaimed guardianship of Rwandan culture and values (Uvin, 1997, 1999; Silva-Leander, 2008). In practice, there was no discernible fiscal-social contract with "the state [having become] an extension of sectional groups or interests, and competition for power [taking] the form of a 'zero-sum' political struggle over resources" among elites (Silva-Leander, 2008, p.1604). To deflect attention, Tutsi scapegoating became a key pillar of the regime's legitimisation strategy (Uvin, 1997, 1999, 2010).

The early years of Habyarimana's rule were relatively stable and prosperous, albeit with rising inequality and ethnic discrimination (Kamola, 2008). Economic reforms stimulated foreign investment and Rwanda received large ODA inflows thanks to the regime's shrewd use of development discourses (Browne, 2006; Silva-Leander, 2008) and Habyarimana's cultivated image of a loyal Cold War ally (Roesseler & Verhoeven, 2016). According to Uvin (1998; 1999), Habyarimana convinced the international community that he ruled a model developing country, ensuring that it became one of the world's foremost ODA recipients. France emerged as Rwanda's closest ally,[46] seeking to exploit cultural roots laid down by Belgium and incorporate Rwanda into its francophone sphere of influence (Péan, 2014; Cameron, 2015; Staunton, 2016). Cameron (2015, p.100) claims that France not only "acted as a visible guarantor for the regime" but also "play[ed] a role in shaping Rwanda's economic and social relations as well as its political power structures", with Cold War realpolitik leaving France unmoved by increasing autocracy and ethnic tension (Cameron, 2015, p.100). According to des Forges (1999, p.19), aid agencies for their part "generally satisfied with the stability of his government… [also] overlooked the systematic discrimination against Tutsi".

Habyarimana also benefitted from a commodity price boom, with coffee exports bolstering state revenues (Uvin, 1997, 1999; Kamola, 2007, 2008) and providing the foreign exchange necessary to import goods for urban elites (Verwimp, 2003). Rwanda at the time van therefore be considered as a rentier state (section 2.3.2), "with about 45 percent of GDP and 80 percent of exports accounted for by coffee and tea" (World Bank, 1991a, p.1). Incentives and coercion were used to stimulate coffee production, while other economic sectors faltered (Verwimp, 2003; Kamola, 2007). Kamola (2008, p.67) claims this dynamic "primarily benefited the ruling elite, who sold coffee on the international market at rates significantly higher than the prices paid to the farmer". Corruption and

[46] According to Cameron (2015) Belgium focused on economic links with its former colony rather than seek to nurture political and military links. France's interest in Rwanda, a country with few natural resources, was geopolitical. Even during the cold war period, France feared the loss of influence of its former colonies in Africa to the US and Britain (Prunier, 1997). As such, Rwanda was seen as the "frontier of the Francophone zone and it was a neighbouring state of Zaïre—a country very rich in natural resources—which France was highly interested in" (Staunton, 2016, p. 309).

clientelism were rife, with Habyarimana using rents to appease elites and to maintain a repressive security apparatus (Kamola, 2007, 2008; Uvin, 2010).

In the 1990s, multiple exogenous shocks struck Rwanda, eroding Habyarimana's legitimacy. Collapsing world coffee prices led to recurrent fiscal crises. The government initially responded by borrowing more and levying unpopular taxes,[47] before eventually - and reluctantly- accepting an IMF structural adjustment programme, with its usual prescription of currency devaluation, public sector cuts and pay freezes, and the removal of subsidies and tax exemptions (World Bank, 1991b; Andersen, 2000; Storey, 2001; Verwimp, 2003; Kamola, 2008), all of which impinged on elite privileges. In parallel, droughts spread famine and exacerbated land scarcity, destroying rural livelihoods, and creating a large unemployed population (Diamond, 2005; Magnarella, 2005; Kamola, 2008). Kamola (2008, p.67) documents how these crises aggravated "already existing tensions between northern and southern Hutu business and state elite, urban and rural populations, and Hutus and Tutsi" and led to a schism between the moderate and extremist wings of the ruling party. An invasion of the country in 1990 by armed Rwandan exiles, the RPF, compounded existing problems. Thousands were displaced, trade routes were blocked, and revenues from tourism and agriculture collapsed (Magnarella, 2005). Finally, freed from Cold War geo-political considerations, ODA, upon which the regime increasingly depended, was becoming increasingly conditional on political liberalisation (Andersen, 2000; Cameron, 2015).

Faced with economic crisis, the prospect of military defeat, growing domestic discontent and increasing international pressure, Habyarimana was forced to the negotiating table. A peace settlement (the "Arusha Accords"), mediated by the international community, was drawn up, outlining provisions for democratisation, power-sharing, and the safe return of refugees. In reality, "the balance-of-power struck in the Arusha Accords did not reflect the perceptions of the balance-of-power held by its signatories" (McDoom, 2010, p.9), nor did it resolve the "the irreconcilable contradictions between the demands and expectations of the 'Hutu power' groups on the one hand and the RPF on the other" (Clapham, 1998, p.206). Both sides in the conflict perceived the Accords as imposed by foreign powers and neither side were invested in their success (Silva-Leander, 2008; Vandeginste, 2014; Thompson, 2018; Jones & Murray, 2018). The economic elite, and hard-line 'Hutu Power' factions within the Habyarimana regime had little interest in loosening its grip on power and the economic rents derived from it (Prunier, 1997),[48] while the RPF recognised their power, derived from military strength, would be weakened by multi-party elections. Aware that it was widely perceived within Rwanda as a Tutsi movement, the RPF "could not agree to any political solution based on multi-party

[47] World Bank (2001b, p. 6 & 15) refers to: the introduction of a minimum 10 percent tariff on all imports; tax increases on petroleum products, which coupled with pass through of the full impact of the currency devaluation, had the effect of raising prices in excess of 80%; increases in the sales tax (from 6-10% for most goods, from 2-5% percent for essential commodities, and from 1-10% for services and entertainment); as well as the "introduction of an exceptional emergency "solidarity tax" on wages and salaries designed to finance the war effort". In parallel, the government introduced a moratorium on new tax exemptions from import duties and income taxes under the Investment Code.

[48] Not only would such groups lose power within a power-sharing arrangement, having hitherto enjoyed control, but the "Arusha accords also sought to separate the judiciary from the executive, and gave the courts the power to bring to book individuals in high positions who had misused their influence or state resources" (Clapham, 1998, p. 203).

electoral competition, in which it was always liable to be defeated because of the narrowness of its demographic base" (Clapham, 1998, p.200).[49]

On 16th April 1994, Habyarimana was assassinated, providing the spark for the resumption of the civil war, and enabled Hutu extremists to take full control of the Rwandan state apparatus. This, in turn, prompted three months of state-led violence against perceived domestic enemies, which left an estimated 800,000 Rwandans – predominantly ethnic Tutsis, but also moderate Hutus– dead; approximately 2,000,000 people internally displaced; and the same amount having fled into neighbouring countries (des Forges, 1999). With the international community unable to stop the violence (Dallaire, 2003; Melvern, 2009), the Rwandan genocide was only halted when the invading RPF, led by Paul Kagame, routed government armed forces, and conquered the country.

4.1.2. RPF's rise to power and how it shaped its worldview

The RPF is a political and military movement founded in 1988 by Rwandan exiles in Uganda, whose parents fled Rwanda generations earlier. Its founders experienced discrimination and persecution by host populations (McDoom, 2010; Jones & Murray, 2017; Wrong, 2021a), which Roessler and Verhoeven (2016, p.117) claim created "internalised beliefs of being second-class citizens and unwanted refugees". They had also cultivated a romanticised, nostalgic image of their homeland (Pottier, 2002; Wrong, 2021a), and longed to free Rwandans from a corrupt and exploitative dictatorship (Roessler & Verhoeven, 2016; Thompson, 2018). Chemouni and Mugiraneza (2019, p.136) claim that "the RPF's idealization of precolonial times along with its anti-imperialism have had clear ramifications in terms of problem definition and policy ideas after the genocide".

Their struggles on the road to power solidified the RPF's worldview, or more precisely that of Kagame,[50] which continue to resonate (Section 4.2). The RPF's origins as a clandestine organisation promoted deep bonds between the organisation's military, political and business elites, and heightened suspicion of outsiders. Wrong (2021a, p.152&165) argues that physical vulnerability during the armed struggle reinforced RPF internal discipline, with Kagame making his name as an "enforcer" of Spartan discipline and summary justice. Having obtained power by force, following the collapse of the Arusha negotiations and the genocide (section 4.1.1), the RPF came to see danger in compromise and considered violence as a legitimate means of solving problems and achieving political objectives (Prunier, 2009; Jones & al., 2013; Roessler & Verhoeven, 2016; Mann & Berry, 2016). The RPF's military victory, and the UN's failure to intervene during the genocide, not only gave Kagame a sense of moral superiority, but also in Mann and Berry's view (2016, p.128) reinforced his belief that "a strong state is necessary to maintain security – and that ultimately Rwanda cannot rely on the international community for support".

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[49] Clapham (1998) points to the 1993 elections in Burundi as a justification of RPF fear of electoral defeat in broad-based elections. In Burundi, the incumbent Tutsi leader "who had made genuine attempts to seek support across the ethnic divide (and who indeed received an appreciable number of Hutu votes) was nonetheless defeated by a Hutu" (Clapham, 1998, p. 200).

[50] Paul Kagame took control of the RPF in 1990 following the death of the previous leader, Fred Rwigyema, in the early days of the RPA invasion of Northern Rwanda.

Contrary to their expectations, the RPF were not enthusiastically welcomed as liberators. The indigenous Hutu population, conditioned by decades of anti-Tutsi propaganda, feared the predominantly Tutsi RPF (Chemouni, 2016a), while Kinyarwanda-speaking rural Tutsis had little in common with the urbanised, Anglophone RPF, many of whom had never set foot in Rwanda (Thompson, 2018; Wrong, 2021a).[51] According to Roessler and Verhoeven (2016, p.127&123) the underwhelming reception to RPF's military victory, reinforced a paternalist belief within the RPF that they would have to rule as a righteous vanguard that "had the right recipes for Rwandan society, even if [society] may not yet be aware of it". Similarly, Thompson (2018, p.65) claims that the population's perceived ingratitude convinced the RPF of the need to "re-educate the rural masses on the importance of a unified national ethnic identity, as well as the importance of discipline, sacrifice and loyalty" (section 4.2.2.2).

The country inherited by the victorious RPF was devastated. Former powerholders had fled to Congo; state institutions and state-owned enterprises were abandoned; swathes of entrepreneurs, professionals and civil servants were dead; and the retreating government had looted state coffers (Roesseler & Verhoeven, 2016; Jones & Murray 2017). According to McDoom (2011, p.25), the remaining population, comprising of "high proportions of several socially vulnerable groups", was severely traumatised.[52] Inter-ethnic relations were shattered, with many citizens having participated in the killing, either willingly or under coercion (des Forges, 1999; Fuji, 2009). The challenge of state rebuilding, resuscitating the economy and re-establishing security, without sufficient resources, was monumental. The RPF also faced the twin security threats of a rural insurgency and armed incursions by remnants of the former Hutu extremist government from their bases in Congo.

McDoom (2011), Thompson (2018) and others argue that the RPF consciously chose not to adopt a "winner-takes-all" stance in the wake of victory, which Clapham (1998, p.200) claims "might be interpreted as the re-imposition of Tutsi hegemony", but rather to project -outwardly at least- the RPF as an inclusive nationalist movement. Politically astute confidence-building measures were adopted to build international legitimacy and reassure citizens, including the establishment of a transitional "government of national unity"[53] (Samset & Dalby, 2003; Burnet & Kanakuze, 2017). Moderate Hutu politicians,

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[51] Péan (2014), Rever (2018) Wrong (2021a) and many others argue that the Hutu population were right to fear the RPF. Both authors, drawing on a leaked UNHCR report (the "Gersony report") as well as eyewitness testimonies, document numerous atrocities carried out by the RPF against the civilian populations in the territories they controlled during and after the civil war. The Gersony report (1994, p. 4) itself presents evidence of "systemic and sustained killing and persecution of their civilian by the RPA" and point to "large scale indiscriminate killings of men, women, children, including the sick and the elderly". The RPF by contrast, while acknowledging revenge killings may have occurred during the heat of genocide by errant soldiers, argue that such accusations form part of a campaign of genocide denial and strongly dismiss any notion of a "double genocide" having taken place (Melvern, 2018).

[52] According to McDoom (2011), Rwanda's post-genocide population included large numbers of widows, orphans, and the disabled, as well as a sizeable number of highly traumatized individuals who, having witnessed extreme violence, were suffering from its psycho-social effects. He also notes that there was also a shortage of working age men in the country because of the genocide. In addition to those killed, the overwhelming majority of the 120,000 Rwandans detained by the RPF for their involvement in the genocide were men. According to McDoom, over a third of all households were female-headed by 2005, compared to a fifth prior to the genocide.

[53] The transition period, originally foreseen to last for 7 years was extended to 9 years. According to McDoom (2011, p. 10), an extended transitional period (in the Arusha accords it was set at 22 months) reflected the RPF's interest in "maintaining order in the short-term than on promoting political participation". McDoom (2011, p. 10) also notes that it

Pasteur Bizimungu and Faustin Twagiramungu, were named President and Prime Minister respectively, with Kagame serving as Vice-President and Minister of Defence.

Behind the scenes, Kagame wasted no time in consolidating power. The RPF maintained veto power over government decisions, took full control of the security apparatus, and appointed loyalists to key position (McDoom, 2011). Prunier (1995b), de Roek et al. (2016), Reyntjens (2018) and others argue that the state underwent a de facto "Tutsiisation", with leadership roles in public administration, the military and local government awarded to returnee Tutsi. Hutu politicians and Tutsi moderates found themselves increasingly marginalised (Thompson, 2018; Reyntjens, 2018; Wrong, 2021a). The RPF arrested thousands of alleged Hutu *génocidaires*, and counter-insurgency campaigns in rural areas “often resorted to brutal tactics” (Ingelaere 2010 p.287) which according to Prunier (2009, p.43) included mass killings. A military offensive was subsequently launched against the former Hutu regime and *Interahamwe*, sheltering in refugee camps in the DRC. Thousands of Hutu refugees died in indiscriminate attacks, while hundreds of thousands more were forcibly repatriated to Rwanda or pursued into the Congolese jungles and slaughtered (Pottier, 2002; Prunier, 2009; OHCHR, 2010; Stearns, 2012; Thompson, 2018; Rever, 2018).

The Government of National Unity was short-lived. Disillusioned Cabinet Members resigned in protest at RPF human rights abuses and Kagame’s tightening grip on power, while others were expelled following smear campaigns (Prunier, 2009; Camargo & Gatwa, 2018; Reyntjens, 2018; Thompson, 2018; Wrong, 2021a). In 2000, after public disagreements with the RPF, Bizimungu resigned, and Kagame was appointed President. A month earlier, Pierre-Celestin Rwigema, another Hutu moderate who had become Prime Minister in 1995, resigned after parliament publicly accused him of corruption (AP, 2000). Many politicians, civil servants, judges, and military officers who had either returned from exile or served under the previous regime fled abroad, while many of those that remained were imprisoned or assassinated (Prunier, 2009; McDoom, 2011; Reyntjens, 2018; Wrong, 2021a). Wrong concludes:

> “No other nation in Central or East Africa has witnessed an exodus of former insiders to rival Rwanda’s, and their flight speaks volume about the entire political class’ understanding of the regime’s capacity for violence” (Wrong, 2021a, p.277)

With political opposition eliminated and remaining elite groups co-opted or marginalised, what was now an openly RPF-controlled government issued laws restricting association, speech, and identity. These laws closed political space and criminalised dissent (Samset & Dalby, 2003; Matfess, 2015; Thompson, 2018). Before the 2003 elections, three opposition parties, including the main opposition party (*Mouvement Démocratique Républicain*), were outlawed and prominent independent candidates were barred from running for President (Samset & Dalby, 2003; Reyntjens, 2004, 1997). Undermined by "serious cases of irregularities and fraud" (Samset & Dalby, 2003, p.41), including voter “intimidation, manipulation of electoral lists, ballot-box stuffing, and flawed counting and consolidation” (Reyntjens, 2017, p.39), Kagame secured 95 percent of the vote in the

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was “likely that elections would have been contested along ethnic lines so soon after ethnic violence, and this would have meant the RPF would face the prospect of being democratically ousted given that its support base would have been drawn from numerically inferior Tutsi minority”.

Presidential election, while the RPF-led coalition claimed three-quarters of the parliamentary seats.[54]

Despite having established de facto monopoly control over Rwanda's coercive and political resources, the RPF continued to face several threats, real and perceived, which Chemouni (2014, 2016a) believes fostered an acute sense of collective vulnerability among the predominantly Tutsi elites that constitute the RPF leadership. McDoom (2011, p.5) also suggests that many came to "wrongly equate the existential survival of the Tutsi minority with the political survival of the regime". The first such threat, stemmed from the rule, by a minority of urbanised Tutsi returnees, over a majority –and predominantly rural– Hutu population, previously indoctrinated in racial hatred. A second threat was the prospect of political rivalry within existing Tutsi elite circles leading to a splintering of the RPF and a subsequent loss of monopoly control over the country's economic and political resources. A third perceived threat was external, coming from the continued existence of Hutu extremist militias and political opponents in exile (Jones & Murray, 2018). The state's lack of resources represented the final threat to the RPF. Given the state's fiscal vulnerability, the loss of international political support –and more importantly, a curtailment of ODA– would undermine the RPF's ability to retain control. Accordingly, the legitimization strategy developed by the RPF was a clear response to these apparent threats.

4.2. Government legitimacy and the fiscal-social contract under RPF hegemony

Consistent with the legitimization strategies of other authoritarian states, including past regimes in Rwanda (section 4.1.1), the RPF have made use of each of the four supply-push legitimization techniques identified by Dukalskis and Gerschewski (2017), namely indoctrination of the population, projecting regime omnipotence, establishing a façade of democratic institutions and processes, and claiming success in fostering economic development.[55] These techniques have been crucial in managing the perceptions of both domestic and external stakeholders and have remained a constant since the RPF takeover. Yet, as will be shown in the sections below, element of the RPF's legitimization strategy have evolved over time in response to the changing nature of perceived threats.

[54] The remaining two parties that won seats in Chamber of Deputies in the 2003 elections were the Social Democratic Party and the Liberal Party. Both parties had endorsed Kagame during the Presidential elections.

[55] Dukalskis and Gerschewski (2017) classify the techniques used by autocratic regimes to bolster their legitimacy into four broad mechanisms, namely (1) the indoctrination mechanism, (2) the passivity mechanism, (3) the performance mechanism, and (4) the democratic-procedural mechanism. The indoctrination mechanism makes use of tools such as school curricula, propagandistic media channels, political education programs, the development of personality cults, the manipulation of public visual spaces and control over the private time of citizens (Dukalskis & Gerschewski, 2017). The passivity mechanism aims to "foster a sense of resignation to the regime's rule" (Dukalskis & Gerschewski, 2017, p. 259) by projecting an image of regime omnipotence, by emphasising the attitudinal and behavioural loyalty of elite groups, and by belittling opposition groups and demonstrating their incapacity to mount a credible challenge (Schedler & Hoffmann, 2016). Performance legitimation, often associated with rentier states (section 2.3.2) and authoritarian developmental states in East Asia (Holbig & Gilley, 2010; Le, 2012; Kuhonta, 2016), is to be seen to deliver progress in terms of economic growth and material wealth in exchange for acquiescence with autocratic rule. Finally, many modern authoritarian states have been observed to mimic democratic-procedural mechanisms (Schedler, 2006; Gandhi & Lust-Okar, 2009) to create "institutional facades of democracy" and the appearance of political pluralism (Schedler, 2006, p. 1).

4.2.1. Securing legitimacy in the post-genocide era (1994-2000)

Having won outright military victory, the RPF initially focused on establishing political order and eliminating threats through violence and repression (section 4.1.2). McDoom (2011 p.10) concludes that until 2000, the RPF "relied less on a strategy to enhance its legitimacy, and more on a strategy to protect and reinforce its capabilities vis-à-vis political opponents". Accusations of excessive state violence were dismissed, while acknowledging that some degree of coercion was inescapable if peace and security was to be restored and state-building initiated. Authors such as Jones and Murray (2018, p.12) note that rhetorical RPF commitment to power sharing "proved important in bridging the gap between the RPF and the Rwandan population in the early years following the genocide". During this period, Kagame and the RPF easily obtained international support, since according to Jones and Murray (2018, p.13) "the orchestration of genocide by the former government, and the RPF's role in ending this, made the RPF's legitimacy immediately compelling". With the support of donors, rehabilitation programmes were launched, providing support for vulnerable communities (Eriksson et al. 1996). RPF-owned companies, initially financed through the political contributions of supporters, also began to revitalize economic sectors (Booth & Golooba-Mutebi, 2012).

4.2.2. Establishing the terms of the fiscal-social contract (2001-2011)

Having established a dominant political order, the RPF sought to establish a more durable political settlement and outline the country's development agenda.[56] This was not only important the RPF's domestic legitimacy but was also needed to mobilise resources from abroad (Jones & Murray, 2018). To scale up ODA and benefit from on-budget support, Rwanda needed a comprehensive pro-poor development framework,[57] behind which donors could align as well as "transparency and coherence in government planning, budgeting, spending, and monitoring, for which institutions had not yet been established" (Jones and Murray, 2018, p.27).

The Urugwiro Consultation of 1998/99 played a pivotal role in articulating what would become the supply-side of the Rwandan fiscal-social contract (Lavers, 2016; Camargo & Gatwa, 2018), culminating with resolutions on themes including peace and security, unity and reconciliation, good governance, and economic development (see below). Yet, in contrast to claims by Kagame that the "discussions and debates involved Rwandans from all walks of life" (RoR, 2012g, p.i) Jones & Murray (2017, p.26) argue that Urugwiro was an intra-elite affair, not about "mass deliberative democracy but were significant for engendering wider ownership of the national vision", since participants were "more sympathetic 'opinion leaders', rather than a more plural crowd". Without a hint of irony,

[56] In democratic systems, political settlements are typically formed through continuous political processes, involving negotiation and compromise between competing interests, which change over time "in response to changes in social, political and economic power relations and to contingent events and critical junctures" (Laws, 2012, p.1). In post-conflict societies, political settlements may be explicitly negotiated through formal peace accords or imposed following a clear victory of one group over the others (Whaites, 2008; Burnet & Kanakuze, 2017). In non-democratic systems, political settlements are often imposed by a narrow band of ruling elites, in the absence of robust governance systems that hold the elites to account. Nevertheless, Laws (2012) finds that elite bargains only establish political stability in the short-term. He argues that political settlements can become durable and inclusive when they are perceived as legitimate and responsive to the needs of wider society.

[57] In the late 1990s, the IMF and World Bank made the preparation of a nationally owned Poverty Reduction Strategy Paper (PRSP) a precondition for all low-income countries wishing to access IDA loans and concessional IMF resources (Knoll, 2008).

RPF historians Ndahiro et al. (2015, p.92), conclude that the Urugwiro resolutions were "all in line with… the vision that the RPF had for the country", providing an indication of how little, in practice, RPF plans altered through consultation. Nonetheless, the Urugwiro resolutions remain integral to numerous official policy documents and development strategies.[58] Their practical implications in terms of the RPF's political legitimacy are examined in more detail in the subsequent sub-sections.

4.2.2.1. The RPF lays claim to be a guarantor of peace and security

Maintaining public order and security are central to the RPF's domestic legitimisation strategy, representing premium public goods for a population scarred by mass violence, but especially for the Tutsi political elites who experience a collective sense of vulnerability because of past exile and the genocide (Ingelaere, 2010; Chemouni, 2014). There is a circular logic to the RPF's prioritization of public order and security. A visible security presence reminds citizens of the existence of real or perceived threats, in turn legitimising a strong state and the suppression of individual freedoms for the greater good (Alvarez, 2006; Thompson, 2018). Moreover, with the military playing a dominant role in economic and political affairs and because the RPF are ultimately reliant on the security apparatus' coercive power (Fisher & Anderson, 2015), a political narrative strong on security provides justification for both elevated defence budgets and for special privileges and access to economic rents through the RPF's centralised patronage system (Gökgür, 2012; Jowell, 2014; Behuria, 2016), both of which serve to minimise potential threats to the RPF leadership emerging from within the military. [59]

Projecting Rwanda as a safe and stable country in an unstable region is key to attracting FDI and tourism, both vital sources of foreign exchange (RoR, 2009; RDB, 2018, p.2). Also, providing the RDF a visible role in domestic development and international peacekeeping serves as a foreign policy tool. Foreign peacekeeping operations, for example, play a dual role of bolstering Rwanda's reputation with key allies abroad (Beswick, 2010a; Jones et al., 2013; Fisher and Andersen, 2015; Kuhnel & Wilén, 2017), and providing an alternative source of domestic revenue (section 5.1).

While the government seeks to emphasise the softer side of the RDF through its role in community policing and socio-economic development, concerns remain. Jones & Murray (2017 p.55) note that "normative legitimation strategies ('hearts and minds') have been used in cohort with violent force". The military continues to be associated with repression and human rights abuses, including surveillance, illegal detention, torture, and extra-judicial killings, both in Rwanda and abroad (HRW, 2017a, 2017b, 2017c). Military-owned companies' role in the economy, and preferential treatment by the government, crowds out the domestic private sector and discourages FDI (Gökgur, 2012; Behuria, 2016).

[58] Prominent examples include Vision 2020 (RoR, 2000, 2012g), the 2002 Poverty Reduction Strategy Paper (MINECOFIN, 2002), the Economic Development and Poverty Reductions strategies (RoR, 2007 & 2013), the Government's 7-year Programme (RoR, 2010) and more recently, the National Strategy for Transformation (RoR, 2017a).

[59] Military incomes are routinely supplemented by rents from military-owned enterprises, which "receive fiscal subsidies, equity injections, preferential tax and dividend treatments and preferential access to loans" (Gökgür, 2012, p. 34). In the aftermath of the genocide, senior military officials acquired large tracts of land (Bruce, 2007) and were able to enrich themselves during Rwanda's subsequent interventions in the Congo (Thompson, 2018).

Elevated military spending also creates fiscal pressure, which has resulted in social sector spending cuts (section 4.2.3).

4.2.2.2. The RPF as a self-appointed guardian of National Unity and Rwandanness

The RPF also makes a moral claim to legitimacy through the elimination of ethnic hatred, fostering reconciliation, and promoting national unity (Ndahiro et al., 2015). With ethnic scapegoating by politicians masking elite corruption and impunity during the Habyarimana era and ultimately leading to genocide (section 4.1.2), a rhetorical commitment to inclusivity and addressing past injustices not only reassures the RPF's core Tutsi constituents but is also seductive for other domestic audiences and the international community. Constructing a singular political narrative around the past, particularly the genocide, has also helped to present tight security and the RPF's strong leadership as not only justifiable, but also necessary, to avoid a return to violence (Longman, 2009; Loyle, 2018; Thompson, 2018).

Critics argue, however, that that the suppression of ethnicity merely fashions a superficial and fragile "false unity" (Clark, 2010, p.138), which masks RPF state capture (Reyntjens, 2004), and facilitates the marginalization of political opponents (Loyle, 2018; Thompson, 2018). Reyntjens (2004, 2006) calls this a "genocide credit", whereby claims of moral legitimacy deflect criticism of the regime and to trivialize and silence opponents (Chapter 7). Moreover, the prolific use of terminology,[60] commemorative events, and other symbols serve to reinforce the RPF's interpretation of history and, despite the rhetoric of national unity, continue to frame the Tutsi as sole victims of the genocide, while imposing collective guilt upon Hutu, as "perpetrators" (Hayman, 2007; Mann & Berry, 2016; Thompson, 2018).

The RPF have also sought to redefine national identity and transform citizens' behaviour in accordance with a particular vision of *Ubunyarwanda* or "Rwandanness" (RoR, 2016c). Seeking to both foster reconciliation and develop a national work ethic (to compensate for Rwanda's low-income status), RPF discourse and policies draw from supposed traditional practices and pre-colonial social norms, which emphasise hard work, solidarity, participation, and a sense of obligation (Melvin, 2013; Jones & Murray 2017; Camargo & Gatwa 2018). These values are often encapsulated in the concept of *Agaciro* ("Dignity"), regularly evoked by the President (Kagame 2011a, 2015a&b). Purdekovà (2011a, p.45) notes that RPF discourses also define citizenship in terms of "obligations to rather than rightful demands on the state". Official government policy lays out the expectation that citizens become "agents of change" actively contributing to Rwanda's development rather than be passive or helpless beneficiaries of state support, (RoR, 2016c, p.105).

[60] In 2020, for example, the UN adopted General Assembly Resolution 74/273, entitled "International Day of Reflection on the 1994 Genocide against the Tutsi in Rwanda". The US and UK governments have subsequently expressed reservations that the UN text "narrow[s] the focus of the resolution to the Genocide against the Tutsi in Rwanda, and fail to fully capture the magnitude of the violence that was committed against other groups" (Kagire, 2020).

Figure 3: Taxation and citizen's duty

Source: RRA (2019a)

According to Matfess (2015, p.182), the RPF actively "sensitise" Rwandans of their duties and obligations through "quasi-mandatory participation in party initiatives and trainings". *Ingando* (solidarity) and *Itorero* (civic education) camps, ostensibly military in nature,[61] are organised to "clarify the history of Rwanda," "promote patriotism," "instil moral values," "forge a common vision for the future" and "support government programmes" (RoR, 2016c, p.103-107). Participation is mandatory for students, journalists, teachers, and civil servants (Newbury, 2011; Mann & Berry, 2015; Camargo & Gatwa, 2018). *Umuganda* (Collective action) and *Ubudehe* (Community work) also require Rwandans to regularly attend mandatory civic education and "contribute free labour" for public works (RoR, 2016c, p.97). Citizens are required to sign *Imihigo* (performance contracts (section 6.3.1)) that commit them to personal development targets and normative standards of behaviour and appearance (Ansoms, 2009; Huggins, 2009).[62]

Critics suggest, however, that a single accepted definition of *Ubunyarwanda* merely inculcates citizens with RPF ideology, while discouraging contestation and criticism of government (Purdekovà, 2011a; Silva-Leander, 2008; Melvin, 2013). Hasselskog and Schierenbeck (2015, p.961) found that "community meetings were perceived [by participants] as being for leaders to disseminate information, not least on centrally determined programmes and activities, and thus not for residents to express opinions or concerns". The burden of citizen's obligations and in-kind contributions associated with "Rwandanness" can fall disproportionately on rural communities and the poor (Ansoms, 2009; Huggins, 2009; Purdekovà, 2011b; Uwimbabazi, 2012 & 2019; Hasselskog, 2015a; Dawson & al, 2016)[63] (2019;). Some academics also contend that the RPF's aim to

[61] Purdekova (2011) explains that Ingando camps were originally established to reintegrate ex-Habyarimana era soldiers into the new Rwandan army.

[62] A Human Rights Watch investigation in 2016 found that those failing to conform to the crafted image of Rwandan prosperity, including street children, vagrants, and street vendors, are subject to arbitrary and indefinite incarceration (HRW, 2016a).

[63] Despite RPF leadership, including the President, being frequently seen –and widely reported in the media-participating in Umuganda and other civic works, there remains a popular perception that wealthy Rwandans avoid *Umuganda*, not least because they can afford to pay fines for non-attendance. Hasselskog and Schierenbeck (2015, p. 957), based on interviews with 80 residents and leaders in one rural and one urban community, also claim that Umuganda "participation was also clearly lower among more well-off residents". Uwimbabazi (2012, p. 94), in a detailed

transform citizens' mind-sets in the interest of national development amounts to paternalistic social engineering (Ingelaere, 2009; Ansoms, 2009; Thomson, 2011; Hasselskog 2015b), as opposed to ensuring that the state meets the needs of citizens.

4.2.2.3. The RPF's pledge to establish a developmental state

Golooba-Mutebi and Booth (2013) argue that Rwanda differs from neighbouring countries, having "gambled" on acquiring legitimacy through development outcomes, as opposed to the traditional path of patronage and clientelism. Lavers (2016, p.7) also suggests that for the government "rapid development and poverty reduction are not just desirable, but essential" given that poverty and inequality "could provide the motivation for those that lose out to return to divisionism and conflict", in turn posing "a direct threat to its post-ethnic vision and, by implication, the legitimacy of the ruling coalition".

Rwanda's economic transformation from the ruins of genocide is well publicised (Crisafulli & Redmond 2012; Ggombe & Newfarmer, 2017; Redifer et al., 2020). The country has recorded annual GDP growth rates among the highest in the African continent since the turn of the century (IMF, 2019b). Rwanda has been a top achiever in Africa of the UN's Millennium Development Goals (UNECA, 2015), and official government statistics indicate that aggregate poverty levels have declined dramatically (NISR, 2018). The government is also credited with the roll-out of public services and social programmes aimed reducing poverty and improving social welfare (Abbott et al., 2017). Even prominent critics, such as Reyntjens (2015, p.19), acknowledge "impressive modernization and economic development" under the RPF.

Yet, criticism remains of the RPF's approach to development, and the sustainability and inclusivity of its modernization project. While many reforms appear motivated by a genuine desire to rebuild the economy, improve the lives of citizens and transform the landscape, from which it could derive political legitimacy, critics such as Strauss and Waldorf (2011) Mann & Berry (2016) and others contend that the RPF's authoritarian "high modernist"[64] ideals and desire for rapid change often lead to unconditional faith in ambitious technocratic solutions; a wilful disregard of real-world considerations; exclusive and paternalistic top-down decision-making; and coercive implementation. This leads Behuria and Goodfellow (2018, p.599), among others, to claim that the "trajectories of human development and economic growth in Rwanda are… largely progressing along separate, parallel tracks rather than being progressively intertwined and mutually supporting each other". Nowhere has the government's high-modernist approach been more criticised than in agriculture, where over two thirds of Rwandans earn their living (Section 5.1). The RPF's desire for radical transformation and a change of mindsets among the peasantry have resulted in "monocropping", "land consolidation", "villagisation" and "crop intensification" policies, which have arguably undermined rural livelihoods and increased food insecurity among rural populations (Ansoms, 2009; Huggins, 2009, 2014; Pritchard 2013; Hasselskog, 2015a&b; Dawson et al., 2016).

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study of Umuganda, found that most people participated because they "were forced to" and because they believed avoidance "might be interpreted as anti-government" and could result in punishment or the denial of public services. Uwimbabazi (2019) concluded that fear of the state was a primary motivator of participation in Umuganda.

[64] Drawing on the experience of East Asian developmental states, Scott (1998, p. 88) defines "high modernist" approaches to economic development as the radical "administrative ordering of nature and society" through the unrestrained power of the modern state.

Other academics challenge the official narrative of continuous poverty reduction, accusing government of manipulating statistical data to mask the reality of rising inequality and engrained poverty (Reyntjens 2015a; Ansoms et al, 2017; Desiere, 2017; ROAPE 2019a, 2019b, 2019c; Wilson & Blood, 2019). Many empirical studies in fact document rising poverty and inequality because of RPF policies, with the main beneficiaries of Rwanda's development found to be Kigali elites (Hintjens, 2006; Uvin, 2010; McDoom, 2011; Silva Leander, 2012; Desrosiers & Thompson, 2011; Dawson, 2018; Ansoms et al, 2018). Behuria (2019) suggests that the government's development strategy of "leapfrogging" manufacturing in favour of promoting high-end services, was not only misguided given Rwanda's development levels, but also resulted in elevated levels of unemployment and underemployment.

Another key feature of the Rwandan development model is extensive state intervention in the economy (Matfess, 2019; Redifer et al., 2020). Booth and Golooba-Mutebi (2012, 2014) portray Rwanda as a developmental patrimonial state, in which close ties between business and political elites ensure that business interests are aligned with RPF development goals. They also argue that the institutionalisation and centralization of rents in para-statals and party-statals allows for the accumulation of wealth among loyal elite groups, which in turn, diminishes the need for more overt forms of corruption that might divert funds away from national priorities and undermine the RPF's development discourses.

Critics, however, argue that party- and para-statals reinforce RPF control of economic resources and create market distortions. Jones and Murray (2017, p.60) note how RPF control of economic rents "has deterred –and allowed the party to survive– defections, as defecting elites lose access to resources that might be used to challenge the state". Gökgür (2012) also documents how RPF businesses systematically receive preferential treatment from government, including favourable tax treatment, while authors such as Himbara (2016), Mann and Berry (2016), Jones and Murray (2017) describe how the state apparatus is used to punish entrepreneurs who contest the RPF or threaten their economic interests.

4.2.2.4. A promise to establish a capable state and impartial public administration

To implement its developmental vision, the RPF initiated wide-ranging public administration reforms. This reinforced RPF domestic and international legitimation in several ways: it projects the image of a competent and capable government, able to effectively manage state resources; it suggests impartial governance and civil service integrity, with meritocratic recruitment and promotion processes coupled with zero-tolerance of corruption; and importantly, it reassures donors that ODA will be well spent (Chemouni, 2017). Despite these efforts, however, public administration remains weak, inhibiting public service provision. Although highly capable foreign-educated officials occupy senior level positions, the civil service suffers from poor human capacity and limited infrastructure (Chapters 6 & 7). Recruitment processes, while ostensibly merit-based, tend to favour foreign-educated Anglophones, creating a popular perception of bias towards Tutsi returnees (Chemouni, 2017). Career advancement depends on political loyalty, with the Cabinet approving mid-management positions and above (Jones

& Murray, 2017; Thompson, 2018). Serious PFM deficiencies are regularly identified by Rwanda's supreme audit institution.

A zero-tolerance approach to corruption also aims to enhance legitimacy and improve Rwanda's international reputation (Longman, 2011). An extensive legal framework is in place, Rwanda is signatory to international anti-corruption conventions, and several public institutions including the Offices of the Ombudsman (OoO) and the Auditor General (OAG), tackle corruption (OSF, 2017). Yet these institutions also lack financial resources and human capacity (OSF, 2017; Ernst & Young, 2015). Moreover, they are not fully financially and administratively independent from the executive and are susceptible to politicisation (Schøyen, McGregor & Mutondo, 2014; Ernst & Young; 2015; Schütte, 2015).

The government has sought to address weaknesses in public administration though *Imihigo*. An ostensibly "home grown" system (which nonetheless bears striking resemblance to NPM performance contracting), requires officials to achieve annual development targets, the achievement of which are rigorously evaluated and scrutinised by cabinet. The achievement of goals is recognised and rewarded, while failure results in sanctions, including public naming and shaming and dismissal (Mann & Berry, 2016; Camargo & Gatwa, 2018). Although *Imihigo* is believed by government to provide strong inducement for public officials, critics claim that it has heightened organizational rigidity and reinforced vertical accountability chains rather than responsiveness to citizens (Ingelaere, 2010; Hasselskog, 2015b; Jones & Murray, 2017 – see also section 6.3.1). It has also been suggested that *Imihigo* "create[s] incentives for officials to overstate successes and obscure shortcomings" (Mann & Berry, 2016, p.132), and leads to other distortions and perverse incentives (Chapter 6 explores this subject in greater detail).

4.2.2.5. The idolization of President Kagame

The binding element of RPF's legitimisation strategy is President Kagame, who has established himself as Rwanda's "Big Man"[65] having formally ruled the country as President since 2000 (McDoom, 2011; Matfess, 2015). Kagame's background in the political and military spheres confers personal legitimacy within RPF and military elite circles as well as with the broader Tutsi population (Lavers, 2016). Kagame also belongs to royal lineage, providing a convenient link to both tradition and custom (Mailafia, 2017). The centralisation of power and authority around Kagame, combined with dominant RPF discourses, means that he is portrayed as central to all government decisions and reforms, and is personally credited with many of the country's achievements. Kagame's purported selfless personal qualities are often idolized and portrayed as the epitome of "Rwandaness" (Camargo & Gatwa, 2018). Prominent supporters outside Rwanda, such as ex-UK Prime Minister Tony Blair and ex-US President Bill Clinton, venerate Kagame as an unusually principled, capable, and committed African politician and visionary leader.[66] Authors such as Kinzer (2008), Gourevitch (2009), Cristaffuli and Redmond

[65] The African Big Man Syndrome is a phrase coined by the Overseas Development Institute (Booth et. al, 2006) to describe the tendency for many post-independence African political leaders to accumulate personal power, to remain in power for decades, and to effectively become larger than the state, often to detriment of their own country and people.

[66] Tony Blair is quoted as having said "I'm a believer in and a supporter of Paul Kagame ... I don't ignore all those criticisms, having said that. But I do think you've got to recognize that Rwanda is an immensely special case because

(2012) portray the President as a highly motivated and driven, but thoughtful and calm leader.

As much as Kagame is revered, however, McDoom (2011, p.36) and others suggest that he is equally “feared within Rwanda on both sides of the ethnic divide, including those within his own ruling party”. Even supporters such as Booth and Golooba-Mutebi (2011, p.15) acknowledge him to be "determined to the point of ruthlessness". Kagame is described by his critics as a dictator who rules Rwanda with an iron fist, tolerating no criticism of him or his party, and is personally implicated in the intimidation and elimination of political opponents, including ordering extra-judicial assassinations of former allies (Reyntjens, 2011; Berman, 2016; Wrong, 2021a). Former insiders now exiled, such as Nyamwasa et al. (2011), Himbara (2016, 2017c, 2018a) and Marara (2017) challenge the RPF’s carefully constructed image of Kagame as a selfless and irreproachable leader. Marara (2017) documents physical assaults on subordinates as well as systematic verbal abuse and intimidation of individuals in the military and civilian administration. Wrong (2021a, p.336), drawing on other eyewitness testimonies, believes that Kagame is “Careful to rein in his temper when in polite international company, [but] had no compunction about letting fly with colleagues” and “readily resorted to physical violence to impose his will”. Wrong (2021a) characterises Kagame’s unpredictable behaviour as part of a deliberate strategy to keep subordinates off balance and fixated on a single issue, namely avoiding censure.

Other researchers highlight the risks of the establishment of a cult of personality around Kagame and the concentration of political power in one person. Beswick (2011, p.1925) suggests that "reliance on an individual, while attributing policy failure and undesirable actions to other parts of the regime, is both naive and potentially dangerous". Personality cults can undermine public accountability, by creating the perception that state responsiveness is not institutional but down to an individual. The author’s professional experience in Rwanda (reinforced by interviewee evidence presented in Chapters 6 and 7) is that, frequently changing Presidential demands, coupled with attempts by senior management to appease the leader, creates an unpredictable environment which has a detrimental impact on policy cohesion and the organisation of public administration.

While the elements of the RPF legitimization strategy outlined above persist to this day, the terms of Rwanda fiscal-social contract was significantly altered by the 2012/2013 aid crisis of 2012/13, to which attention now turns.

4.2.3. The 2012/2013 fiscal crisis and its impact on the fiscal-social contract

Assessing socio-economic progress in Rwanda during 2001-2011, the World Bank (2014a, p.iii) concluded that the government’s “highly strategic approach to development… galvanized domestic and external resources around nationally defined medium- and long-term goals… delivered economic growth, a significant decline in poverty, and a reduction in inequality”. The same report found that while “the first half of the decade (2001-2006) was characterized by high growth in Kigali and low, pro-rich growth in the rest of the country, leading to an increase in inequality and modest poverty

of the genocide… Secondly, you can’t argue with the fact that Rwanda has gone on a remarkable path of development” (New Times, 2011a). Bill Clinton identified Kagame as “one of the greatest leaders of our time” (Smith, 2012).

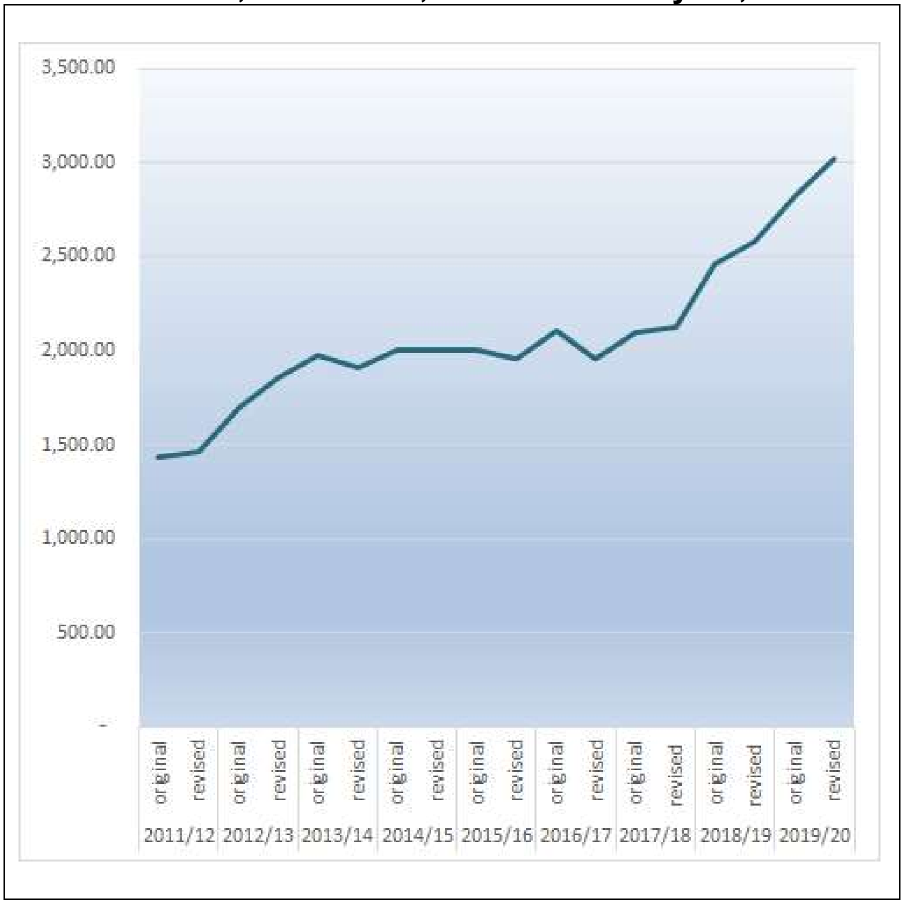
reduction…the second half of the decade (2006-2011) experienced higher overall growth, mainly concentrated in rural areas, and recorded an exceptionally strong growth rate for the poor, in particular the extremely poor" (World Bank, 2014, p.iii). These gains were underpinned by ODA, which "account[ed] for between 40-50 percent of the total revenues" during the period (World Bank, 2014, p.6). This made it necessary to align with the donors' pro-poor agenda to ensure budgetary support continued. Hayman (2007), for example, argues that direct budget support resulted in more collaboration between government and donors in policy preparation and implementation.

All this changed following the publication of a UN report (UN, 2012) documenting Rwandan military and political support to the "M23" Congolese Tutsi rebel group, jeopardising regional security, prompting a humanitarian crisis, and allowing Rwanda to exploit the DRC's natural riches through illegal mineral exploitation (Beswick, 2012). In response, Rwanda's donors either cut or suspended ODA.[67] The government had to sharply reduce public expenditure, negatively impacting its ability to deliver on its legitimization strategy. In parallel, high-level political pressure was placed on the Rwandan leadership by its key allies, notably the UK and US, who emphasised that Rwanda had more to lose than it gained from continuing to support to M23 (Shepherd 2018).

The crisis drastically altered the relationship between Rwanda and its development partners (Section 7.3). The RPF also responded by setting a new development path for the country, resulting in a unilateral change to the terms of the Rwandan fiscal-social contract. A more pro-growth development model was adopted in a new Economic Development and Poverty Reduction Strategy (EDPRS II) for 2013-2018 (RoR, 2013d), with the aim of ensuring middle-income country status by 2020.[68] To achieve the vision, EDPRS II set a target real GDP growth rate of 11.5% per annum throughout the period 2012-2020 -which World Bank (2014a, p.16) noted was "a significant acceleration from the already high growth rates in the last decade"- and for "investment as a percentage of GDP to increase from 21.3% in 2013 to 29.7% in 2017… driven by a scaling up of public investment" (RoR, 2013d, p.24).

[67] According to Beswick (2012), the EU, Germany and Sweden collectively suspended USD 126 million in General Budget support in 2012, while the UK withheld a further USD 34 million. The Netherlands cancelled USD 6 million in support to the justice sector, while the US cancelled USD 200,000 in military aid.
[68] In the event, the target of achieving middle income (MIC) status by 2020 was missed. In subsequent development strategies, the government now aims to reach MIC status by 2035 and be a high-income country (HIC) status by 2050.

FIGURE 4: PLANNED AGGREGATE STATE EXPENDITURE
(2011/12 – 2019/20; Real terms, with 2017 base year; RWF billion)



Source: Own calculations based on State Budget Laws (2011/12-2020/2

Analysis of successive state budgets laws (see Section 3.4.4) over the period 2011/12 to 2019/20 reveals that Rwanda's state budget more than doubled in real terms (2017 base year) from RWF 1.44 trillion in the original 2011/12 budget to RWF 3.02 trillion in the revised 2019/20 budget (see

Figure 4). New evidence through the author's budget analysis, reveals how state expenditure focused on new political priorities after the 2012 crisis, at the expense of more inclusive development.

Examining the budget in functional terms,[69] General Public Services (GPS[70]) and Economic Affairs emerge as the biggest beneficiaries of budgetary expansion from 2011/12 to 2019/20 (see Figure 5), collectively consuming 50-60% of the state budget each year (see Figure 6). In 2011/12, for example, 17.8% of the budget was allocated to GPS, but in the revised 2019/20 budget it accounts for 38% of planned expenditure. GPS experienced a (mean) average annual growth rate (AAGR) of 35.4% in real terms, which far outstrips the 10.4% AGGR of total public expenditure.[71] By contrast, social spending did not keep pace with the budget expansion. The real terms AAGR of health and education over the period were 3.8% and 3.3%, respectively. In the original 2011/12 budget, health and education were collectively allocated 26.9% of planned public expenditure, but by 2019/20 this had fallen to 18.5% (see Figure 6).

Turning to the organisational classification of the budget, a similar story emerges whereby the Ministries of Finance (MINECOFIN) and Infrastructure (MININFRA), and their subordinate Executing Agencies were allocated the lion's share of the budget over the decade examined (see Figure 7). In fact, GPS and Economic Affairs spending trends can be seen to be largely driven by the budgets of MINECOFIN and MININFRA respectively (see Figure 9).

MINECOFIN's budget increased from 15.3% of projected total expenditure in 2011/12 to 33.7% in 2020/21 (see Figure 8). Closer inspection of MINECOFIN's budget over time reveals the main drivers of Rwanda's budgetary expansion (see also Table 23 in annex for further detail). First is the cost of debt servicing,[72] which in the original 2011/12 budget represented 21.5% of planned MINECOFIN expenditure (3.3% of total public expenditure), but by the revised 2019/20 budget had risen to 30.5% of MINECOFIN expenditure (8.9% of total public expenditure). Second is the cost of pre-financing Rwandan Peacekeeping Operations abroad (which in turn offers a different perspective on Rwanda's stated functional allocation to defence).[73] In 2011/12, PKO represented 17.1% of MINECOFIN's budget (2.6% of total public expenditure), but which had risen to 21.0% of planned expenditure by 2019/20 (6.1% of total public expenditure). The third cost driver has the "Acquisition of Fixed assets (Other Investments)." In 2011/12 this line item was allocated a mere 2.7% of MINECOFIN's budget, but by 2019/20, planned expenditures were equivalent to 31.3% of MINECOFIN's budget (9.2% of total public expenditure). Collectively, these three budget line items consume 82.7% of

[69] The functional presentation of the Rwandan State budget is nominally in accordance with OECD Classification of the Functions of Government (COFOG). In practice, however, there are deviations from the COFOG methodology, most notably when it comes to military expenditure.

[70] COFOG, classifies expenditures under GPS as those incurred by executive and legislative organs, and expenditure relating to financial and fiscal affairs, and external affairs.

[71] See Table 2120 in Appendix for a calculation of AAGR according to functional budget classification.

[72] In annual state budget laws, this cost is assigned to two budget line items at the Chapter level, namely "interest (payments on public debt)" and "repayment of borrowing".

[73] This is one of the hidden expenditures in the Rwandan budget. It is a departure from normative COFOG classification, under which aid to international peacekeeping operations is not classified under GPS, but rather under defence. The impact, of course, is that the headline functional expenditures for "defence" are artificially lowered.

MINECOFIN’s budget and 26.4% of total planned public expenditure in the revised 2019/20 budget.

FIGURE 5: PLANNED STATE EXPENDITURE ACCORDING TO FUNCTIONAL CLASSIFICATION

(2011/12 – 2019/20; Real terms; RWF billion)

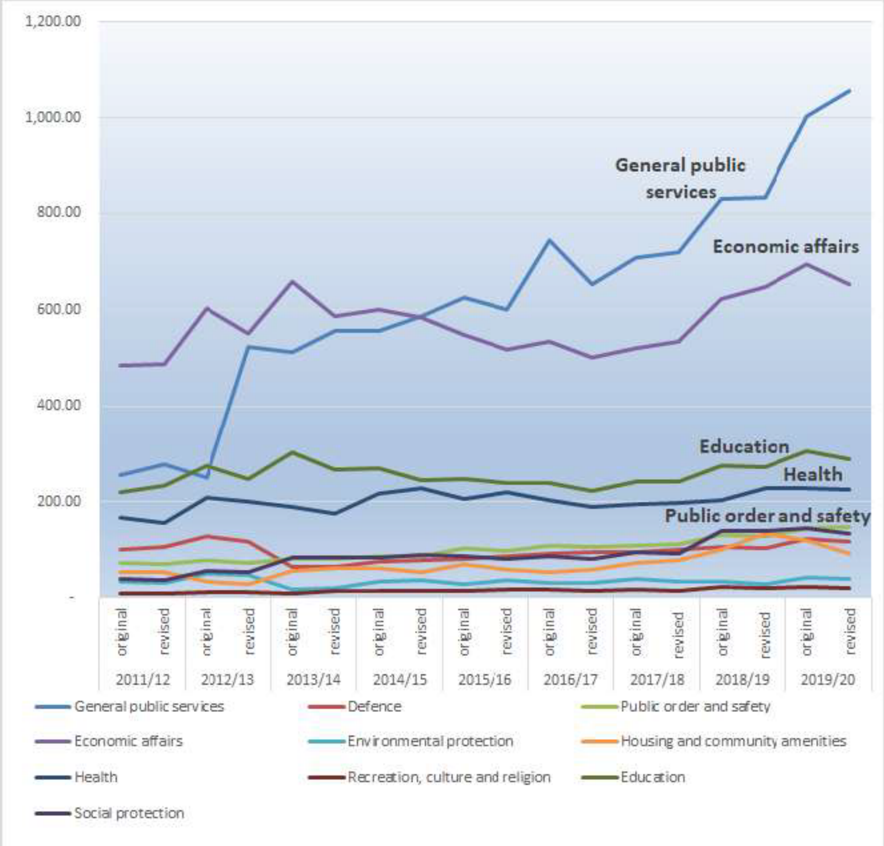
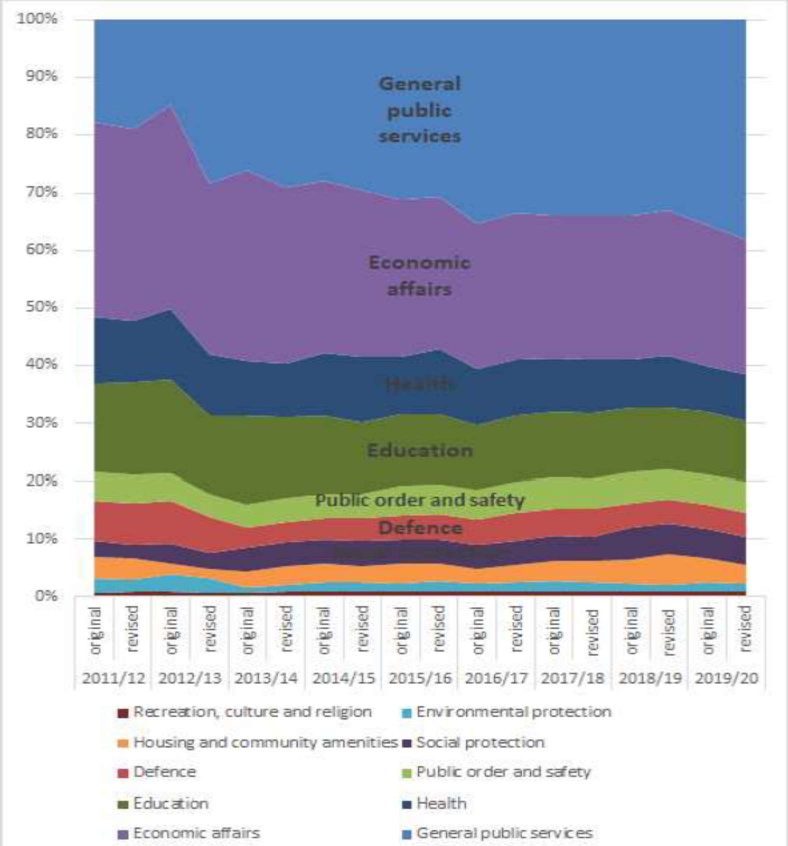


FIGURE 6: PLANNED STATE EXPENDITURE ACCORDING TO FUNCTIONAL CLASSIFICATION

(2011/12 – 2019/20; as a percentage)



Source: Own calculations based on State Budget Laws (2011/12-2019/20) – See Table 18, Table 19, and

Table 20 *in Annex)*

Note: The functional presentation of the Rwandan State budget is formally in accordance with OECD Classification of the Functions of Government (COFOG). In practice, however, some departures from the COFOG framework can be identified in terms of the Rwandan classification of expenditures. For example, contrary to COFOG, Rwanda classifies pre-financing of peacekeeping operations (PKO) abroad as GPS as opposed to defence spending. Merging PKO and functional defence spending offers a different perspective on direct government spending on the Military.

Figure 7: Planned State Expenditure according to Organisational Classification (2011/12 – 2019/20; nominal terms; RWF billion)

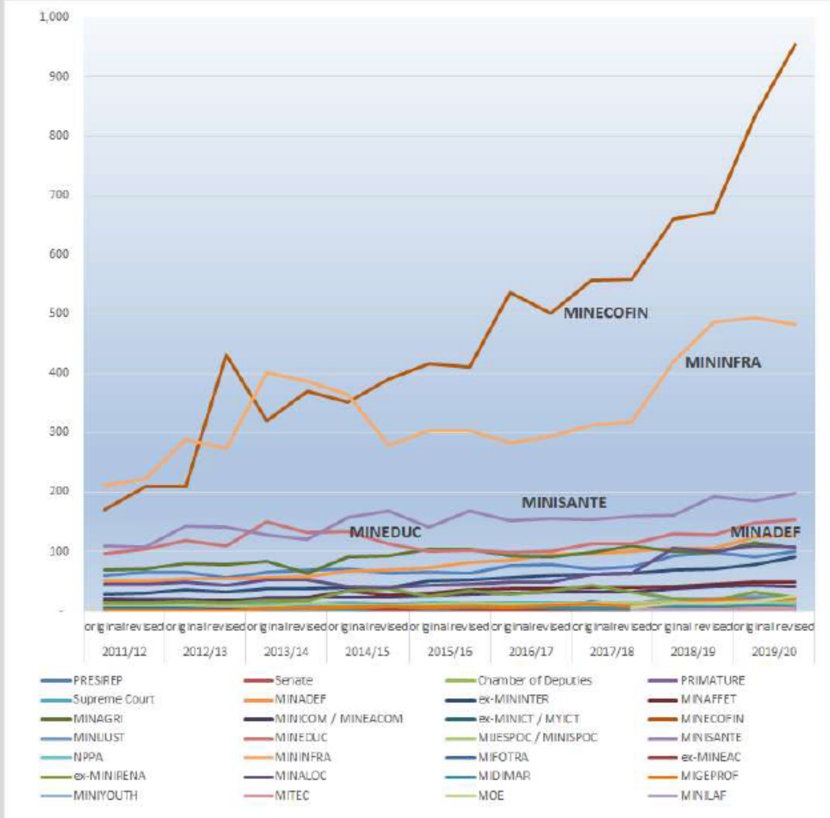
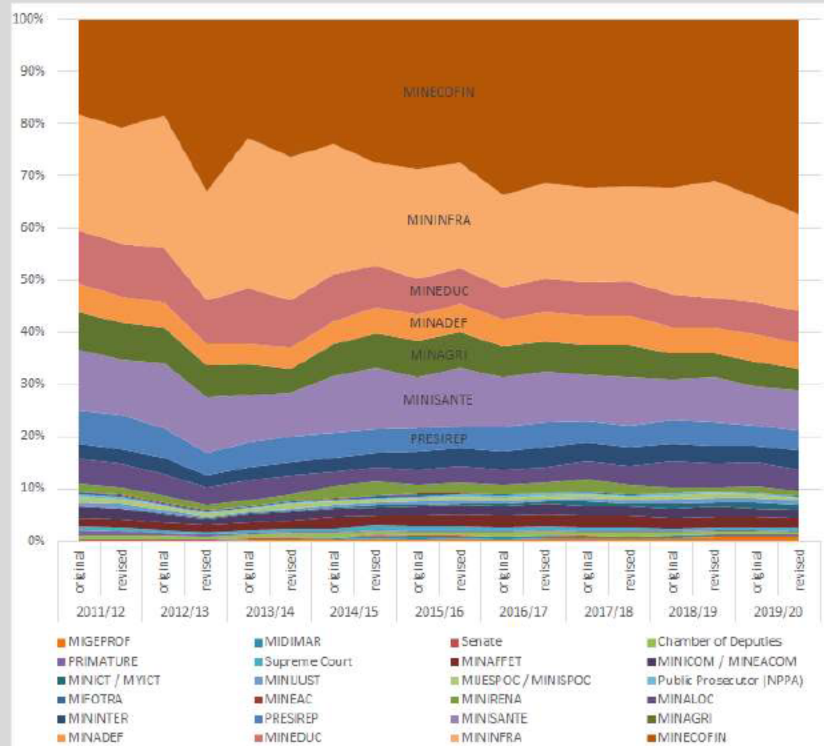


Figure 8: Organisational Classification of Planned State Expenditure (2011/12 – 2019/20) as a Percentage of Total Expenditure



Source: Own calculations based on State Budget Laws (2011/12-2019/20)

Figure 9: Correlation between GPS and MINECOFIN expenditure (2011/12 – 2019/20; nominal terms; RWF billion)

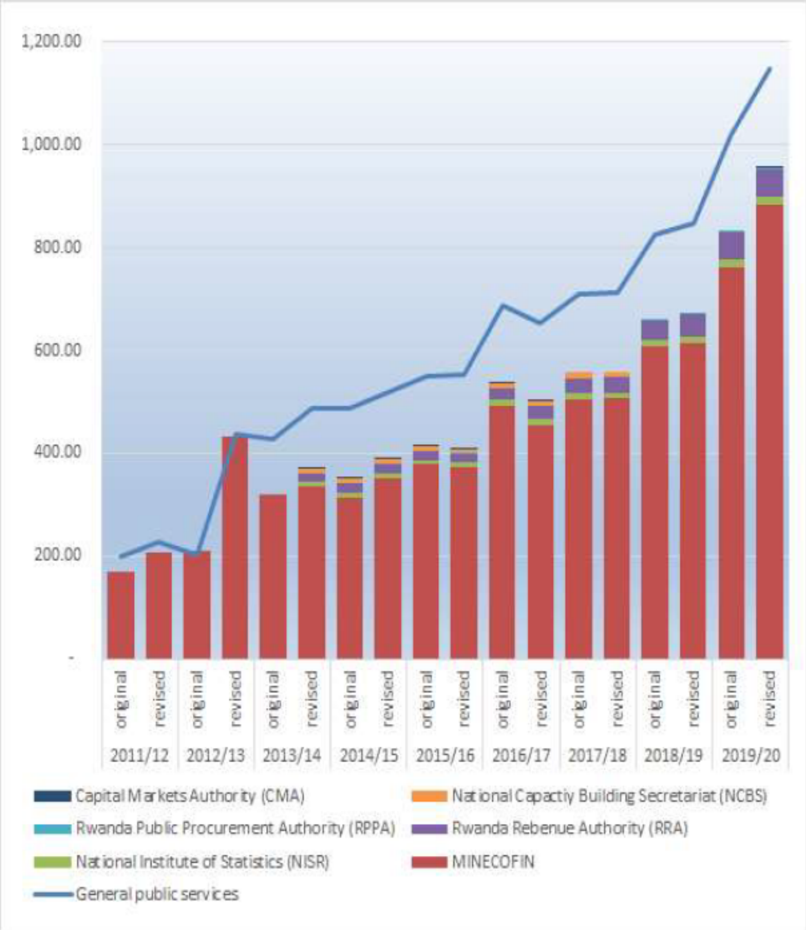
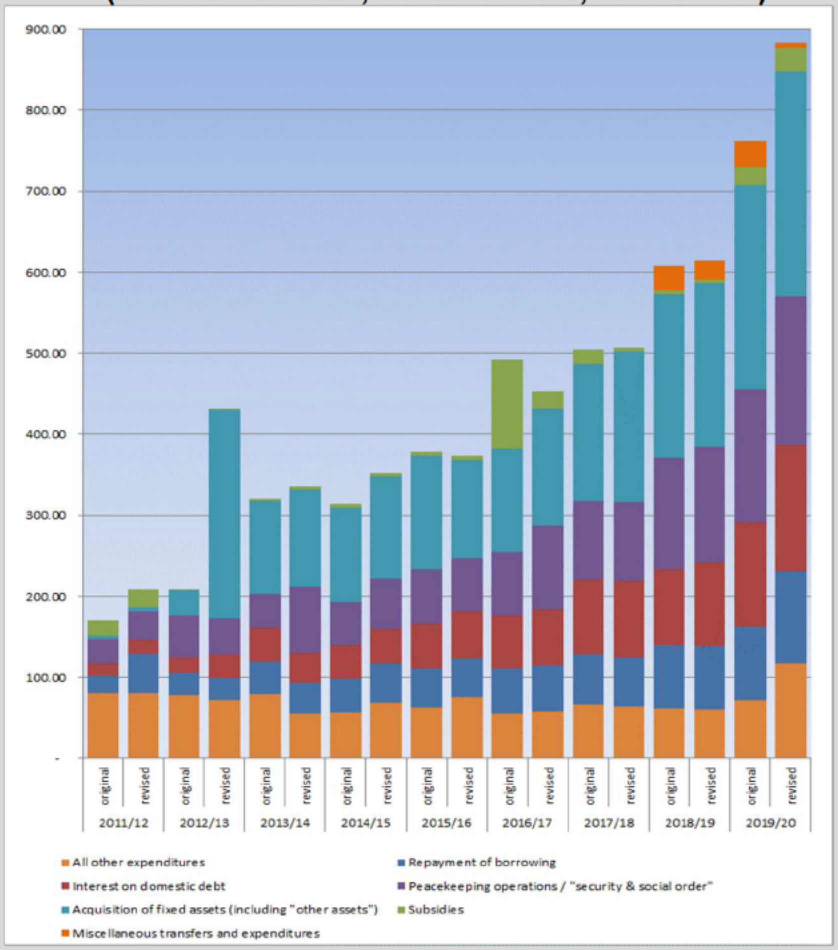


FIGURE 10: COMPOSITION OF PLANNED MINECOFIN EXPENDITURE (2011/12 – 2019/20; nominal terms; RWF billion)



Source: Own calculations based on State Budget Laws (2011/12-2019/20)

Rwanda's annual state budget laws do not provide a detailed breakdown of the "other investments." They can be partly understood, nonetheless, by cross referencing Budget Laws with annual Budget Framework Papers (BFP)[74] and other strategic documents such as the National Meetings, Incentives, Conferences/Conventions and Events (MICE) Strategy (RDB, 2014). The MICE strategy calls for Rwanda to become a regional hub for meetings and conventions, by developing "meeting venues and excellent accommodation facilities on international standard", including the Kigali Convention Center (KCC) and more high-end hotels, investment in transportation infrastructural projects, including a new airport, and for "Rwanda to make itself visible on the international market" (RDB, 2014, p.7). Such plans are borne out in the BFP, where "other investments" include "the KCC project" (MINECOFIN, 2015, p.20) and "interest payments of KCC loans" (MINECOFIN, 2017, p.34); annual operational "subsidies to Rwandair" (MINECOFIN, 2017, p.34; 2018a, p.26) to transform the National Airline into a regional carrier; "government equity for the construction of the Bugesera airport" (MINECOFIN, 2016, p.34); as well as "export promotion" related activities (MINECOFIN, 2015, p.20; 2016, p.36; 2018a, p.26), including major sponsorship deals with top European football clubs.[75]

The budget data is consistent with the findings of Redifer et al. (2020), Ggombe & Newfarmer (2017), and others, who indicate that since 2012/13 the government has prioritized infrastructure development and high-end service sector development to, in the words of Behuria & Goodfellow (2019, p.58), "transform Kigali into an international 'hub' of various kinds—transport, financial, tourism and information technology". Yet, this approach is not without its critics. Behuria and Goodfellow (2019, p.596), for example, question whether transforming Rwanda's agrarian economy into a knowledge-driven, service-based economy, while leapfrogging the manufacturing-led development associated with East Asian developmental states can lead to structural and societal transformation. They note "capital- rather than labour-intensive sectors can be seen as highly problematic in the context of Rwanda's demographic shift," since the sectors would not create enough jobs for a working age population projected to more than double by 2050 (Behuria & Goodfellow, 2019, p.596). Rwanda's tourism sector was found by the World Bank (2019b, p.28&80) to employ less than 2% of the working age population in 2017, was "oligopolistic, dominated by a few large firms", and "concentrated in two main destinations, namely Kigali (MICE) and the Virungas (gorillas)". Moreover, Redifer et al. (2020, p.33-34) concluded that poor education outcomes in Rwanda resulted in service sector job vacancies being "addressed largely by allowing a free flow of labour from the other East African Community countries". Finally, with the benefit of perfect hindsight, the impact of COVID-19 also raises questions over the wisdom of putting the proverbial eggs into the single basket of transforming Kigali into a transport, business conferencing and high-end tourism hub.

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[74] "Other investments" are partly detailed in annual BFPs, which are presented to parliament prior to the submission of the executive's budget proposal. In BFPs, "other investments" can be equated with "net lending", which is partly documented.

[75] In 2019, Rwanda reportedly concluded a three-year deal branding deal with French Football club Paris Saint German, valued between USD 9 million and USD 11 million, following the signature in 2018 of a similar 3-year deal with English Premier League side Arsenal (reportedly President Kagame's favourite team), valued at USD 39 million (Waterson, 2018; Kazeem, 2019).

4.3. Chapter summary

Rwanda's recent history paints a picture of a country lacking any tradition of liberal democracy. In living memory, Rwandan citizens have only experienced authoritarianism, violent political transitions, and thereafter the systematic elimination of opponents. Although RPF discourses frequently emphasise a radical break with the past, clear parallels exist between the current and former regimes, with a concentration of political power and state repression masked by carefully crafted legitimization strategies aimed at both international and domestic audiences. Past and present presidents portray themselves as enlightened and benevolent leaders guiding citizens on the path to peace and security, national unity, and economic development. Even on the question of ethnicity there are similarities, with pre- and post-genocide regimes "consolidate[ing] their power around a specific group, feeding allegiance through identity-based clientelist practices" while simultaneously deploying rhetoric aimed at concealing the reality (Desrosiers & Thompson, 2011, p.434).

Although domestic political competition to Kagame and the RPF is eliminated, the RPF leadership still feels vulnerable. The Hutu masses are perceived to present an existential threat, while the emergence of potential rivals from elite circles or political opposition in exile causes concern (section 4.2.2). Rwanda's continued aid dependence represents a further threat (Section 4.2.3), since the loss of international support –and more importantly, a curtailment of ODA– undermines the RPF's ability to retain control. The RPF's political legitimisation strategy, which forms the basis of a lopsided fiscal-social contract, is the RPF response to these perceived threats (section 4.2). In keeping with authoritarian regimes elsewhere, political legitimacy is primarily claimed through the supply cycle, with the RPF pledging peace and security, national unity, good governance, and economic and social development, all under Kagame's visionary leadership.

Assessing the degree of political legitimacy conferred upon the RPF by the specific groups in Rwanda, however, is challenging. In some cases, there may be staunch support for development programmes and other policies. Yet, the way in which the RPF's legitimization strategy is implemented provides ample grounds for political contestation. The RPF-led government has a tradition of announcing ambitious plans and strategies, which have often failed.[76] Moreover, the RPF unilaterally amended the terms of the fiscal-social contract following the aid crisis, with more emphasis on implementing a high-modernist vision (Section 4.2.3). Equally, the degree of coercion and repression in maintaining social order and the demands placed on citizens, including taxation, provide grounds for discontent and resentment. Some scholars argue that inherent contradictions in the RPF's vision for the country constitute a risk of state fragility and structural violence (Uvin, 1999; Ansoms, 2009; Storey, 2012; Hintjens, 2013; Pritchard, 2013; Fukuyama & Matfess, 2016), but as Jones and Murray (2017, p.37) point out, "discontent with particular policies is perfectly compatible with acceptance of the overall legitimacy of the state… and such a situation in fact underscores the resilience of the state imposing it".

[76] For example, the National Transformation Strategy 2017-2024 (RoR, 2017a, p.9) acknowledges the inability of its predecessor, EDPRS II, to deliver what was promised, stating that "Economic growth was solid, averaging 6.1% over (2013-2016) against the target of 11.5% over the period 2013-2020. Growth in all sectors while positive and resilient in the face of a slowing global economy, did not meet targets."

Taxation contributes to the RPF's legitimization strategy in several ways. Rwanda's vulnerability to volatile ODA flows necessitates alternative revenue sources be found to maintain the RPF's legitimization strategy (Section 4.2.3). The RPF's deeply embedded ideology of anti-imperialism and Rwandan exceptionalism also ensures that the concept of "self-reliance receives greater importance in Rwanda than in many other African countries" and that "policies are logically geared towards reducing aid dependency, framed as an issue of independence but also dignity" (Chemouni & Mugiraneza, 2019, p.137). In keeping with the notions of National Unity and "Rwandanness" (see 4.2.2.2), Kagame repeatedly demands that citizens pay their taxes to allow the country to reclaim its dignity (New Times, 2011b; Kwibuka, 2013) and that "political space is no longer occupied by anything except the interest of Rwandans" (Lumu, 2016). As will be shown in Chapter 6, the reform of tax administration has also been at the forefront of the RPF's efforts to transform the public sector and, with it, citizens perceptions of the state. It has been a political priority ever since the RPF's rise to power, not only as a means of securing scarce resources for reconstruction and development, but also to reinforce the RPF's reform credentials and emphasise a break with Habyarimana-era public sector inertia and corruption. Finally, the Rwandan government's development vision has also been costly. Redifer et al. (2020, p. 29), for example, claim that "public investment [in Rwanda] since 2000 has [been] about 50 percent higher than the average for low-income countries". Maintaining such elevated investment spending inevitably generates enormous revenue pressure, which is the focus of Chapter 5.

5. Revenue pressure in Rwanda

In this thesis' theoretical model (section 3.1.1) a government's willingness to bargain with citizens reflects the degree to which it is reliant on taxation. Access to non-tax revenues, such as natural resource rents, reduce the need for governments to tax and to bargain with taxpayers (section 2.3.2). When governments are reliant on tax, the country's tax structure determines the bargaining power of different taxpayer groups, in turn influencing a government's tax bargaining strategy (Section 2.1). The perceived fairness of a country's tax system impacts voluntary compliance, with taxpayers more likely to resist and less likely to comply if the tax burden is unfairly distributed (Section 2.1). Finally, vulnerability to exogenous shocks, and governments' ability to respond through borrowing or cutting public expenditure are important contextual variables relating to a government's willingness to bargain (Pritchard, 2015).

This chapter taxes a closer look at Rwanda's tax structure and the degree of revenue pressure faced by government and is structured as follows. Section 5.1 examines the structural constraints to raising and administering taxes in Rwanda, concluding that the government faces similar problems to most LMICs in SSA (section 2.2). Section 5.2, drawing on data from annual State Budget Laws (see section 3.4.4), examines the impact of these underlying constraints on the government's revenue mix. The analysis reveals that Rwanda is not a natural resource rich country and is still highly dependent on ODA (the implications of which are later explored in section 7.3), rendering the government's fiscal position vulnerable to aid fluctuations. Moreover, Rwanda has a narrow tax base with government overly reliant on two tax types (VAT and income tax), and upon few taxpayer groups who face a disproportionate tax burden. According to the theoretical model, this creates a dynamic whereby the affected taxpayer groups are incentivised, and have leverage, to take collective action and demand reciprocity, on the one hand, and a government with few alternative sources of revenue to finance its legitimization strategy (section 4.2) willing to bargain and compromise, on the other.

5.1. Underlying constraints on taxation in Rwanda

Rwanda experiences many of the constraints that inhibit LMICs from raising tax revenues (Section 2.2). High poverty and dependency rates result in a large part of national income going untaxed. GDP per capita was USD 733 in 2018 (World Bank, 2018), making Rwanda one of poorest countries on earth.[77] Although official poverty rates have been falling, 38.2% of citizens were still officially classified as poor in 2016/17. In 2020, Rwanda's labour force stood at 4.1 million (including 530,000 officially classified as unemployed) from a population of 12 million. Accordingly, less than a third of Rwandans were gainfully employed with the remainder economic dependents (NISR, 2020).[78] Moreover, among the gainfully employed, under-employment and working poverty are

[77] Rwanda's GDP per capita in 2018, at USD 733 (current prices), places the country 173 out of 192 countries for which data was available (WB, 2018b). Acknowledging the methodological issues with comparing countries according to GDP per capita in nominal terms (Eurostat-OECD, 2006), international comparisons are often made in real terms according to purchasing-power-parity (PPP). The IMF (2019b) estimate Rwandan GDP per capita in PPP terms at 2,642 international dollars, which would place Rwanda 167 out of 186 countries for which data was available.

[78] Rwanda's working age population (>16 years old) was 7.4 million in 2020, with the remaining 4.6 million classified as children (NISR, 2020). From the working age population, 3.3 million classified as subsistence farmers, full-time students, and economically inactive persons (NISR, 2020).

pervasive.[79] A third of those employed in 2020 were underemployed (NISR, 2020), while in 2019, mean monthly incomes were RWF 58,000 (≈EUR 56.5) with the monthly median just under RWF 22,000 (≈EUR 21) (NISR, 2019).[80]

Agriculture dominates economic activity, accounting for a third of GDP in 2020 (NISR, 2020), and around 82% of Rwandans resided in rural areas in 2016/17 (NISR, 2018a). Yet, Rwanda is among the most densely populated countries in Africa, undermining rural livelihoods and reducing farm productivity (Ansoms & Murison, 2013; Light, 2019). Agriculture workers are mostly subsistence farmers or low-paid and informal labourers (WB, 2016b; Light, 2019). This reduces the scope for taxing agricultural sector incomes and profit. Indeed, Light (2019, p. 52-53) found that Rwanda's "challenging terrain and scarce arable land has discouraged government agencies from taxing farms" due to the administrative cost of doing so, with the result that "all but the largest farms are exempt from income, property, and VAT taxes".

Non-agricultural economic activity is informal. NISR (2018d) found that only 9% of non-agriculture businesses were tax registered in 2017,[81] with these firms employing around 225,000 workers that could be subject to a withholding tax on their salaries. Most formal and informal non-agriculture enterprises are micro or small enterprises (NISR, 2018d).[82] Only 1,173 formalized medium-sized and 352 large businesses were operational in 2017 (NISR, 2018d). Micro and small enterprises pay a flat (presumptive) tax on turnover rather than CIT. [83] The survival- and expansion-rates of enterprises is low, with barely 35% operational after three years and 70% never growing beyond sole-trader status (PSF, 2018). Moreover, literacy and educational achievement remain low, resulting in low levels of awareness of tax obligations and rights among citizens, and particularly among owners of MSMEs (Baine, 2012).

Despite Rwanda's high ranking on international indices such as the (now discredited) World Bank's "Ease of doing business" index (WB, 2020), and the leadership's rhetoric on Rwanda being open for business (Mwai, 2017, 2019; Kanyegirire, 2019; Neumann, 2019), others, such as USDOS (2019), have found that "it can be difficult to operate a profitable or sustainable business due to a variety of hurdles and constraints".[84]

[79] The official definition of employment is having carried out 1 hour of paid work within a one-week period.

[80] Using an exchange rate of EUR 1 = RWF 1,025.

[81] NISR (2018d, p.2) defines formal businesses as "those businesses registered with the Rwanda Revenue Authority (RRA) and that keeps regular business accounts". Only 13,244 of the estimated 148,460 non-agricultural businesses in 2017 were classified as formal (NISR, 2018d).

[82] The NISR (2018d) classifies micro enterprises as employing less than three staff, while small enterprises are classified as employing 4-30 employees. Medium sized businesses as defined as those employing between 31 and 100 staff, while large enterprises employ over 100 staff. In total, 88.4% of formal sector enterprises and 99.9% of the informal sector were classified as MSMEs (NISR, 2018d).

[83] Existing income tax regulations (RoR, 2018a) stipulate that businesses with annual turnover between RWF 2-12 million pay a flat tax rate, whereas businesses with annual turnover between RWF 12-50 million fall under lump sum tax regime (Chapter 0).

[84] The apparent contradiction between Rwanda's ranking on the World Bank index and the practical experience of business attracted comments from several interviewees. One experienced PSD expert commented that "they have taken the "Doing Business", the World Bank guide, as their watchword… But this only covers how to set up a business and only concerns setting up a formal business… So, whilst that looks good it doesn't explain why 93% of Rwandan enterprises remain informal. If the system is so good and so easy, why aren't more enterprises moving into the formal sector?" (I04). Another PSD expert noted "Once you make that measurable set of indicators… you can easily game the system… Rwanda did a really good job in promoting the country by complying with those things. It is advertising

Businesses in landlocked Rwanda face high freight transport costs, making exports relatively uncompetitive; the country is underendowed with natural resources driving up input costs; human capital is low, infrastructure is underdeveloped and information technologies are not fully exploited, reducing productivity; access to affordable credit is challenging; and the domestic market is small given ordinary Rwandans' limited purchasing power (IFC, 2018; PSF, 2018). USDOS (2019) also note that "payment delays with government contracts and frequently inconsistent application of tax, investment, and immigration rules" can undermine business viability and profitability.

Party-statals dominate Rwanda's private sector (Gökgür, 2012; Booth & Golooba-Mutebi, 2012; Behuria, 2016; Himbara, 2016, 2018a). While Booth and Golooba-Mutebi (2012) argue that they have been crucial for Rwanda's economic development, Gökgür (2012), Himbara (2016, 2018a) and others counter that they function primarily for elite self-enrichment and are extractive in nature. The latter claim that party-statals do not produce goods and services for ordinary Rwandans, they often misuse public resources, and some are repeatedly bailed out by government. Rwanda's party-statals and politically connected business also enjoy generous tax exemptions and preferential treatment from the revenue authorities, providing them with competitive advantage over less connected rivals (IPAR-ActionAid, 2011; Gökgür, 2012; Himbara, 2016, 2017a&b, 2018a).

To stimulate foreign investment, the government offers various tax incentives and exemptions, which according to IMF (2019c) result in lower CIT productivity than peer countries. While the incentives are formally documented in the Investment code (RoR, 2015a), interview evidence suggests that other non-disclosed tax advantages continue to be offered to large companies.[85] In 2018, MINECOFIN (ROR, 2018) estimated foregone taxes to be approximately RWF 194 billion (≈EUR 18.9 million), equivalent to 16.7% of expected tax revenue in 2018/19, an amount roughly equivalent to the entire health budget (RWF 200.8 billion) in the same year.[86] Yet, the accuracy of these estimates is open to question. Several interviewees suggested that MINECOFIN lacks the capacity and analytical tools to accurately report on tax expenditures.[87]

Rwanda has also seen tax revenues from international trade eroded by trade liberalisation. UNCTAD (2014, p. 59) found that following Rwanda's adoption of the East African Community (EAC) Customs Union protocol in 2009, international trade revenues in 2009/10 declined by 35% compared to the previous year (with a 3.1% fall in total tax receipts), but that this loss was offset by an increase in direct and indirect taxes. In 2019, the IMF (2019a, p. 14) found evidence that "taxes on international trade are lower than comparators", which it attributed to "a lower common external tariff for the EAC customs union".

for the country… The important thing for Rwanda in that "Doing Business" it that it raises the profile of a country that otherwise nobody will have heard of… " (I14).

[85] I01, I07, I09, I11 (Diplomats).

[86] Since 2018, estimated tax expenditures are presented to parliament each year as part of the executive's budget proposal. Prior to 2017 the executive did not provide a quantification of tax expenditures to parliament in the annual budget documentation (PEFA, 2017).

[87] I10, I21, I25 (Embedded advisors at MINECOFIN). This is corroborated by IMF (2019a, p.36) which found the "authorities have sought TA on tax expenditure analysis from various development partners".

The extent of Illicit Financial Flows (IFFs) from Rwanda is unclear.[88] Rwanda like most LMICs has suffered from aggressive tax planning by MNEs, and the RRA continues to receive technical support from donors to strengthen institutional capacity to combat base erosion and profit shifting. Global Alliance for Tax Justice (2020) estimated Rwanda's annual loss to corporate tax abuse at USD 70 million. Andersen et al. (2020, p. 19) also found evidence that World Bank aid disbursements to Rwanda, like those to other LMICs, coincided with sharp and simultaneous increase in financial flows to offshore tax havens, which they attributed to "aid capture by ruling politicians, bureaucrats and their cronies".

Finally, the Rwandan economy is highly vulnerable to exogenous shock (IMF, 2018a, 2018b, 2019a). Rwanda suffers from structural external imbalances because of its over-reliance on imported intermediate and consumer goods, and its narrow export base in primary goods is susceptible global commodity price volatility (WB, 2014b; IMF, 2018a&b). In recent years, Rwanda's economy has also been undermined by to "adverse regional political developments, pests affecting harvests, and perennial unpredictable weather" including frequent flooding and drought (IMF, 2018b, p.7).

5.2. Rwanda's tax structure

Taken together, the abovementioned structural constraints reduce the scope for taxation in Rwanda as in other LMICs. Yet, Rwanda's revenue performance lags the SSA average, even if the gap has gradually narrowed. According to OECD/ATAF/AUC (2019), the mean average of tax-to-GDP ratios across SSA was 17.2% in 2017, compared to 16.0% in Rwanda (Figure 11).[89]

[88] This lack of clarity partly reflects the methodological challenges associated with defining and calculating IFFs (Khan et al., 2019; Cobham & Jansky, 2020).

[89] OECD/ATAF/AUC (2019) calculations are based on data for 26 countries: Botswana, Burkina Faso, Cabo Verde, Cameroon, the Republic of Congo, the Democratic Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Egypt, Eswatini, Ghana, Kenya, Madagascar, Mali, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rwanda, Senegal, the Seychelles, South Africa, Togo, Tunisia, and Uganda. There is significant variance between tax-to-GDP ratios. ATAF (2018), using a slightly different sample to OECD/ATAF/AUC (2019) found better performing countries such as Seychelles, South Africa, and Senegal with tax-to-GDP ratios over 25% in 2016, and lower performing (rentier) states such as Nigeria and Angola with ratios closer to 5% and 8% respectively (ATAF, 2018). ATAF (2016, p.36) found "most of the countries clustered around the 12%-15% tax-to-GDP range" in 2016.

Figure 11: Tax-to-GDP ratios in Rwanda and SSA
Tax revenues (incl. social security contributions) as a proportion of GDP

Source: OECD/ATAF/AUC (2019)

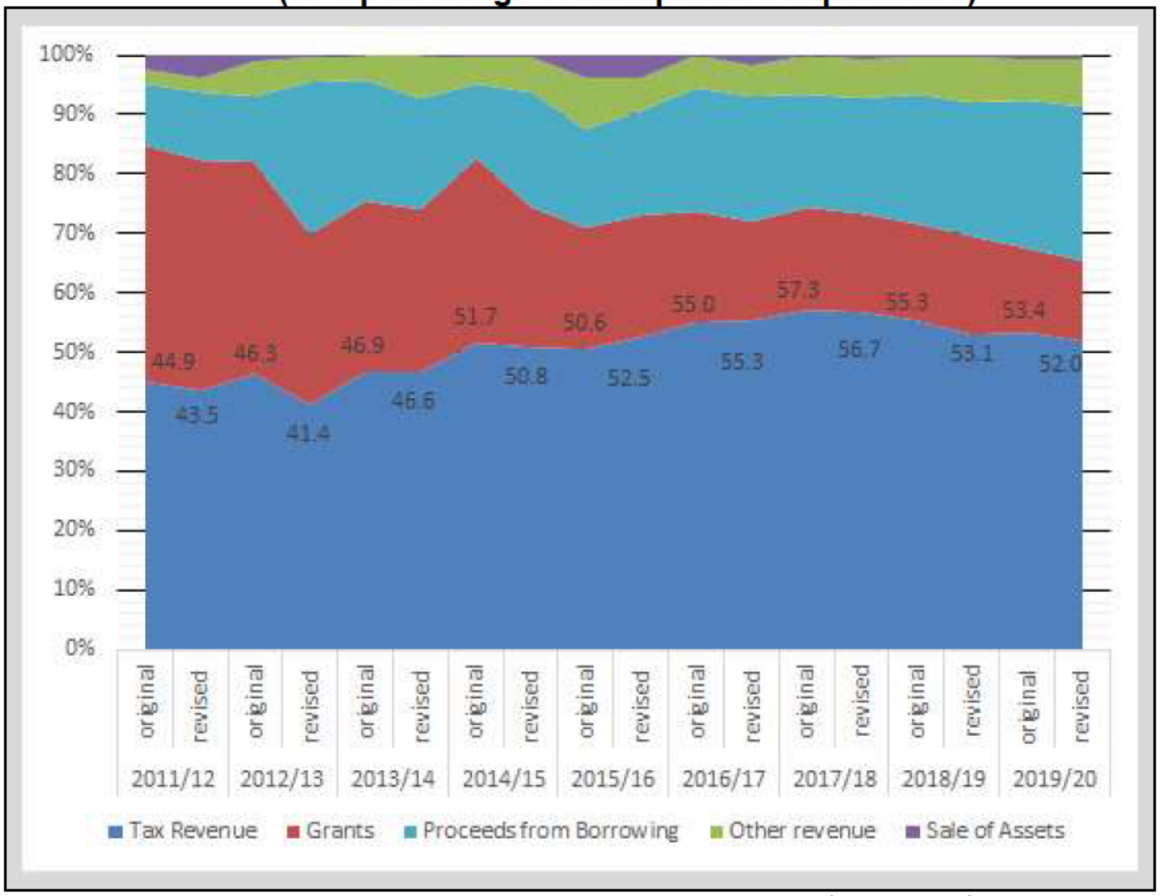
In the 2019/20 state budget, tax receipts were projected to be 52% of total planned expenditures. Despite tax revenues as a proportion of total expenditure having risen since 2010, they remain insufficient to cover planned public expenditure (Figure 12). The reality is that Rwanda remains heavily reliant on ODA, and other non-tax sources of revenue. ODA grants and sovereign loans from IFIs still represented close to 40% of planned revenue in 2019/20 (Figure 12). This in theory would make the government accountable and responsive to it donors, but as will be shown in section 7.3, this is not necessarily the case in Rwanda. The government's changing relationship with its donors has influenced the mix of ODA. Over the decade from 2010 to 2020, ODA grants have diminished as a proportion of planned expenditure, from 39.8% in 2011/12 to 14.2% in 2019/20, with the trend accelerating after the aid crisis of 2012/13 (Section 4.2.3).

Declining grant ODA has been partly offset by an increased willingness by government to borrow, particularly from multilateral banks.[90] In 2019/20, revenues from state

[90] Sovereign lending is primarily concessional loans from multilateral banks. From 2017/18 onwards, however, the Rwandan authorities stopped providing a detailed breakdown of the source of foreign loans in the State Budget Law. In the revised budget of 2015/16, the last time such information was publicly available, Rwanda is estimated to borrow RWF 258.7 billion from foreign institutions, which represented 91% of all borrowing. Rwanda's main foreign creditors were named as World Bank/IDA (62.8%); AfDB (12.5%); IFAD (2.7%); the Arab development bank (3.3%); the OPEC fund for international development (3.4%); the Kuwait Fund (3.1%), The Saudi Arabian Fund (2%); China Import/export bank (6.1%); India Import/export bank (2.2%); Korea Import/export bank (2%). Drawing on an article by Paduano (2019), one plausible explanation for the reduced transparency over lending sources may be that the authorities are increasingly turning to China for the country's financing needs but remain wary of upsetting traditional Western donors concerned about Chinese expansionism on the continent. Padano's analysis points to a heightened risk of Rwanda

borrowing amounted to 24.9% of planned expenditures, compared to 10.4% in 2011/12. While borrowing may relieve revenue pressure in the short run, an increased reliance on borrowing over the longer-term raises the revenue pressure, since the government's ability to borrow is contingent on lenders' perceptions of its ability to repay its debts through future tax receipts.

Figure 12: Sources of Rwandan state revenue (2011/2012-2019/2020) (as a percentage of total planned expenditure)

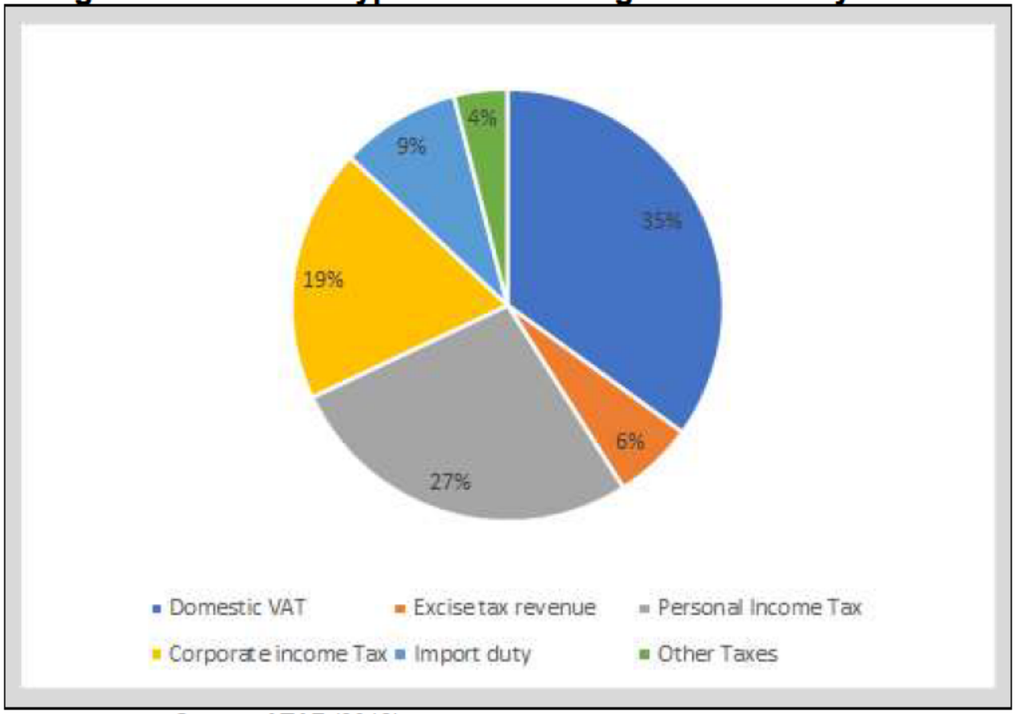


Source: Own calculations based on State budget laws (2011/2012 to 2012/2020)

Pritchard (2015) suggests that the type of taxes upon which governments are reliant have implications for tax bargaining, claiming that increased state responsiveness and accountability is more likely when government depends on direct taxes. He argues that direct taxes are more visible and therefore more politically salient. Similarly, government reliance on specific tax types can provide some taxpayers with increased leverage over the government.

falling into the "Chinese debt trap" seen in other neighbouring SSA countries. Interestingly, Paduano's article drew a firm and formal rebuttal from the Rwandan authorities (MINECOFIN, 2019), faithfully repeated in the local media (IGIHE, 2019) together with attempts at character assassination (Rwgatare, 2019; Mutubazi, 2019). The government's response is insightful, as it highlights the sensitivity of the authorities to such allegations.

Figure 13: Main tax types in the average SSA country in 2016

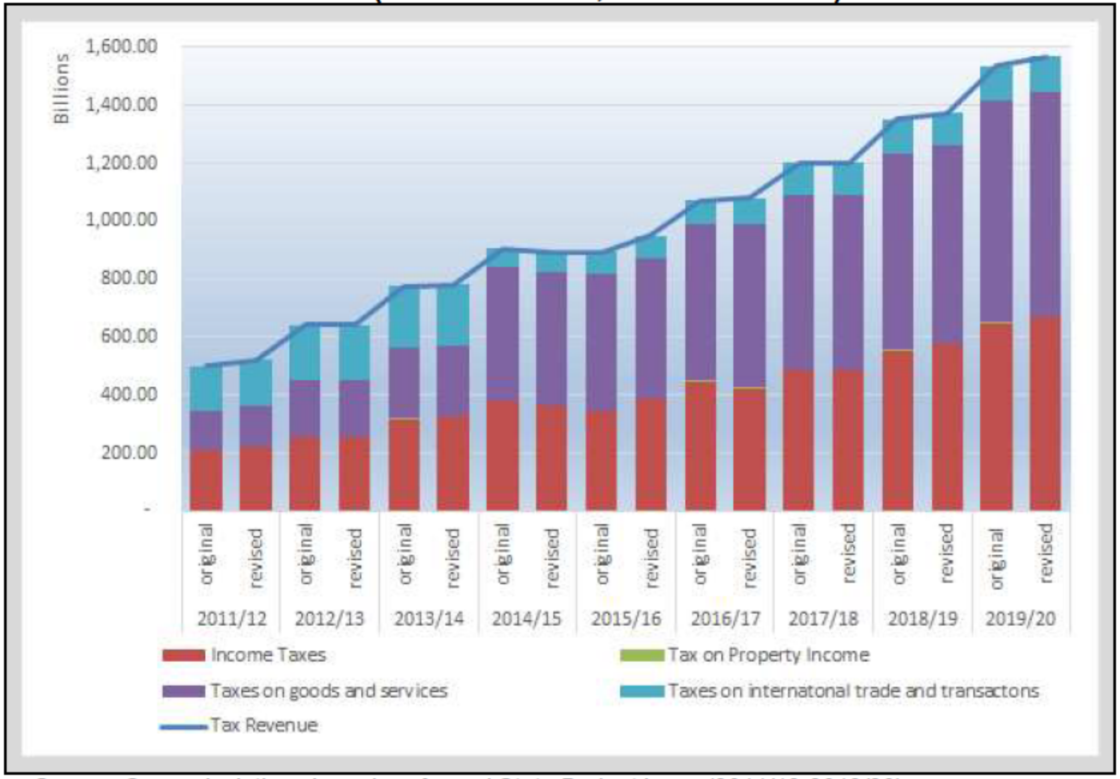


Source: ATAF (2018)

ATAF (2018), using data from 26 SSA countries including Rwanda, found that on average the share of tax revenues from direct and indirect taxes was roughly 50:50 across Africa in 2016 (

Figure **13**). On average, PIT and CIT contributed 27% and 19% respectively of total tax receipts. VAT typically yielded the most revenue for SSA countries, averaging 35% of total tax receipts, compared to the OECD average of 20% in 2015. Indirect excise and import duties yielded, on average, a further 6% and 9% respectively of total tax revenues in SSA countries. “Other taxes,” primarily taxes on income from property and other assets, provided the lowest contribution to state revenues, amounting to an average of 4% across the region. In a recent review of property taxes in 54 African countries, Franzsen and McCluskey (2017, p. 29) also conclude that “almost everywhere in Africa, [property tax] is underused and badly administered”.

Figure 14: Evolution of tax revenues from 2011/12 to 2019/20 (in RWF billion; nominal terms)

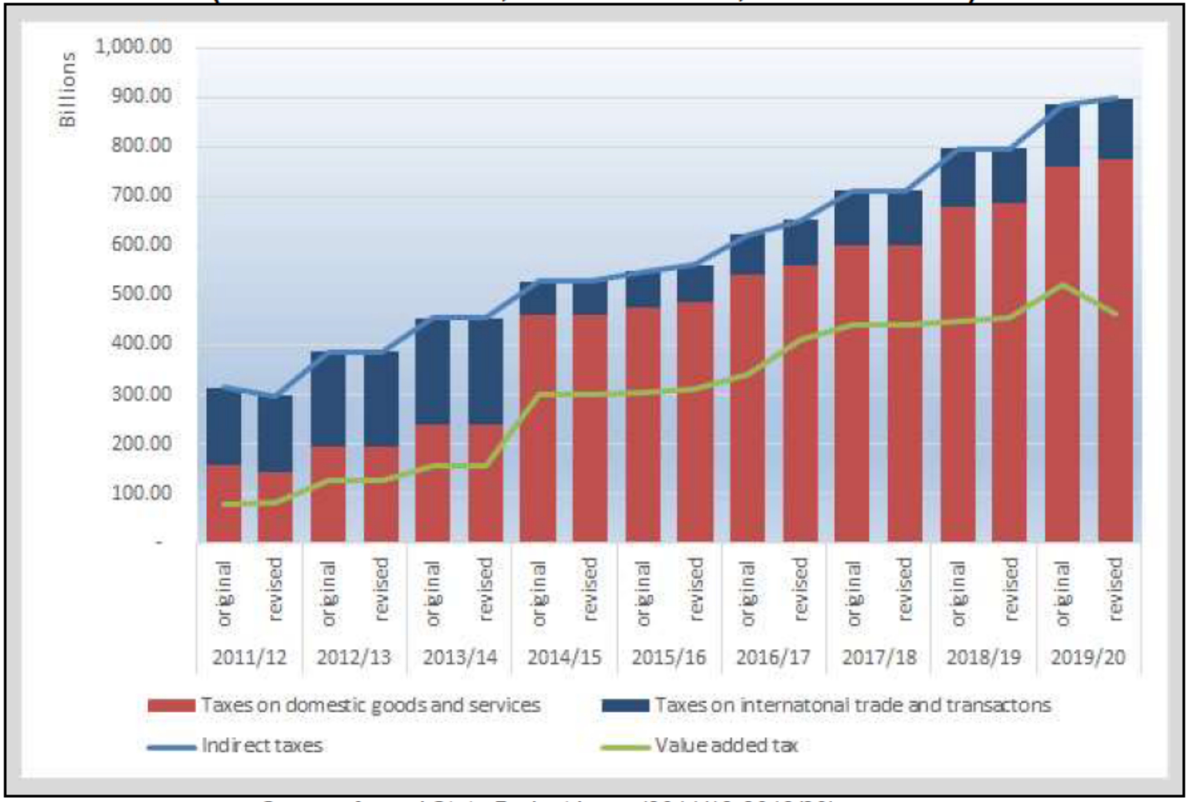


Source: Own calculations based on Annual State Budget Laws (2011/12-2019/20)

In contrast to the average SSA country, Rwanda is more heavily reliant on indirect taxes. Over the 2011/12 to 2019/20 period, the ratio between direct and indirect taxes in Rwanda has remained relatively stable (

Figure **14**), with approximately 60% of tax revenues derived from indirect taxes. This indicates (and is corroborated in Chapters 8 and 9) that Rwanda's specific tax mix makes indirect taxes relatively more politically salient than income taxes.

Figure 15: Evolution of projected indirect tax revenues (2011/12 to 2019/20; nominal terms, in RWF billion)

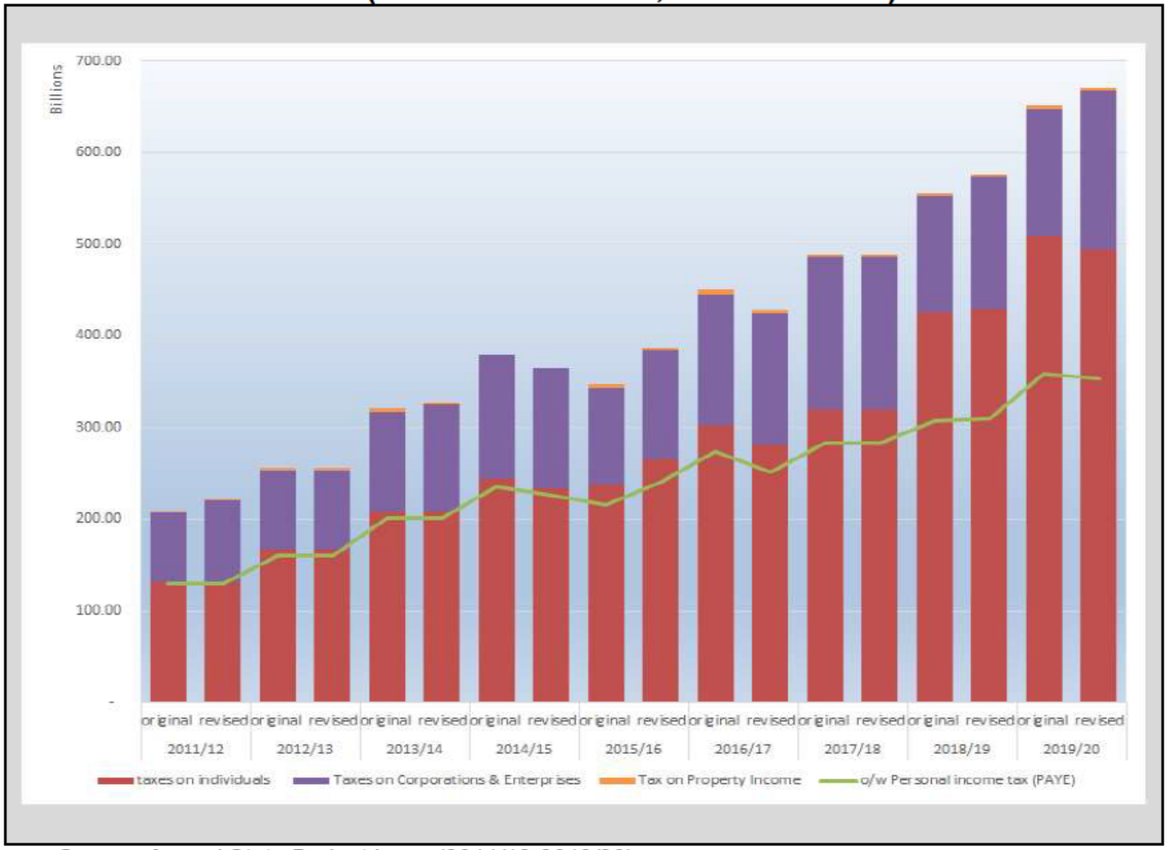


Source: Annual State Budget Laws (2011/12-2019/20)

In Rwandan budgetary classification, indirect taxes are levied on domestic goods and services (VAT and excises), and on international trade. Prior to an administrative reclassification in 2014/15, where VAT on imports and excise duties on a range of imported goods were officially re-classified as taxes on goods and services as opposed to taxes on international trade, indirect taxes from domestic and international sources were roughly equal. Thereafter, expected receipts from indirect taxes on domestic goods and services rose sharply, while those on international trade fell by a similar margin (

Figure **15**). This is important in the context of the in-case study on VAT EBMs (see Chapter 9 and Table 16 in Appendix), since the apparent sharp rise in VAT receipts in 2014/15 was widely -and it would seem falsely- attributed to the successful rollout of the devices.

Figure 16: Evolution of projected direct tax revenues in nominal terms (2011/12 to 2019/20; in RWF billion)



Source: Annual State Budget Laws (2011/12-2019/20)

Most direct taxes in Rwanda are collected from individuals (see

Figure **16**). Over the period 2011/12 to 2019/20, PIT receipts constituted over two thirds of expected revenues from direct taxes. Additionally, up to 2017/2018, Pay-as-you-earn (PAYE) accounted for approximately 90% of PIT, indicating that the tax burden fell almost exclusively on salaried staff within the formal sector, which in Rwanda tends to mean those in the public sector (Section 5.1). Most citizens, have no experience of direct taxation of their incomes. The budgetary data also points to several PIT-related developments in the wake of the 2018 Income Tax Law revision (Chapter 8). In 2018/19 and 2019/20, for example, the authorities expected PIT receipts to constitute three quarters of direct taxes, and that the increase would come from non-PAYE sources. This information helps identify the two key groups affected by the 2018 reform of PIT, namely salaried employees in the formal sector and self-employed professionals.

Budget data also reveals that CIT's contribution to direct taxes was expected to contract in the wake of the 2018 Income Tax Law revision. Having averaged just over a third of total direct taxes from 2011/12 to 2017/18, CIT yields were projected to fall to under a quarter of direct taxes and less than 10% of total tax receipts in 2018/19 and 2019/20. This is low even by African standards, where CIT contributed, on average, 19% of total tax revenues across SSA in 2016. While this partly reflects the underdeveloped nature of the Rwandan private sector (see section 5.1), it also reflects the political decision to aggressively promote investment through tax policy, and the pervasiveness of tax expenditures. Yet, despite the low overall yield from CIT, large enterprises continue to be the most important partners of RRA. The large taxpayer's office collects most direct taxes, and large taxpayers effectively administer withholding taxes such as PAYE and VAT on behalf of RRA.

A final observation from the budgetary data is that expected revenues from property taxes averaged 0.1% of total taxes and 0.7% of direct taxes in the period 2011/12 to 2019/20, an amount that Goodfellow (2017b, p. 561) describes as "extraordinarily low even by the standards of developing countries" (see

Figure **13**). What is more surprising (see Table 13 in Appendix) is that almost all property taxes projected in the budget are to come from taxes on vehicle registration and not from immovable property. As in other LMICs in SSA, Rwanda's the political economy appears to be the main reason.[91] Chemouni (2020, p. 26), claims that "lack of productive sectors to invest in has made real estate a logical investment for Kigali's wealthy elite", and with "companies owned by the party and the military are especially active in the construction and property development business", the "ineffectiveness of the state in taxing land and buildings has been key in sustaining the rents of the ruling coalition and its supporters". Similarly, Goodfellow (2017b, p. 560) attributes the low yield from property taxes to the "fragility of the elite coalition underpinning the RPF", resulting in an "aversion to disrupting what has thus far been a relatively untouched sphere of elite capital accumulation".

5.3. Chapter summary

Rwanda exhibits most of the structural constraints that inhibit DRM in LMICs (see section 2.2.1). The tax base is very narrow, providing the government with insufficient domestic resources to finance its political legitimization strategy. The government is also mostly reliant on indirect taxation –primarily VAT- and direct taxes levied on few companies and individual taxpayers in the formal sector. This is further exacerbated by a conscious political choice to forego some sources of revenue, such as property tax, and to provide excessive tax exemptions. These policy choices indicate that elite groups, such as property- and land-owners, large companies, or the professional classes, may still have leverage over government on tax matters, which will be further explored in Chapters 8 and 9.

As will now be shown in Chapter 6, the government's primary response to the underlying structural and political constraints to DRM has been to invest in an efficient and effective tax administration. The RRA has pride of place among the country's public institutions (AfDB, 2010; Gallagher, 2018) and a singular political narrative has been maintained in relation to organizational competence and integrity. However, as will also be seen in Chapter 6, acute revenue pressure in Rwanda, coupled with a weak tax policy function creates, in practice, distorted incentives for key institutions the institutions, as well as the individuals working within, which ultimately has implications for how tax policy is formulated, how taxes are administered, and ultimately how the tax system is perceived by citizens.

[91] Bird (1991), for example, has long claimed that weak performance of property taxes reflects the strong ties between landowners and political elites, which reduces motivation for reform.

6. The potential and scope for tax bargaining

The theoretic model for this thesis defines the salient features of the tax system and the effectiveness of tax administration as two important variables that influence the potential for tax bargaining (or resistance/evasion) by separate groups. A politicised tax system or biased tax policy, including preferential treatment for elite groups, may prompt those who do not benefit to protest or evade (see section 2.1). Similarly, aggressive tax enforcement, discretionary behaviour by tax officials, and poor responsiveness to taxpayer needs, can motivate tax avoidance or resistance.

According to the IMF (2017b, p.2) if tax policy is to "foster sustainable economic and social development and enjoy broad public support, it is essential for tax reform proposals to be carefully assessed, quantitatively analysed, and openly debated". Yet, in a cross-country study of ten tax jurisdictions,[92] Wales & Wales (2012, p. 7) found that even in high-income countries tax policy functions were under-resourced, that policy was typically "formulated and influenced by a very small group of people" and that "the narrowness of the process has the potential to create unbalanced outcomes in the absence of other safeguards". The IMF (2017b, p.2) found that tax policy weaknesses are exacerbated in LMICs, because of insufficient expertise in tax policy formulation and analysis within key institutions, poor institutional coordination, and a lack of transparency, which "complicates decision making, hampers the debate about tax reform, and can lead to ill-designed tax policies or a tax system that fails the test of legitimacy in the eyes of the public—which can be detrimental to tax morale and compliance".

In Rwanda, the government has invested heavily in modernising tax administration. Moreover, given the political salience of taxation (see Chapter 4), the RRA has received strong personal support from the President (Land, 2004; Torero et al., 2006), in turn facilitating reforms that have stalled in other LMICs. However, Kagame's support comes with heightened pressure to collect more resources to implement the government's legitimization strategy. This pressure manifests itself most visibly in annual tax collection targets. Over the period 2011/12 to 2019/20, the average annual growth rate of the headline tax revenue targets set by MINECOFIN was 16.9%. As will be seen in the subsequent sections, further elaborated in the case studies (Chapters 8 and 9), this political pressure creates perverse incentives that undermine the impartiality of tax administration and the objectivity of tax policy formulation. These distortions are amplified by weak institutional capacity and inappropriate organisational arrangements.

This chapter starts, in section 6.1, with a historical review of taxation in Rwanda, examining how the past shaped not only the contemporary tax system but also citizens' attitudes towards taxation. Section 6.2 examines the institutional arrangements for tax policy formulation, revealing that although an institutional separation between tax policy and tax administration functions formally exists, capacity constraints within MINECOFIN have created a de facto situation where the RRA effectively formulates the policy that it will subsequently implement, creating a conflict of interest. In Section 6.3 attention turns to the RRA itself, not with the aim of examining organizational effectiveness in administering taxes but rather to examine its ability to lead on, and engage with relevant

[92] These jurisdictions included Australia, Finland, France, Germany, Ireland, Jersey, New Zealand, Sweden, United Kingdom and the United States.

stakeholders, in tax policy formulation. In doing so, the chapter highlights how Rwanda's political economy impacts the behaviour of officials in RRA, which in turn influences public perceptions of the RRA and the tax policy function. Analysis draws on the grey literature relating to taxation in Rwanda and supplements this information with new empirical evidence derived from interviews with expatriate technical advisors (hereafter "advisors"), including those embedded in relevant institutions; tax professionals; private sector representatives; and development practitioners in Rwanda. It also reflects the author's professional experience in Rwanda during the period 2015-2020 (see section 3.3.2).

6.1. Origins of the Rwandan Tax System

Rwanda's formal tax system dates to the colonial era, when the first tax legislation was issued. Yet, the concept of taxation pre-dates the colonial era, with various feudal obligations levied on citizens by Rwandan monarchs (Vervust, 2012; Purdeková, 2016), paid as goods or in-kind manual labour, depending on a citizen's social class (Kamatali, 2020). Colonial administrations sought to supress feudal obligations, while introducing new taxes, compulsory cultivation of cash crops, and forced labour (*corvée*), which were often brutally enforced (Vervust, 2012). Reyntjens (2018) notes that the fiscal burden on ordinary Rwandans increased during the colonial period since citizens were subject to both traditional levies and colonial taxes. Vervust (2012, p. 92) also suggests that "ethnic distinctions" inherent in colonial era policy (section 4.1.1) made the tax burden unfair and reinforced societal cleavages.

Rwanda's independent government inherited a rudimentary tax legislative and institutional structure (AfDB, 2010). Colonial-era taxes were mostly retained after independence. Although profit taxes and customs and excise duties were introduced in 1964 and 1968 respectively, AfDB (2010) claim that only minimal improvements were made to the tax system until the post-genocide era. Similarly, Land (2004. p. 1) argues that during Habaryimana's reign, taxation "was not taken seriously by either the government or the public at large". Plentiful rents from coffee exports (see section 4.1.1) and ODA flows enabled government to provide widespread tax exemptions, both formal and discretionary (IMF, 2000).[93] Moreover, tax administration was fragmented and "characterised as incompetent, inefficient and corrupt" (Land 2004, p.1). Land (2004, p. 4) concludes that because of a lack of public services and widespread corruption in the revenue authority "for most Rwandans paying tax was viewed not as a civic responsibility, but as something to be avoided". Years of neglect, followed by civil war and genocide, left Rwanda's tax administration unfit for purpose. Rwanda lacked an appropriate legal and policy framework, and its tax administration systems and procedures were outdated (AfDB, 2010). Infrastructure, equipment, and tax records were looted or destroyed during the conflict, while experienced tax officials had fled or been killed.

Upon taking over, the RPF prioritised DRM. Some in government viewed tax reform of the tax system as a matter of survival, while others recognised an inherent link between taxation and state building. According to one former RRA Commissioner General:

> "Survival was top on the agenda therefore a common vision was agreed and everybody had to identify their role in this wider set up… it was crucial that

[93] Tax exemptions were granted not only in accordance with a poorly conceived Investment Code, but also from less transparent special agreements between government and individual companies (IMF, 2000, p.12).

> accountability be demanded of each other (state and citizens) for this vision to be realised. This scenario was even more profound for Rwanda during the reconstruction process since the need for resources was much greater … While dependence on aid was inevitable in the immediate term, it was agreed that due to its un-sustainability and inconsistency, it had to be a bridge to a more robust and constant flow of domestic resource mobilisation. It was immediately decided that more weight needed to be thrown behind domestically generated resources through taxation." (Baine, 2010)

Tax reforms under the RPF have been, in the view of AfDB (2010, p. viii), "systematic and sequenced" (with revenue administration and tax policy reforms undertaken in parallel. Early tax reforms were also largely consistent with "global tax reform agenda" (see section 2.2.3) driven by development partners (Tagiki et al., 2018). The first wave of reforms began in 1997 with the RRA established as a semi-autonomous revenue authority (SARA). Land (2004, p.7) claims that this was to "shed the legacy of the past", to "transform the image and standing of the revenue service and to establish a new relationship with its stakeholders based on trust and cooperation". During the early years, attention focused on developing a coherent organisational structure at RRA, building capacity, and establishing RRA's credibility and legitimacy. Interviewees present at the time[94] indicated that the immediate post-genocide period provided both challenges and opportunities. One advisor (I05) claimed that the decimation of institutions during the genocide allowed policymakers to "start with this fresh, clean sheet of paper [since] there was nothing to build on of any real substance", adding that the authorities were open to donor recommendations "because they didn't know any other way".

In addition to embracing the SARA model, a *Large Taxpayers Unit* was established within RRA and made responsible for "collecting taxes from 150 largest taxpayers, accounting for 80% of all tax revenue" (IMF, 2000, p. 12). Target-driven management approaches were adopted, pre-dating *Imihigo* elsewhere in the public sector (Chemouni, 2020). In 1998, unique *Tax Identification Numbers* were introduced to improve taxpayer registration. Other reforms adopted from the IMF standard toolkit included rationalisation of sales taxes and tax exemptions; increasing consumption taxes on alcohol, petroleum, and soft drinks; as well as introducing a presumptive income tax of 3% on company turnover (IMF, 2000). In parallel, taxpayer education campaigns were launched to encourage voluntary tax compliance (Baine, 2010; I05).

The authorities also sought to overcome vested interests and resistance to change, which have undermined tax reforms elsewhere in Africa (see Section 2.2). To prevent the reemergence of patronage and corruption in the newly established RRA, an expatriate Commissioner General (CG) was recruited, and foreign advisors were appointed to key posts. Staff from the former tax administration were required to undergo competency and integrity assessments (Land, 2004; AfDB, 2010), a quarter of whom were subsequently dismissed (Schreiber, 2018, p. 4). While Schreiber implies that these dismissals were purely on technical grounds, this ignores the fact that politically motivated dismissals were occurring across the public sector at the time as the RPF consolidated power (see section 4.1.2). RRA's human capital was bolstered by returning Rwandan exiles, who "brought

[94] I05, I18 (advisors to RRA).

with them international experience, expertise and education" (Land, 2004, p. 5), and who would have been more attracted to RRA given its operational autonomy to offer higher salaries than elsewhere in the public sector. Another benefit of side-lining veterans in favour of returnees was that:

> "Young and well-trained technocrats often coming from abroad were given considerable responsibility in higher echelons of the public service… Benefiting from rapid upward social and economic mobility, they were eager to demonstrate their loyalty and not inclined to challenge the party's leadership. The regime thus reinforced itself by incorporating obedient, fervent, and competent cadres and at the same time reinforced its polished exterior towards donors" (Reyntjens, 2013, p. 43).

During a second wave of reforms in the early 2000s, sales taxes were replaced with VAT, and the RRA was reorganised along functional lines to better integrate tax administration and improve taxpayer services. In 2003, the RRA's mandate was extended to collecting non-tax revenues including fines and fees, and for revenue from public property and assets. This period also saw Rwandan officials gradually replacing expatriate advisors (Land, 2004). From 2005, a third wave of reforms centred on revising the legal framework, with new laws on income tax (RoR, 2005a), tax procedures (RoR, 2005b), excise duties (RoR, 2006b), and an Investment Code (RoR 2006a) that outlined fiscal incentives. For the remainder of the decade, attention focused on enhancing institutional capacity, digitalization, and improving tax compliance (AfDB, 2010; RRA, 2010; Akitoby et al., 2019a). To simplify processes and improve taxpayer services, electronic filing and payment systems were introduced in 2011, followed by electronic tax registration and direct bank payment of tax (Akitoby et al., 2019a).

The aid crisis of 2012/13 (see section 4.2.3) sparked a new round of tax reforms. Having willingly accepted the prescribed reforms of the global tax reform agenda for several years, the authorities suddenly changed tack, pushing through their own tax reforms, and side-lining development partners in the process. The new reforms were spearheaded by the introduction of VAT EBM (see Chapter 9). In 2014, the government reversed the fiscal decentralization trend that had been advocated by donors, with RRA made responsible for collecting local taxes.[95] In 2015, and in-keeping with the government's new pro-growth agenda (see section 4.2.3) a new Investment Code was issued (RoR, 2015a), outlining tax exemptions the government believed would incentivise large-scale investment. Following the re-election of Kagame in August 2017, new legislation was approved by parliament, including revised laws on income tax (RoR, 2018a -see Chapter 8), on subnational revenues (RoR, 2018e), and on tax procedures (RoR, 2019b).

The subsequent sections will show how structural flaws in policy making processes and institutional capacity weaknesses contribute to rushed and ill-considered policy decisions.

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[95] The government decided to re-centralise the administration of property tax, trading license tax, and rental income tax, three taxes that had been expected to form the bedrock of local government own revenues. The decision to re-centralise the administration of local taxes can be perceived as an impediment to the development of fiscal-social contracts at the sub-national level, where interaction between the state and citizens should be more personal, as has been observed in other SSA countries (see section **Error! Reference source not found.**). Examining the impact of this decision could be the focus of future research.

The impact of such flaws has a direct bearing on the reform of income taxes and the rollout of VAT EBM, which will be examined in further detail in Chapters 8 and 9.

6.2. Tax Policy formulation in Rwanda

In-keeping with the executive agency model of government in Rwanda, MINECOFIN is mandated to set tax policy and formulate tax laws, with RRA responsible for implementing policy decisions (RoR, 2009a, AfDB, 2010). The subsequent sections examine the formal processes for the formulation and adoption of tax policies and laws and the institutions that are nominally assigned to lead on tax policy formulation.

6.2.1. Normative tax policy making processes in Rwanda

Legislative drafting in Rwanda is guided by two regulations outlining procedures and templates for draft laws (ROR, 2005c, 2006d).[96] New legislation is initiated by a lead ministry, with the technical work assigned to the ministry's policy and legal teams. In the case of tax, responsibility formally lies with a Tax Policy Unit (TPU),[97] established in MINECOFIN's Macroeconomic Policy Division. The regulations also require the ministry to consult with relevant public institutions, external experts, and other stakeholders during preparation of the draft legislation. Nominally, consultations on tax are coordinated by a Tax Policy Committee (TPC), a body chaired by the MINECOFIN Chief Economist and comprised of representatives from key state institutions and other relevant stakeholders such as the Private Sector Federation (see section 7.2.2.1).[98] Draft legislation is first cleared by a ministry's leadership before being submitted to the Legislative Drafting Unit of MINIJUST for review. MINIJUST do not comment on substance, but are responsible for ensuring consistency with existing law, that drafting protocols and formats are respected, and that there is linguistic consistency.[99]

After legal review, draft legislation is submitted to cabinet, together with an analytical paper that explains policy intent in non-technical language. A Rwandan Lawyer (I50) indicated that a list of consulted stakeholders is also routinely provided in annex. Gateraruke (2012) claims that strategically important or sensitive legislative proposals first go to an inter-ministerial committee for review. An experienced Rwandan researcher (I08) also claimed that sensitive proposals must also navigate an RPF pre-cabinet meeting, where the proposal is scrutinized by party officials. If either body opposes submission of a draft law to cabinet, it is returned to the parent ministry to be modified or abandoned. Legislative proposals that make it to cabinet are either adopted, adopted with amendment, or refused.

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[96] In a formal response to the UN Committee on the Rights of Persons with Disabilities (UN, 2019, p.2) the Rwandan authorities confirmed that the government was "finalizing new Prime Minister's Instructions on legislative drafting" and was "developing a comprehensive Legislative Drafting Manual" to replace the two Ministerial Orders.

[97] The official role of the TPU is to: Formulate tax policies to achieve economic policy objectives and evaluate their impact on taxpayers and the economy; Identify new avenues of widening the tax base and raise domestic revenues to finance government budget; Prepare annual and medium-term revenue forecasts; Prepare quarterly and annual revenue performance reports; and Draw up appropriate legislation (outlined on MINECOFIN's website: http://www.minecofin.gov.rw/index.php?id=66 [accessed on 18.06.2018]).

[98] Public Institutions that are members of the TPC include MINECOFIN, RRA, MINIJUST, The Ministry of Trade and Industry (MINICOM) and the Rwanda Development Board (RDB) (MINECOFIN website).

[99] All laws in Rwanda are presented with Rwanda's three official languages (English, French and Kinyarwanda). According to one tax professional (I51) poor translation between the three languages can result in inconsistency within laws and creates uncertainty in implementation.

Legislative proposals approved by Cabinet are then presented to Parliament. Those deemed relevant by plenary in the lower house are approved as an acceptable "project," while those deemed unacceptable are dismissed. The former are then scrutinised by the relevant parliamentary committee, who can invite "opinion leaders" to present evidence, and who can propose amendments to be voted upon in plenary. If passed, with or without amendments, the bill is then sent to the upper house (Senate), where the process is repeated. Following the endorsement of both Lower and Upper Houses of parliament the draft bill becomes law and is sent to the President of the Republic for signature.

6.2.2. Rwandan tax policy formulation in practice

TPU in high-income countries are typically multidisciplinary teams of specialists, including lawyers, economists, and accountants (Bird, 2004; Wales & Wales, 2012). Information on the organizational arrangements for TPU in SSA is scarce, but IMF (2017, p. 7) reports that South Africa's TPU consists of 40 staff, split between legal drafting and economic analysis, while the Kenyan TPU employs around 10 staff. Prior to 2020, MINECOFIN's organogram contained no TPU (MINECOFIN, 2020b), but highlighted two "Economist(s) in charge of Tax Policy" in the Macroeconomic Policy Division.[100] According to interviewees,[101] these economists were not tax specialists, and worked under a senior economist, whose portfolio extended to other non-tax-related duties. One interviewee explained:

> "There isn't really someone senior who is responsible for tax policy in MINECOFIN… It basically comes down to senior economists… but they are responsible for everything…. There is not a lot of capacity on data analysis and economic analysis more generally. So, if they want to be able to look back at policy to see how well they have been performing… what is working and what isn't… they don't really have the in-house capacity to do that. They do it through hiring people who are usually expatriates… There just aren't that many in Rwanda to know how to use data and do a solid economic or econometric analysis…" (I10, advisor)

Embedded advisors[102] also indicted that while MINECOFIN possessed a few externally developed revenue forecasting tools,[103] they lacked sufficiently disaggregated taxpayer data to make them effective. They claimed that the RRA did not systematically share data with MINECOFIN, which they partially attributed to concerns over the security of confidential taxpayer information, and partly due to institutional rivalry.[104]

[100] From 2019 onwards, additional resources, including ODI research fellows, began to be provided to the TPU by international donors. A Tax Policy Directorate General was formally established in 2021, with positions created for 6 individuals, including a Director General, a Tax Policy Specialist, three Tax Policy Officers and a Tax Modelling and Forecasting Specialist (MINECOFIN, 2021). These developments -clearly an acknowledgement of past organizational weaknesses- fall outside the scope of this thesis. It will be interesting to see if these reforms are able to overcome some of the barriers to impartial tax policy formulation highlighted in this thesis.

[101] I10, I21, I23, I25, I57 (advisors to MINECOFIN), I36 (diplomat).

[102] I09, I21, I25 (advisors to MINECOFIN).

[103] For example, the main tax revenue forecasting tool used in budget preparation (REFOTO), was developed by the IMF.

[104] At the time of writing the thesis, the authorities had recognized the problem and a more standardized information exchange protocol between RRA and MINECOFIN was under development.

Prior to 2020, therefore, MINECOFIN lacked the data, resources, and capacity to formulate evidence-based tax policy. Several interviewees[105] revealed that, in practice, the RRA, rather than its parent ministry systematically led on tax policy formulation. In addition to the income tax law, interviewees indicated that RRA led, inter alia, on legislative reforms of external tariffs (I12), property taxes (I42), and taxing the minerals sector (I30). [106] RRA's Research and Planning Department undertook regular reviews of tax policy implementation, while reform proposals were prepared by relevant RRA Departments in conjunction with RRA's legal team. According to one interviewee:

> "You have people in RRA who are more expert and specialised in tax. They end up doing a lot of the early policy formulation, because there is no one on their level of seniority in MINECOFIN who would be able to do that… In practice RRA has the most in-depth knowledge of what's working and what isn't working… and the feedback that they are getting from taxpayers and the challenges they are having administering tax on the ground. So, they have a lot of the knowledge that is needed for doing policy reform… whereas MINECOFIN doesn't have that at a high level" (I10)

An official at a development agency rationalised RRA's willingness to take on the policy function as follows:

> "because of the tremendous political pressure [RRA] were under to perform… they just couldn't wait for [others] to start the machinery to develop policies and guidelines and legal frameworks… because they, as the implementing agency, were so much under pressure…" (I42)

Although a few countries formally delegate tax policy to their revenue administrations, most TPU worldwide are located at the policy level within Finance Ministries (Wales & Wales, 2012; Lang et al., 2016).[107] According to the IMF (2017b), establishing TPU in policy level in the Ministry of Finance promotes a more holistic approach to tax policy, since officials are also responsible for broader fiscal policy and macroeconomic management. A division between policy formulation and implementation is also central to the NPM philosophy upon which the executive agency model of government -prevalent in Rwanda- is based. As one embedded advisor at RRA commented:

> "The tax administration should be coming up with ideas… and making proposals to improve things and streamline things based on their implementation experience… whereas you would expect the Ministry of Finance side of things to be a bit more driven by high-level economic analysis…" (I60)

By contrast, distortions can arise when revenue authorities formulate policy (Wales & Wales, 2012; Lang et al., 2016; Hassan & Pritchard, 2016; IMF, 2017b). Tax authorities

[105] I10, I12, I21, I25 (advisors to MINECOFIN), I09, I42 (development practitioners) and I51, I59 (local tax professionals).
[106] The unclear dividing line between the policy function at parent ministry does not appear uncommon in Rwanda, with other embedded advisors indicating (I12, I13) similar de facto arrangements were in place in other sectors. Another example of role reversal was given in relation to MINICOM and RDB, whereby RDB, an executive agency, rather than the parent ministry, led on the development of the Rwandan Investment Code, the country's investment incentives law (I41).
[107] In Lang et al.'s (2016) detailed study of 25 countries, only New Zealand and Croatia were found to have placed their TPU within their respective Tax Administrations.

focus on their narrow mandate, namely collecting revenue, and are less inclined to consider socio-economic trade-offs from tax reforms. Interviewees commented the following:

> "[RRA sees its main function] as collecting revenue… it doesn't see itself in the bigger picture of where the country wants to go… You can't maximise revenue collection in the short term but also maximise private sector growth… Those two polices don't align." (I12, advisor)

> "What drives policy decisions at RRA is only revenue collection. Not thinking of foreign direct investments or what is good for the country… No, it's 'how much money can I collect?'… The legislation that is taking place is very much RRA orientated… instead of the other way around, 'What can we do for the companies?'" (I16. Embedded advisor at RRA)

> "Tax policy sits at RRA … and that becomes a big problem… because the RRA look at [reforms] from a collector's perspective… as opposed to "how does it impact the economy?" So, they take more of a short-term approach, compared to what you would normally encounter in a traditional tax policy department which is more long term… [where] you try to dig and see 'OK, which ones should we go for that are for the benefit of the country'… You don't get that analysis at the administrator level…" (I51, tax professional)

According to Caner (2019, p. 60), who advised government on reform of its tax policy function, prior to the establishment of the TPC, RRA's proposals typically "passed on to the cabinet without much internal review at MINECOFIN". An advisor, commenting on exchanges he had witnessed, noted:

> "When you don't understand enough about tax… you do defer to the guys who are the experts in that, and that's the revenue authority… [MINECOFIN officials] won't understand enough about how tax is administered to feel confident [about challenging RRA on particular issues]" (I12)

Accordingly, the establishment of a TPC in Rwanda is a positive development. Unfortunately, the roles, responsibilities, and mandate of the TPC remain opaque.[108] Moreover, there is no documentation about the work of the TPC publicly available and none of the TPC members responded to requests for interview.

The author's professional experience, coupled with interview evidence from diplomats, advisors, and development practitioners that observed or participated in meetings organised by MINECOFIN and RRA, suggests that ingrained social and behavioural norms are likely to extend to the TPC.[109] One issue is that the Rwandan civil service is prone to groupthink, first defined by Janis (1972, p. 8) as common interests leading decision-makers to "override their motivation to realistically appraise alternative courses of action". During an interview, one diplomat (I56), praised the close working relationships that they had observed between senior RRA and MINECOFIN officials involved in tax

[108] Article 94 of the 2019 law on tax procedures (RoR, 2019b) formally establishes "a Tax Policy Committee in charge of advising the Minister on all policies and issues related to taxation". The law also stipulates that the composition, organization and functioning of the Tax Policy Committee will be established by a ministerial order. It was not possible to obtain a copy of the ministerial order during the research.

[109] I01, I06, I11, I32 (diplomats and development practitioners), I04, I17, I20, I25 (advisors), I08 (researcher).

policymaking, which they believed were strengthened by party affiliation, common social backgrounds, and alignment in institutional and professional goals. Yet, while good formal working relations and exchange of information between senior policy makers and implementers can enhance policy formulation, cliquish relationships, narrow common interests, and behind-the-scenes decision-making can also have undesirable consequences, especially when political pressure to deliver is elevated, and formal checks and balances are weak.

Another potential perverse incentive was inadvertently voiced by MINECOFIN's Chief Economist and Chair of the TPC during an ATAF conference in Kigali (Rwakunda, 2018). She noted that she had a quantitative revenue collection target included in her *Imihigo* performance target (see section 6.3.1 for other perverse incentives of *Imihigo*). This could lead to conscious or unconscious bias towards proposals coming from the tax authority that promise to immediately increase revenue and to less interest in assessing broader policy trade-offs.

Thomas and Rahschulte (2015), using Hofstede's (1980, 1983, 2001) framework, characterise Rwandan organisational culture as "High Power Distance".[110] High power distance cultures are common to dominant authoritarian states, manifested through hierarchical organizational relationships and differentiation between people of differing power status, which become "rooted in the 'mental programming' of members of a society" (Hofstede, 1983, p. 81). In Rwanda, the cultural norm is to defer to seniority, particularly in public settings. Indeed, several interviewees commented how formal consultations were not conducive to open discussion and were more for appearance, with decisions often having already been taken by a small group of insiders.[111] These interviewees also claimed senior officials were rarely challenged in meetings, and criticism was never voiced. Senior officials were seen as often overconfident in their own abilities and lacking in confidence in their staff, making them less likely to consider alternative points of view (see also section 6.3.3). One long-term advisor in Rwanda argued:

> "The way society works here… or the way hierarchy works here... is you don't challenge. So, somebody will walk into a room and sit down in the big chair and say, 'I think we ought to do this.' The other 20 people in the room will think 'it's not going to work', but they will say 'yes boss'… A lot of these policies that are implemented… and things that are not written policy but accepted as if they were policy… come from an uninformed position. The people that know… the technical experts… have a great deal of difficulty in feeding that technical expertise into the decision-making process… You often find yourself sitting in a room with people that have done the technical work but aren't allowed to say what it is… because they are not perceived as senior enough." (I17)

A further difficulty for decisionmakers is the acute pressure from the Presidency to get things done. One policy advisor (I41) noted that this pressure, combined with excessive workloads, pushed officials to quickly take decisions, regardless of the quality of the policy

[110] Hofstede (1983, p.81) defines Power Distance as "related to the degree of centralization of authority and the degree of autocratic leadership". Although Rwanda did not feature as part of Hofstede's original research (1980, 1983), he nonetheless argues that most, if not all, low-income countries are typically characterized by high power distance.
[111] I01, I31, I36 (diplomats and development practitioners), I04, I17, I19, I41 (advisors).

proposals being discussed or the availability of evidence (see also Section 6.3.3). Another advisor (I17) recounted a senior civil servant commenting that decisions made in meetings didn't matter as much as the need to be seen to be doing something. Similar observations were made by interviewees as follows:

> "It's just hard for those more senior people to really have the time to analyse everything in full." (I10, advisor to MINECOFIN and RRA)

> "[There is a] littering of half thought out ideas, which people race ahead with, without bothering to do any proper research… it's because of this pressure coming from the very top, to achieve… and if you don't achieve, you are out… and so better to do something and hope that it works or hide that it doesn't work, than do nothing…" (I04, advisor).

> "They are very good in doing quick changes… changing a new law or changing a new order… much quicker than other countries I have been to. But also, they are missing the most important part. You need thorough [impact] analysis first… Is it the solution to the problem or is this just creating another problem? I think there they are not very good in doing a good analysis first." (I16, advisor to RRA)

> "There is very little analysis that supports a lot of these policies… to me [this] is the biggest issue around tax policy. If you have not modelled the impact and effects, a lot of what is being done is short-term policy… reacting to immediate needs" (I11, development practitioner)

> "They go ahead with these projects without thinking through the practical implications. Partly because they are not challenged. Partly because… they want to do things quicker than they are actually capable of doing. That undermines the effectiveness of implementation." (I17, advisor)

Having established that there is a clear imbalance between MINECOFIN and RRA in terms of specialist knowledge and capacity on tax policy, which in practice means that the latter takes the leading role in the formulation of tax policy and that these policy proposals are subject to insufficient scrutiny, attention now turns to RRA ability to develop clear and coherent policy, and the organizational dynamics that can influence the fairness and objectivity of such proposals.

6.3. The Rwanda Revenue Authority and its role in tax policymaking

The RRA is portrayed by AfDB (2010), Gallagher (2018), Schreiber (2018) and others as an exemplary revenue authority in SSA. This can partly be explained by Rwanda being a "star pupil of the Washington Consensus" (Booth & Goloobi-Mutebi, 2012, p.385) and the eagerness with which the government adopted the standard prescriptions of the global tax reform agenda (OECD, 2015c; Akitobi et al., 2019). RRA's performance has been assessed in *de jure* terms through standard international diagnostics, such as the *Tax Administration Diagnostic Assessment Tool* (TADAT), and its capacity assessed bilaterally as part of development partners operational due diligence. These unpublished reports highlight many organizational strengths but also document structural weaknesses.[112] RRA's own strategies and plans, based on earlier diagnostic work, acknowledge failings, such as "inaccurate [taxpayer] data in RRA systems"; "inadequate monitoring and evaluating mechanism of [RRA] priorities" and "lack of structured internal communication", as well as "inadequate skills and competences in some technical areas", and an "inability to attract and retain skilled and experienced staff", which sometimes result in "poor customer care and service delivery" and "corruption practices amongst some RRA officers" (RRA, 2019d, p.22; RRA, 2021, p.8). Rwanda's Auditor General was particularly critical of RRA's performance in the period 2015-2020, noting that:

> "RRA did not demonstrate improved efficiency and effectiveness in revenue planning, collection, taxpayer's records, monitoring, and enforcement. As a result, gaps in revenue collection, data management and service delivery persisted…" (OAG, 2021, p.37)

This thesis does not reassess the technical effectiveness of RRA in terms of its primary function of tax administration. Rather, it examines the extent to which RRA can formulate objective and inclusive tax policy. This will be done with reference to RRA's stated "core values" as laid out in its modernization strategy (RRA, 2019d). First, the RRA is to be accountable, operating in an open and transparent manner, and providing a stable and predictable environment for taxpayers. Second, the RRA is to act with integrity, adhering to high ethical standards and being clear and consistent in dealing with taxpayers. Third, the RRA aims to be professional, while empowering and engaging staff to improve taxpayer services. Finally, the RRA is to be customer-focused and responsive, treating taxpayers fairly, catering to their needs and being open to innovative ideas and criticism. RRA also aims to make use of data, evidence, and technology to drive decision-making and embrace best practice for innovation for continuous improvement.

RRA's core values are consistent with the drivers of tax compliance (see section 2.1). Moreover, adherence to such "core values" bodes well for tax policy formulation, since they are consistent with the OECD's (2014, p.30-31) overarching principles of tax neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility. A central observation of this thesis, however, is that heightened political pressure in Rwanda coupled with *de facto* practices and institutional norms, create distorted incentives that undermine organizational performance when measured against each of RRA's four core values. As will be show in the subsequent sections, these factors negatively impact the prospects of inclusive tax policy formulation and tax bargaining.

6.3.1. Is the RRA Accountable?

The RRA's *de jure* accountability framework reflects NPM philosophy (Section 2.2.3), with its emphasis on autonomous executive agencies, the empowerment of management and rigorous performance measurement. The RRA was established in 1997 as a SARA (see section 2.2.3) that, while fully financed from the state budget, has a "legal personality" and enjoys "financial and managerial autonomy" (RoR, 2009a[113], Art. 1). The RRA is

[112] Two TADAT assessments have been undertaken in Rwanda, the first in 2014 and a second in 2019. Although these documents and diagnostic assessments by donor agencies in Rwanda have been scrutinised in detail by the author in a professional capacity, these reports have not been published and are therefore not able to be referenced in this thesis.

[113] RRA was initially established under Law no. 15/97 of 1997, but is currently governed by Law No. 08/2009 of April 2009.

accountable to Parliament through the audit of its annual accounts by the OAG[114], and accountable to its parent ministry, MINECOFIN, through a Board of Directors ("the Board"), whose members[115] include ex-officio technical specialists and private sector representatives[116] appointed by the Prime Minister (RoR, 2009a). The Board signs an annual *Imihigo* with MINECOFIN and is responsible for approving RRA's plans, strategies and budgets and subsequently assessing performance in their implementation (RoR, 2009a). The Board also appoints Senior Management and other RRA staff other than the CG and their Deputies (RoR, 2009a).

Land (2004, p. 12-13) credited the Board with having "played a critical role in facilitating the growth of the organisation and in managing the interface between internal management and external stakeholders" and for fostering "a performance culture" at RRA. Schreiber (2018, p.5) also argues that the legal status of RRA "made it more difficult for politicians to interfere in the tax office's day-to-day operations", arguing that the vice chair of a "the nonpolitical permanent secretary, rather than the minister of finance", would be conducive to Board independence.

Yet, Kloeden (2011), Fjeldstad and Moore (2008) and others contest that *de jure* autonomy of revenue authorities across Africa has been no obstacle to political interference. Daily management of RRA is entrusted to the CG who, while formally accountable to the Board through an *Imihigo*, is also directly accountable to the President since their appointment and dismissal is confirmed by Presidential Order. This is consistent with Fjeldstad and Moore's (2008, p.6) observations that in most African SARAs, "appointments are made, and terminated, very much at the will of presidents", and that "close relationships between the chief executive of the ARA and the head of state are the norm". Chemouni (2020, p.14) describes the first two Rwandan CG, James Musoni and Mary Baine, as "among the most powerful RPF cadres at the time", who according to Schreiber (2018, p.2) enjoyed "close ties to President Kagame". Land (2004), Schreiber (2018) and Chemouni (2020) argue that the two CG's political standing within the RPF and their close ties to Kagame enabled them to take unpopular, but necessary decisions to strengthen the RRA, such as dismissing long serving bureaucrats and replacing them with a new generation of dedicated and loyal tax officials (see section 6.1).

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[114] The OAG reports are presented to parliament and, since 2011, the findings are discussed in the PAC, with senior officials called to account. From 2015 to 2017, the RRA was subject to critical OAG reports (OAG 2015, 2016, 2017). In 2016, RRA was one of the few Government Agencies to receive an unqualified audit opinion on its financial statements (OAG 2016), with the OAG (2015, p.10) having previously noted "fundamental errors, omissions, unreconciled balances" in the financial statements of RRA. Later OAG reports, however, have highlighted weaknesses in RRA (highlighted elsewhere in this thesis).

[115] The Board of Directors consists of eight members, including the Commissioner General of RRA. Appointed members include the chairperson, the Permanent Secretaries of MINECOFIN and MINICOM, the Governor of the National Bank of Rwanda, as well as distinguished experts in in their relevant fields.

[116] Khadra (2015) notes that representatives from the private sector can bolster the expertise available to the boards of revenue administrations, can promote more customer-oriented approaches, and may reduce corruption and negative political influence. However, Khadra also highlights the risks of conflicts of interest and breach of taxpayer confidentiality by the private sector members. Kidd & Crandall (2006), however, found that private sector representatives in SAA SARA were invariably chosen by government rather than by any independent organization, potentially undermining their independence.

It is from the ranks of RRA technocrats[117] that CGs have been drawn since 2011, which Chemouni (2020, p.15) claims is an indication of the "political autonomy of the institution, as well as the importance of competence in selecting leaders". Yet, any notion of civil service neutrality and impartiality in Rwanda lacks credibility given the significant overlaps between party and state. As Kagame consolidated his power in Rwanda, public official perceived as disloyal were purged (see section 4.1.2). All senior civil servants –including the "nonpolitical permanent secretary" of MINECOFIN and vice chair to the RRA Board identified by Schreiber (above)- are appointed by Cabinet Decision (RoR, 2011), having had their political and technical credentials vetted beforehand. Several interviewees[118] commented that despite the projected public image of a meritocratic civil service, they believed that contacts, background, and party affiliation drove public appointments. Examples include:

> "The gap between party and civil service is not very big. So, that is why you can't be perceived to be a rogue civil servant, because then you will be perceived to be a rogue party person" (I17, embedded advisor).
>
> "[MINECOFIN recruitment] gets interspersed with political appointments. There are also military [who] are remunerated, and they get civil positions. There is plenty of that." (I21, embedded advisor at MINECOFIN)

There are several channels through which politicization can adversely affect the performance, behaviour, and attitudes of civil servants. Peters and Pierre (2004) found politicized public entities to be less efficient than meritocratic organizations. Meyer-Shaling et al. (2017), in a survey of 23,000 civil servants in developing economies found that politicization changes the career incentives of civil servants, since responsiveness to political demands, rather than to service delivery and responsiveness to citizens, is the primary determinant of career success. They claim that politicization changes the role identity of public officials from civil servants to political servants who are appointed and promoted for their political usefulness. This can in turn result in a loss of confidence among citizens about the fairness of public administrations (Peters & Pierre, 2004).

In practice, given what Chemouni (2020, p.30) calls the RRA's "critical position in the elite legitimation project", a more realistic assessment would be that both political loyalty and technical competence are prerequisites for leadership positions at the RRA. Mary Baine, widely seen as a technically excellent and central to the modernisation of RRA, was sidelined in 2011 when her family's political allegiance was doubted. Her successor, Ben Kagamara, also a senior RPF official, served only three years as CG and was reportedly "dismissed [in 2014] due to poor performance and dwindling tax collections" (The East African, 2016). Richard Tusabe, CG between 2014 and 2018, was viewed as highly competent and a loyalist (see section 6.3.2) and was subsequently rewarded for his performance at RRA with appointment to other high-profile government positions.[119]

[117] Ben Kagarama (2011-2014) previously served as Head of Large Taxpayers Office, Richard Tusabe (2014-2018) was Deputy Commissioner General and Commissioner for Customs; and Pascal Ruganintwali Bizimana (2018-present), previously served as Deputy Commissioner General and Commissioner for Corporate services.

[118] For example, I06, I27, I33, (diplomats and development practitioners), I15, I17, I21, I30, I38, I41 (advisors).

[119] In 2018 Tusabe was appointed Director General of Rwanda Social Security Board (RSSB) where he was tasked with reviving the failing institution, before being appointed to Cabinet in 2020 as MINECOFIN Minister of State in charge

Aside from politicisation of the RRA (the impact of which is further discussed in section 6.3.2) the practice of performance contracting (*Imihigo*) also draws attention, given its pervasiveness in public administration in general, and its centrality to the RRA's operating model. *Imihigo* is often advanced as a reason why RRA is perceived to outperform many SSA peers (Scher & MacAuley, 2010; IPAR-Rwanda, 2015; Klingebiel et al. 2016; World Bank, 2018). Ostensibly a Rwandan home-grown solution,[120] *Imihigo* is "a comprehensive system of performance contracts between every government body and the administrative level above it, up to the president" (Hasselskog, 2015b, p.387), which involves setting quantifiable annual goals with which to evaluate performance.

Critics, however, argue that *Imihigo* promotes undesirable behaviour among officials. Purdeková (2011, p.15), for example, claims that "pressure to achieve goals can result in coercion" with officials believing that non-achievement of goals will negatively affect their careers. Thompson (2018) argues that *Imihigo* encourages officials to cut corners to meet targets, while the World Bank (2018a) highlight the risk of officials inflating achievements or falsifying data to meet their targets (see also Gasana & Porter, 2013). In fact, the OAG (2021, p.37) found that from 2016 to 2020, the RRA had overreported its revenue collection by RWF 107.5 billion (approximately USD 105 million), by including withholding taxes on VAT (refundable to taxpayers) in year-end financial statements.[121] Hasselskog and Schierenbeck (2015) and Hasselskog (2015b) concluded that while *Imihigo* created top-down pressure on officials to perform, they were detrimental in terms of public sector responsiveness to citizens.

Interview evidence[122] highlights the degree to which *Imihigo*'s focus on quantitative targets, the ritualisation of performance evaluation, and the consequences of failure (see section 7.1.2), creates perverse incentives for officials. An analyst at a development agency, having studied *Imihigo* in depth, claimed that:

> "The creation of an institutionalized process at all levels of government has made it extremely rigid and extremely unsuitable for its own purpose" (I36).

They added that target-setting had become procedural, overly simplified, and incremental, meaning that it was "losing its capacity to hold people accountable for real things" (I36). Another embedded advisor, working in an apex policy unit (I33) also observed that:

> "to a large extent, [*Imihigo*] seemed like they were being rolled over from previous years… with an added growth rate being put on without deep consideration of what they should actually be targeting… at the beginning, I am sure that there would

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of the National Treasury. It is the Treasury that oversees the large expenditure items in the state budget including the substantial and opaque allocation to "other investments" (see section 4.2.3).

[120] According to Scher & MacAuley (2014) *Imihigo* was originally a pre-colonial Rwandan practice "in which leaders or warriors would publicly vow to achieve certain goals, and face public humiliation if they failed", with the RPF adapting it into a tool for modern public service. Yet, performance contracting, and the executive agency model adhere to NPM principles. As previously noted, the executive agency model for revenue collection, and with it the establishment of performance contracts with a parent Ministry has been adopted across Anglophone Africa and further afield, and it not a feature unique to Rwandan public administration.

[121] The published OAG report failed to explain whether this practice represented a wilful attempt to overstate performance or whether it was the result of incompetence.

[122] During this research, over twenty interviewees provided clear examples of the distortionary impact of *Imihigo* on bureaucrats' behaviour. Only a few of the examples provided are captured in the thesis.

> have been a lot of effort put into what needs to go into the *Imihigo*, and what is it that the government institutions should focus on…. But then it became more business as usual… and that luxury of sitting down and really thinking about 'what is it we should be achieving next year' was probably not done… it was easier among all the other fires that they have to fight just to roll over things that they would have from previous years…" (I33)

In terms of RRA's institutional *Imihigo*, an embedded advisor explained that "[MINECOFIN] sets the overall revenue collection target, and everything falls from that" (I14), which ensures –according to another embedded advisor (I60)- that "the revenue target is the first priority" of RRA management. Indeed, RRA's institutional *Imihigo* (RoR, 2015c, 2017b, 2018c, 2020a) set quantitative targets for tax and non-tax revenue and outlines the planned activities to meet the targets. Over the period 2011/12 to 2019/20, the average annual growth rate of the headline tax revenue target set by MINECOFIN was 16.9%.[123] Once set, RRA's organizational revenue targets are then distilled into departmental and individual targets. The importance of these targets was emphasised by one former advisor at RRA as follows:

> "We had a yearly collection target, which is agreed in the budget. Then that is divided into how much you expect to collect each month… Weekly in the RRA senior management team meeting we would review the collection performance, against target. People would be asked to account for any perceived shortfalls… 'Why weren't you doing this? What are you doing to correct this?'" (I18, Embedded adviser at RRA)

Problems emerge when the revenue targets are too challenging. MINECOFIN lacks capacity for accurate revenue forecasting (see section 6.2.2). Even the Auditor General (OAG, 2021, p.37) highlighted "unrealistic revenue targeted performance", finding "no documentation on the procedures followed to set revenue targets and provide an objective basis for performance appraisals". As one fiscal policy expert explained:

> "The problem in Rwanda is the expectation management… because decisions are being made in the political space… unrealistic targets are being set… a lot of pressure in the political administrative system to perform according to identified targets… but very often there is no informed basis on which those targets are being identified and formulated… they are unrealistic… the RRA felt that pressure as an institution also…" (I42)

Embedded advisors at RRA[124] argued that annual targets were determined by the spending needs of government and were not objective revenue forecasts, noting that such practice drives poor behaviour. One embedded advisor (I60) claimed that a preoccupation with headline revenue targets encouraged RRA managers "to deliver fairly blunt targets in whatever way they see possible" pushing more qualitative performance indicators down the list of priorities. Another embedded advisor at RRA noted:

> "a problem with having to collect as much money as possible and 'at least this much money' [is that] you are chasing money instead of trying to drive compliance,

[123] Own calculation based on the original and revised state budget laws for the period 2011/12-2019/20.
[124] I14, I60, I61 (embedded advisors at RRA).

> improve taxpayer behaviour and build relationships and trust. [RRA officials] try to find a quick fix, but they are not looking at the big picture… you need to invest some time, which means that you might not meet the targets for the first year… But right now, most of them go for the quick fixes….” (I16)

Similarly, an INGO representative commented that in general:

> “If it is not in the *Imihigo*, then [civil servants] are reluctant to take it on because essentially it is something that may be great, and has a benefit for the populous, but they won’t be measured on it.” (I03)

The evidence above highlights that given its centrality to the RPF’s legitimization project in Rwanda, the RRA’s management are expected to be loyal and competent cadres, with CGs personally accountable to the President. While setting revenue collection targets is common practice in revenue authorities worldwide, the pressure on RRA management to deliver on ambitious revenue collection targets is particularly acute in Rwanda. There are clear consequences of failure. As will be shown in the subsequent sections, demand for political loyalty and revenue pressure negatively impacts on other RRA core values.

6.3.2. Does the RRA act with integrity?

RRA does not always adhere to the espoused ethical standards and often lacks clarity and consistency in dealing with taxpayers. The RRA has been a vehicle through which politically motivated attacks are launched against high-profile critics of Kagame and the RPF. Himbara (2016, 2017a&b), for example, documents how the assets of Tribert Rujugiro Ayabatwa[125] -a Rwandan businessperson and formerly principal financier of the RPF- were seized and auctioned by the RRA after he fell out with Kagame. During the 2017 Presidential election, independent candidate Diane Rwigara was charged with tax evasion and her family’s assets were subsequently seized and auctioned by the RRA (The Economist, 2017; IGIHE, 2018a; BBC, 2018). Similarly, Shyaka Kanuma -a journalist and owner of the *Rwanda Focus* newspaper- was imprisoned in 2017 for tax evasion shortly after announcing his intention to become a political activist (HRW, 2017; Finn, 2018). RRA’s then CG, Richard Tusabe, publicly defended the actions of RRA against Rujugiro and Rwigara as legal and not politically motivated (East African, 2015; Uwiringiyimana, 2018).[126]

The extent to which RRA provides favourable treatment to well-connected individuals and firms is contested. Booth and Golooba-Mutebi (2012, p.396), for example, argue that the RRA “is so harsh and inflexible that it would be unlikely to make concessions to anybody and least of all to firms in the ‘large taxpayer’ category”. Yet, Gökgür (2012) and Himbara

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[125] Tribert Rujugiro Ayabatwa was detained in the United Kingdom in 2008 on an international arrest warrant issued by South Africa. Van Loggerenberg (2019), a former official at the South Africa Revenue Service, reports that he was charged with over 50 counts of tax evasion linked to his tobacco business in South Africa, and eventually negotiated a plea-bargain arrangement and paid SAR 60 million in fines. It is therefore highly plausible that Mr. Rujugiro Ayabatwa deployed similar tax avoidance schemes in other jurisdictions, which would conceivably provide the grounds for RRA to seize assets following an investigation. What is interesting, however, is the timing of tax investigations in Rwanda, since measures were only taken after he had fallen out with the President, indicating that the authorities may have previously turned a blind eye to his tax practices when he was an important figure within the RPF.

[126] The RRA insisted at the time that the charges in relation to the Rigwira family related to tax evasion dating as far back as 2012, with RRA CG, Richard Tusabe, quoted as having said “This is purely a tax matter which is followed up and investigated by the tax authority. You cannot mix the other problems they have in court with the tax evasion problems” (The East African, 2017).

(2016, 2017a&b) document how para-statals and politically well-connected firms receive favourable treatment from the tax authorities, including tax exemptions, deferral or even non-payment of taxes. A diplomat interviewed as part of this thesis noted:

> "One thing I hear a lot here is that if you are in [with government] you get great deals… exemptions… But if you aren't, then RRA enforce everything…" (I01)

Research for this thesis suggests that, at the very least, the popular perception that connected individuals and entities wield influence in Rwanda, can indirectly lead to favourable treatment. One embedded adviser at RRA (I16), for example, recounted how he had witnessed RRA staff choosing not to initiate tax audits of high-profile companies, due to a reasonable, and not unjustified concern, that complaints from such companies would inevitably reach the political level.

Politicization is not the only factor that impinges on institutional integrity. While Rwanda is perceived to perform better than other African countries in tackling graft (TI, 2019), corruption is still present within the RRA at both operational and managerial levels.[127] Thirty-two RRA officials were dismissed for corruption in the period 2016-2019 (MIFOTRA[128]). In 2018, Raphael Tugirumuremyi, the RRA's Commissioner for Customs was dismissed over allegations of graft (Mugisha, 2018), while in 2021, Caleb Rwamuganza, MINECOFIN Permanent Secretary (and Vice Chair of the RRA's Board of Directors), was imprisoned for embezzlement and the mismanagement of public funds (Kuteesa, 2020; Kam, 2020).[129] Politicization of, and corruption within, the tax system undermines taxpayer morale and makes it harder to implement tax policy (see section 2.1).

6.3.3. How organisationally efficient is RRA and how capable are its staff?

RRA officials are portrayed as among the most competent within the public sector (AfDB, 2010; Gallagher, 2018; Shreiber, 2018). Chemouni (2020, pp.13-14) claims that this is due to the "nature of [RRA's] leadership" and the "esprit de corps" among senior management, the "merit-based approach to recruitment", the ability to attract and retain higher calibre staff through higher salaries, and the tendency to promote from within, as key success factors. Shreiber (2018, p.13) also points to the "quality of the training"

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[127] According to *Transparency International Rwanda*'s 2018 Bribery Index (TIR, 2018), 58.3% of the population perceived corruption to be low or very low in Rwanda, whereas the remaining 41.7% perceived corruption to be average (29.2%) or high (12.5%). In the past three years, a fifth to a quarter of those surveyed claimed to have encountered bribery (demanded or offered) in some way or another when interacting with service providers. According to *Transparency International Rwanda*'s 2017 report, key services provided by Local Governments, the Rwanda National Police (traffic police and judicial police), the Judiciary, the RRA, business regulatory agencies and utilities related services were the public institutions where incidences of corruption is most prevalent. Bribes to local government and the police accounted for close to 60% of the total amount of bribes, with these being the two institutions that have more interactions with citizens than other institutions. Among those surveyed, 11% claimed to have paid bribes to RRA, with the RRA also seen as the institution where the amount of bribe paid was highest.

[128] https://mifotra.gov.rw/index.php?id=195

[129] The incidence of grand corruption and the government's response to transgressions by senior officials is difficult to verify. Evidence gathered from interviews and informal conversations suggests that favouritism, nepotism and clientelism persist among the political and business elite in Rwanda, with personal relationships reinforced by membership of the ruling party. In recent years, there have been a small number of high-profile cases in which senior government officials have been suspended from office, fired and/or prosecuted for alleged negligence, corruption and abuse of power. However, as in the case of Rwamuganza, it is often difficult for outsiders to determine whether the allegations are legitimate or are more a reflection of ongoing power struggles among the Rwandan elite, with those accused of corruption often having fallen out of favour with the leadership (Freedom House, 2014).

delivered to the staff, the “public service ethos” instilled across the organisation and the incentive effect of performance contracting. Schreiber (2018, p.22) highlights the extent to which the private sector “poach” RRA staff, while Moore (2014, p.106) notes that the RRA has “consciously [been] used as a training ground for public servants, who are moved out into senior technocratic posts in other public sector organizations”.

Interview evidence corroborates the view that RRA’s leadership have been central to RRA’s relative success. For example, one long-term adviser to RRA commented:

> “The great thing about Rwanda was the enthusiasm of senior officials. I would say it was probably the deciding factor in success there… very, very hardworking people. Hands on. Very determined to improve their country. Very much a full understanding that they needed to collect their own revenues and that they could not rely on aid as a means of developing their country” (I18)

Another embedded advisor (I60) claimed that the senior management team “live and breathe” tax administration, were “extremely focused” on improving performance, and were conscious of the need to be seen as “being beyond reproach”. This tallies with observations from other interviewees[130] who perceived senior officials -having invariably been drawn from elite circles- as being well-educated (often abroad) and competent, as well as supportive of the RPF’s political agenda. Yet, while RRA’s leadership often impress advisors and diplomats, many interviewees claimed that such individuals represent, in the words of one senior diplomat (I07) “a very small or thin strata”. Human capacity at lower levels in RRA was seen as weak,[131] as it is across the Rwandan public sector[132]. One interviewee commented:

> “[RRA] really have some capable people at the top, but there is a lack of support for them. The triangle drops off at the bottom” (I10, advisor to RRA)

Others, commenting on capacity constraints in Rwandan public administration, noted:

> “You could have high capacity at the highest levels of government and in individual institutions, but then it would dissipate very quickly as you came down the levels of hierarchy” (I33, advisor)
>
> “There is a huge gap in terms of the administration of those who are excellent… really good… and are put forward as the face of Rwanda and Rwandan institutions… and those that are actually there doing the work.” (I36, diplomat)

Shreiber (2018), an academic, lauds the training infrastructure established by RRA. Yet, several experienced tax administration advisers interviewed for this thesis indicated that RRA staff training was unfocused and ineffectual. One senior embedded advisor at RRA (I14) claimed the training of new recruits was too abstract and theoretical, and lacking practical application, leaving staff lacking the basic tools to do their jobs. Another questioned why senior officials, rather than frontline staff, were the primary beneficiaries of training, particularly courses offered abroad, but who then chose not to share their

[130] I06, I07, I09 (diplomats and development practitioners), I17, I19 (advisors).

[131] For example, I10, I14, I16, I21, I25, I60 (embedded tax advisors in RRA and MINECOFIN) and I51, I54 (tax professionals).

[132] For example, I10, I17, I19, I29, (Advisors); I01, I07, I09, I27, I31, I33 (development professionals); I08, I28 (researchers).

knowledge with staff (I14). This practice was rationalized by one interviewee as a means of protecting status and privilege:

> "It's partly a control thing. The more you know the more you control… the more important you are, the more indispensable… you become very important. You are also the only one that can go to the next workshop, since you are the only one that has been there before and has the knowledge" (I16, advisor to RRA)

A diplomat observed that the consequence of such limited human capacity within RRA, as with other public bodies, was that :

> "The good officials are being pulled in multiple different directions… totally overworked… and they are not getting the advice you would expect" (I34).

Another advisor captured the views of many interviewees with observation that in the civil service:

> "It falls on a few individuals quite heavily to start making things happen." (I33)

Several interviewees also highlighted the tendency for managers within RRA, as in the wider public sector, to develop an inflated sense of their own importance and come to believe that only they could be trusted to complete important work. This is certainly consistent with "RPF 'high modernist' and paternalistic ideology through which it perceives itself as an enlightened vanguard that 'knows better' than the rest of the population," as highlighted by Chemouni (2020, p.20) and others (e.g. Reyntjens, 2016; Chemouni and Mugiraneza 2020). Certainly, managers in RRA were perceived to be unable to rely on, or delegate to, their staff. One embedded advisor claimed:

"The capacity of work that is expected from [lower-level managers and staff] is low." (I14)

Within RRA, as within the broader civil service, a lack of confidence in staff's ability was seen to manifest itself in directive leadership, tight managerial control over subordinates, and direct supervision over routine tasks, to the extent that lower-level managers and staff effectively have no autonomy.[133] Several interviewees[134] observed that most decisions within RRA, even over trivial matters, required approval by the CG or a Deputy CG. Examples include:

> "[Lower-level managers and staff] are not allowed to take decisions… Not that they have a piece of paper where it says they are not allowed to take decisions, but they know what the outcome will be if they do take decisions which they are not supposed to take… It is probably partly cultural. I have seen the same situation in many other developing countries. But it is also the tone at the top… Here, you don't do anything unless its approved by someone above you." (I16, Advisor)

> "There are some strong disincentives [to lower-level managers and staff] from taking any kind of initiative, for doing anything other than exactly what you are told" (I17, Advisor)

[133] For example, I26, I30 (development professionals), I28 (researcher), I41 (advisor), I61 (business persons).

[134] For example, expatriate advisors embedded within RRA (I14, I16, I60, I61), businesspeople (I12, I22, I46), and tax professionals (I51, I54, I59).

> "People are used to having limited space in which they act and react. So, once you go beyond it's dangerous, because people tend to say, 'that's not your responsibility' or 'you are not allowed to.' So, people keep within the boundaries." (I26, development practitioner)

One of the main consequences of paternalistic management within RRA, highlighted by interviewees, was poor internal communication. Rwandan managers were seen to systematically withhold important and relevant information from staff, which prevented employees from fully understanding the organisation in which they worked and from doing their jobs effectively, to the detriment of service provision. One embedded advisor at RRA recounted:

> "We have actually been told by some [senior managers] 'it is my responsibility to know more about audit than my front-line employees.' We just could not believe they were telling us that… It's not… [their] job is to lead the organisation." (I14)

> "They don't have a lot of basic tools and techniques… if you are any audit firm -it doesn't have to be a revenue authority- you know that work papers follow a standard format. The only person who had heard of that in the RRA was the CG." (I14)

Just as importantly from the point of view of policy formulation, behavioural norms prevent pertinent information about the organization's performance, gathered through frontline interaction with taxpayers, from flowing back to management. Interview evidence suggests that staff will not highlight problems for fear of being blamed. One adviser summarized the dilemma faced by civil servants as follows:

> "You don't challenge senior people. So, if the senior person says, 'we are going to do this,' everyone says 'yeah, sure,' even if they know it won't work. They won't say 'it's not going to work.' Then they don't want to give bad news. They want to say it has worked… Once you have started to tell people it's all good news you don't want to go back and say 'well, actually this is a disaster,' or 'this isn't working'… Because you could easily get blamed for it. So, you keep on saying it is good news… even if it is not true. The impact of that is that things are not adequately planned and thought through… The real position at the point of implementation is not really fed up the chain." (I17)

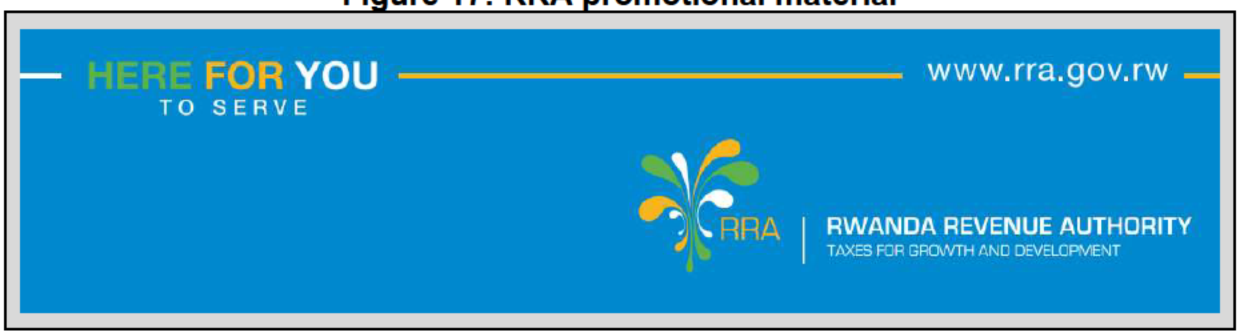
Scholars have long understood that an absence of interaction between decision-makers and frontline staff can result in flawed or ill-conceived public policies (e.g. Hoppe et al. 1987; Ingram & Schneider, 1990; Oh & Rich, 1996; May, 2012, 2015; Ansell et al., 2017). Ingram and Schneider (1990, p.84), for example, point to "poor policy design for implementation under uncertainty and ignorance because too little is known to specify the elements of a policy logic that will fit reality". Interview evidence certainly indicates that capacity constraints coupled with managerial attitudes and institutional norms inhibit the flow of information within the RRA. Oh and Rich (1996) found that the amount of information received by managers and the information source from which was drawn was among the most important factors influencing decision making, with authors such as Gazley (2006) and Connor et al. (2015) suggesting that managers' willingness to listen to others is often shaped by cognitive and psychological factors, such as levels of trust and prior experience. Evidence documented elsewhere in this thesis (see section 6.3.4, and

Chapters 8&0) indicates that in the absence of free-flowing information within RRA, managers are overly reliant on conventional wisdom and information drawn from other sources, including from trusted personal and professional contacts within elite networks. This undermines impartial and objective policy formulation, as well as organizational responsiveness and service provision to taxpayers.

6.3.4. How responsive is RRA to taxpayers?

The government actively markets Rwanda as an investment-friendly location and took immense pride in Rwanda's standing on the World Bank's (now discredited) Doing Business Index, where the country was ranked thirty eighth globally and fourth in SSA in terms of the ease of paying taxes (World Bank, 2019). RRA's own marketing, with the slogan "Here for you: To serve" (Figure 17) projects the image of a service-oriented organization, while the organization's strategic plan (2019, p.18), emphasizes the importance of providing "the highest quality services" to taxpayers and "maintain[ing] a strong collaboration with […] various stakeholders and understand their service needs consequently channelling […] efforts to address them".

Figure 17: RRA promotional material



Source: RRA (2019)

Although there was acknowledgement among interviewees that efforts had been made by RRA to make taxpaying easier, improve service provision and reduce the burden of paying taxes, often under the guidance of external advisors, the behaviour of RRA officials was nonetheless criticised. A common refrain from interviewees, particularly businesspeople,[135] which also emerges in the literature (e.g. Himbara, 2016, 2018a), is that the government not only distrusts the private sector, but also lacks understanding of how the private sector functions. One embedded advisor in RRA (I16) claimed that RRA staff were convinced that most firms were deliberately non-compliant with tax obligations (while acknowledging that such beliefs were not without foundation). Within RRA, some departments -such as the LTO- and some senior officials were perceived by interviewees as knowledgeable about the private sector, but that staff in general were seen as ignorant of the needs of, and constraints faced by, business. Interviewees observed the following:

> "They haven't had their own business. They don't know why it's important to pay VAT or not, or why you cannot just change the law from one day to the other and say 'okay this is in force from 1 March' without [disseminating] any information… I don't think they are very good in how the private sector works." (I16, advisor at RRA)

[135] For example, I15, I31 (private sector specialists).

"It very much feels like rule by decree when it comes to taxes here. You don't get certainty. It is not a stable and predictable environment from a tax perspective… the guys administering the tax… they haven't experienced first-hand what it is like to try and comply with those taxes…" (I12, adviser and businessperson)

Interviewees argued that poor understanding of the private sector, coupled with revenue pressure, often led to aggressive tax administration and neglect of private sector needs. Comments included:

"RRA is very aggressive. They don't listen to the taxpayer. They have their own agenda." (I16, embedded advisor at RRA)

"The RRA can come down hard on you. The fines [for non-compliance] are quite draconian." (I11, private sector development adviser)

"You can see the instinct of the RRA… and probably most revenue authorities in the world… is to take as much as we can first and then 'we will sort out your problems later'… revenue targets for the individual agents… contributed to their aggressiveness" (I12, adviser and businessperson)

"The approach that the RRA has taken is 'we are here to get the money from you, and you will obey'… tough luck if the ink has faded on your receipt, and you can't reclaim RWF 500,000 in VAT." (I46, businessperson)

Administration of VAT was seen as an area where RRA neglected to respond to private sector needs. One prominent example highlighted by several interviewees[136] was the failure to refund VAT withholding taxes on time (see also section 9.5.3), which became an existential threat for many companies. The problem was summarized by one interviewee as follows:

"The government is very eager to collect taxes, which is entirely understandable. But when it gets to tax refunding, their paying morale is rather low. I know some companies… who have been waiting up to 8 or 9 months… For a [large multinational] it's not a big problem, but if it were a Rwandan company and they would have to go to a bank to finance themselves in the interim… with high interest rates in this country, this is a killer" (I07, senior diplomat)

The example above also illustrates why many interviewees believed RRA to be inconsistent in terms of its responsiveness to taxpayers. Some believed that RRA was more amenable to the concerns of larger businesses, with the concerns of MSMEs often ignored.[137] This is consistent with Baer's (2002, p.22) review of 40 tax administrations, and her observation that in LMICs, where relatively few taxpayers account for a large percent of total tax collection, revenue tended "to focus the largest and most important taxpayers and pay less attention to the rest of the taxpayer population". Indeed, larger businesses in Rwanda were seen by interviewees as able to get easier access to decision-makers within RRA and MINECOFIN, and secure immediate resolution of their problems. Interviewees commented:

[136] For example, I07 (diplomat), I14 & I15 (advisors).
[137] For example, I07 (diplomat) & I22 (entrepreneur).

"I know that for large taxpayers [RRA] are quite active… there is quite a lot of communication between them and RRA on what's working and what's not working. They have an LTO. One of the senior people is dedicated to large taxpayers… sometimes those large taxpayers have [officials] in RRA who are dedicated to supporting them. My impression is that sometimes those [officials] just solve the problems for the particular taxpayer rather than solving things in a more systematic way…" (I10, adviser)

"Large companies can go direct to the Minister of Finance, Minister of Trade, Heads of Institutions, and raise their issues… if the private sector comes and says something has gone wrong… even 'the revenue authority has done something wrong'… the Ministry of Trade will raise that with the revenue authority… I have seen that done again and again… but it is the large companies that can do that" (I12, private sector specialist and businessperson)

By contrast, smaller businesses did not enjoy the same level of access. Among the responses of interviewees were the following observations:

"They talk lot with the larger companies… the ones that are already party-owned and party-related… But I could tell that they were not really involving the private sector, in terms of the SMEs and for sure not the informal economy at all…" (I31, private sector specialist and diplomat)

"If it is a large taxpayer, you go directly to high management. Near the top or a little bit lower down. Someone at the top management. If it is a smaller taxpayer, you would go to "e-suggestions"… I have feeling they don't think that the taxpayers has any good suggestions. I don't have a clue what they do with those e-suggestions. It sounds good, but I don't think you have dedicated team that sits and reads these e-suggestions and does something about them…" (I16, embedded advisor at RRA)

The analysis above highlights widespread perceptions of institutional distrust of taxpayers and ignorance of the private sector in RRA. When coupled with a distorted flow of information, both from within the organisation and in terms of the types of taxpayers that are likely to interact with management on a day-to-day, there is certainly scope for additional bias in policy formulation by the RRA, beyond the revenue imperative. This dynamic will be further explored in Chapter 8.

6.4. Chapter summary

Weak capacity and inappropriate institutional arrangements are a clear impediment to impartial tax policy formulation in Rwanda, as they are in many LMIC in SSA. In Rwanda, these deficiencies are compounded by the political economy, which provides distorted incentives to officials involved in tax policy making. The image of Rwanda as an effective and efficient state, and the example set by the President for ambition and decisiveness, key pillars of the government's legitimization strategy (section 4.2.1), permeate throughout the public sector. They are both a driver of reform and a contributing factor to policy failure. As demonstrated in Chapter 4, revenue pressure in Rwanda is intense, and meeting revenue targets has become the central preoccupation of the two main organisations charged with tax policy formulation, namely MINECOFIN and RRA. This is formalised and reinforced through *Imihigo* performance contracting, though which organisations and individuals are held to account, with severe consequences for those who fail to perform. Managers in both MINECOFIN and RRA face the dilemma of having to meet unrealistic revenue targets, while being impeded by low institutional and human resource capacity as well as other structural constraints.

Interview evidence reveals clear flaws in the way tax policy in Rwanda is formulated, which are partly a reflection of the constraints faced by officials. The lack of resources allocated to the *de jure* tax policy making function in MINECOFIN means that in practice this role has been delegated to RRA on the grounds that the latter possessed the information and technical expertise absent in the former. From a purely technical point of view, the involvement of the tax administration makes sense. Crucially, however, appropriate checks and balances were not in place to undertake quality control and potentially mitigate the impact of perverse incentives. MINECOFIN lacked the tools to properly scrutinise the policy proposals being made by RRA, an institution not only with its own specific constraints and weaknesses, but also an organisation with a clear incentive to shape policy in its own favour given the intense pressure to unrealistic revenue collection targets.

Interview evidence points to self-perpetuating vicious cycle, and dysfunctional behaviour present throughout the public sector. In RRA, as in other public organizations, little trust is shown by managers in their staff, or staff in their managers. Information flows are impeded by prevailing institutional dynamics and behavioural norms. Heightened pressure to perform, coupled with low levels of institutional capacity, manifests itself in paternalistic and directive leadership and micromanagement, and incentivises overworked managers to address problems with blunt policy tools and quick fixes. Staff are not empowered to do their jobs and are incentivised to blindly follow instructions even if they see them as detrimental to organizational goals or as damaging to taxpayer trust in the organisation. Front line RRA staff are reluctant to highlight potential problems, for which they might be blamed, while management have little interest in consultations that may reveal deeper underlying problems, especially if they contradict the narrative of Rwanda as an effective and efficient state. Consequently, the development of tax policy within the RRA rests in the hands of a small group of individuals, who receive a limited or distorted flow of evidence and information from within the organisation, and who have perverse incentives driving their behaviour. As the chief economist of one development agency (I43) wryly observed, Rwandan policymakers often operate within a “bubble” and are often incentivised to ignore all other considerations, including fundamental economic principles, if the politics is taken care of.

As will be shown in Chapter 7, deficiencies in information flows within the RRA are compounded by impediments to the flow of information from outside the organisation. Deliberate emasculation, by the RPF, of all the institutions for bargaining within Rwanda, and a sustained attack on perceived threats to RPF hegemony, limits citizens’ ability to articulate and communicate their demands or engage in collective action through the country’s normative democratic channels. Moreover, the impact of systemic failures highlighted in this chapter will be borne out in a case study in Chapters 8 and 9.

7. Institutions for bargaining and taxpayer capacity for collective action

This chapter focuses on the role that Rwanda's institutions play in tax bargaining. North (1990, p.3) characterises institutions as the "rules of the game" that govern human interaction and structure political, economic, and social exchange. Open and inclusive institutions play a crucial role in ensuring government responsiveness and accountability and are therefore central to direct tax bargaining (see Chapter3). The nature of a country's institutions and underlying social norms or behaviours also determine the shape and content of bargains, with some groups empowered and others disenfranchised. The latter may instead resort to indirect bargaining, expressed through protest, demonstrations, or violent confrontation.

Within a typical democratic institutional configuration, the legislature and judiciary provide horizontal constitutional checks and balances on the power of the executive, supported by other formal organisations, independent from the executive, such as the judiciary, audit offices, ombudsmen, and anti-corruption agencies. In representative democracies, both the executive and legislature are also subject to vertical accountability to citizens, with the media and non-governmental organizations (NGOs), playing an intermediary role, by educating citizens to make informed decisions on complex subjects such as taxation, in articulating the collective views of citizen-taxpayers, and in supporting the work of formal horizontal oversight bodies (van Zyl, 2014).

Establishing formal institutions does not ensure government accountability and responsiveness (Corkery, Land & Bossuyt, 1995). The quality of governance, the character of organisations, and the nature of interactions between actors are often determined by policies, systems, and processes used by organizations to manage and coordinate their activities efficiently (UNDP, 2009). These institutional arrangements regulate access to decision-making bodies and outline how demands are articulated (including rules for political parties, NGOs, and the media), and determine how citizens' demands are processed by public bodies through administrative, legislative, and judicial processes (Von Haldenwang, 2017). North (1990, p.4) emphasizes that institutional arrangements "consist of formal written rules as well as typically unwritten codes of conduct that underlie and supplement formal rules". In short, institutional arrangements refer to *de jure* rules, processes, structures, and networks by which the state, private sector, and civil society interact, as well as informal *de facto* behavioural norms and practices.

Institutional arrangements that provide the means and opportunity for regular and formalised dialogue can facilitate more direct forms of bargaining and compromise between governments and taxpayers, resulting in enhanced government accountability and responsiveness (see Chapter2). By contrast, Pritchard (2015, p.75) claims that when institutions offer little space for formalised dialogue, "tax bargaining is likely to be comparatively confrontational, indirect and long-term". The nature of institutional arrangements within a given context empower certain individuals or groups while disempowering others, and in extremis may result in the capture of institutions by powerful interest groups (UNCPD, 2015). Similarly, the degree to which informal norms and practices, such as political manipulation, patronage, and nepotism, undermine formal de jure institutions, rules, and procedures influences the level of trust in institutions and determine the willingness of citizen-taxpayers to engage constructively with the state.

Equally, the ability of citizen-taxpayers to engage with state in tax bargaining often depends on the degree of political openness within a country, on the one hand, and the relative strength of the private sector and the organizational capacity of NGOs, on the other (Pritchard, 2015). Open political environments provide both the space and opportunity civil society to grow and for citizens to engage in collective action and bargaining, whereas dominant authoritarian regimes typically restrict such freedoms and often tolerate little or no overt criticism or public protest.

This chapter is organised as follows. First, Rwanda's main formal institutions, within which tax bargaining could be expected to occur, are examined. The analysis focuses on how well parliament, "home grown" dialogue structures, and formalized public-private dialogue (PPD) facilitate direct tax bargaining. Second, the broader context for state-society interaction is examined to ascertain the extent to which non-state actors can coordinate and communicate to influence tax policy. Third, the country's "unique" relationship with its donors is examined to see how the country's continued aid dependence impacts tax policy formulation. The chapter concludes that while formal spaces for dialogue and *de jure* institutional checks and balances exist, giving the appearance of government accountability and responsiveness, *de facto* systems and practices mean such institutions and non-state actors are unable to hold the executive to account or draw concessions in exchange for tax reforms. The analysis draws on the academic literature on the nature of the Rwandan state and supplements this information with new empirical evidence from interviews with diplomats, development practitioners, expatriate advisors, and civil society groups in the period 2015-2020.

7.1. Institutions for bargaining

Chapter 4 described how the RPF under Kagame's leadership consolidated power and systematically eliminated perceived threats. Yet, partly because of its continued aid dependence, and partly to deflect criticism and build popular legitimacy at home, the RPF carefully created and then maintained an image, for both internal and external audiences, of consensual democracy and accountable and responsive government (Hayman, 2007; Beswick 2010; Chemouni, 2016a; Camargo & Gatwa, 2018). As will be shown in the subsequent sections, constitutional arrangements, the establishment of formal institutions for bargaining, and strategic appropriation of the Arusha Accords (see Section 4.2.1), may provide the appearance of power-sharing, but mask the reality of RPF political hegemony. This has negative implications for the prospects of direct tax bargaining.

7.1.1. Parliament

The Rwandan legislature is constitutionally mandated to exercise control over the executive, and to propose and amend laws. It alone has the power to enact any imposition, modification, exemption, or removal of taxes (RoR, 2003). The principle of power-sharing -central to the Rwandan Constitution- requires that no single party dominates in parliament.[138] Similarly, the Constitution specifies that parliament reflect the

[138] The President and the Speaker of the Chamber of Deputies cannot belong to the same political party; Cabinet seats are divided among parties based on their share of seats in the lower house; and no single political party can claim more than fifty per cent of the seats in Cabinet.

"principles of national unity [and ensure] representation of historically marginalised groups" through the direct appointment, rather than election, of parliamentarians from such groups (RoR, 2003, Article 80).[139]

The government lauds the formal power-sharing arrangements outlined in the Constitution. Yet, power-sharing is minimal in practice. Reports of manipulation of electoral processes and the obstruction, harassment and intimidation of opposition groups are well documented (Waldorf, 2007; Longman, 2011a, 2017; Hackenesch, 2015; Freedom House, 2019). As shown in section 4.1, loosely defined legislation, such as the Law on Divisionism, allows the RPF to ban opposition parties and denigrate political candidates (Samset & Dalby, 2003; Reyntjens 2006; Waldorf, 2007; Longman, 2011b; Kelsall, 2013; Carmago & Gatwa, 2018).[140] Political parties that continue to operate are heavily regulated by the RPF-controlled state apparatus,[141] and many have invariably been co-opted into RPF-led electoral coalitions (Carmago & Gatwa, 2018; Mugisha, 2018).[142] Critics argue that the RPF has eliminated any meaningful electoral threat, and that regular elections and formal power-sharing arrangements merely serve to obscure RPF hegemony (Longman, 2004; Reyntjens, 2006, 2015b; Uvin, 2010; Samset, 2011; Mann & Berry, 2016; Bertelsmann-Stiftung, 2018; Carmago & Gatwa, 2018; Cheeseman & Klaas, 2018; Freedom House, 2019).

The lack of meaningful political contestation, in which the RPF would pay a political price for ignoring stakeholders, means that taxation is not an ideological issue upon which elections in Rwanda are fought. During the 2017 Presidential and 2018 Parliamentary election campaigns, Green Party leader Frank Habanesa routinely highlighting the tax burden faced by Rwandans and pledging to reduce VAT and eliminate other unpopular taxes (New Times, 2017; Mbonyinshuti, 2017a, 2018). During this research, however, no evidence was found of an explicit RPF response to the Green party tax pledges,[143] with the RPF, unsurprisingly choosing to fight the elections on its past achievements in "the fostering of unity among Rwandans, protecting the safety of persons and property,

[139] The Lower House is composed of eighty deputies serving 5-year terms, fifty-three of which are directly elected, and the remainder indirectly elected by local councils, the National Youth Council, and the National Council of Persons with Disabilities. The upper house is comprised of twenty-six appointed senators serving eight-year terms. Twelve Senators are nominated by regional councils, eight are appointed by the President, four are appointed by the National Consultative Forum of Political Organisations (NFPO) and two are elected representatives of universities.

[140] "Divisionism" was used to justify the dissolution of the main opposition party, the Mouvement Démocratique Républicain, and the arrest of its leader, ex-President Bizimungu, prior to the 2003 elections, and charges of "genocide ideology" led to the arrest and imprisonment of Victoire Ingabire, president of the FDU-Inkingi, ahead of the 2010 presidential elections (AI, 2017).

[141] Two independent candidates in the 2017 presidential election, Diana Rwigara and Gilbert Mwenedata, were denied registration by the National Electoral Committee (NEC) for having ostensibly failed to meet the eligibility requirements of 600 signatures supporting their candidacy (HRW, 2017). Another potential candidate, Thomas Nahimana, was denied entry to Rwanda when he tried to return from abroad (HRW, 2017). Mugisha (2017) also reports on additional restrictions placed by the NEC on opposition parties' ability to communicate with the public, noting that candidates in the 2017 presidential election had to seek prior NEC approval before posting campaign material on social media and were barred from displaying campaign posters in various public spaces.

[142] Mugisha (2018) notes that ten out of the eleven registered political parties contesting the 2018 parliamentary elections were formally in coalition with RPF.

[143] Given that "access to the media and the content of electoral coverage were both skewed in favour of the RPF" (Freedom House, 2020) and the limited attendance of Green party political rallies (e.g. Baddorf (2017) reports 200,000 people attending Kagame's final pre-election rally compared to 500 attending Habineza's event), it would be reasonable to conclude that the Green party message on taxation would not necessarily have found a broad audience and that the RPF wouldn't been compelled to respond on the issue.

building the capacities of government… improving the welfare of the Rwandan People [and] improving Rwanda's image" as well as its promises to implement further development policies and programmes (RPF-Inkotanyi, 2017, p.5-6).

Within parliament, institutional constraints reduce parliamentarians' ability to challenge the executive. All parliamentary political parties must join the National Consultative Forum of Political Organisations (NFPO), an entity who's stated aim is to promote political dialogue, consensus building and national cohesion. The NFPO channels state funding for capacity and programme development to all political parties, which according to Golooba-Mutebi and Booth (2013) is the only permitted stream of state funding for parties. Critics argue that rather than promote dialogue, the NFPO serves primarily to co-opt and control, by regulating the financing of political parties, and by filtering political debate in advance to avoid public disagreement voiced in parliament (Silva-Leander, 2008; Bertelsmann-Stiftung, 2018; Carmago & Gatwa, 2018). Bertelsmann-Stiftung (2018, p.14) allege that parliamentarians "particularly those of the coalition parties, are under specific supervision", with Reyntjens (2011) suggesting that prominent non-RPF politicians always have RPF adjutants assigned to them for informal monitoring.

There is also evidence that proportional representation and the appointment of representatives from marginalised groups to parliament does not lead to citizen empowerment. While Rwanda is lauded for having the highest proportion of women parliamentarians,[144] some accuse the RPF of gender washing (Longman, 2006; Burnet, 2008; Hogg, 2009; Stroh, 2010).[145] Hogg (2009, p.48), drawing on earlier work by Longman (2006), argues that even on gender the "lack of political freedom severely limits women's ability to influence policy seen as running counter to the RPF's agenda". Similarly, Devlin and Elgie (2008, p.237), concluded that "increased women's representation has had little effect on policy outputs" despite several high-profile reforms of significance to women being debated by parliament in the early 2000s.[146] One reason is that most parliamentary appointees, including directly appointed women parliamentarians, are RPF loyalists (Hogg, 2009; Burnet, 2011; Bauer & Burnet, 2013). Stroh (2010) found that of the twenty-four ostensibly non-partisan women deputies appointed in 2003, ten stood on RPF tickets in the 2008 parliamentary election. Another reason, suggested by Burnet (2011) and Bauer and Burnet (2013), is that appointed female legislators invariably come from urban elite circles, implying that they are more likely support elite interests over the markedly different priorities of rural women.

The parliament rarely uses its constitutionally mandated power to propose initiatives and is often seen as little more than a rubber-stamp for the executive's proposals.

[144] IPU (2020) notes that in 2020, Rwanda has the highest proportion of women in parliament worldwide, with 61% of parliamentary seats held by women.

[145] "Gender washing" is a term that has been used to describe fake discourses around women's empowerment to gain legitimacy from international institutions and distract from human rights abuses (see for example Allan, 2020 and Walters, 2021).

[146] Devlin and Elgie (2008) challenge the earlier findings of Powley (2005) and Powely and Pearson (2007), that women deputies were instrumental in crafting legislation to great significance to women, including the Rwandan Constitution of 2003, the National Land Policy of 2004 and the Organic Land Law of 2005. Devlin and Elgie (2008, p.249) counter that many of these reforms date before the 2003 elections "at a time when the numbers of women in the Rwandan parliament were much smaller". Devlin and Elgie (2008) conclude that the flagship laws "were not introduced, or even passed, as a result of the women's high representation" (p.250) but "were all in fact initiated by the executive and approved by the parliament" (p.249).

Bertelsmann-Stiftung (2018) claim that parliamentary debate is only tolerated if it doesn't impinge on the power of the state, while Thompson (2018, p.133) argues that parliamentary consensus effectively means "total agreement with RPF policies", with little room for dialogue, debate, or consideration of alternative policy proposals. Keijzer et al. (2019), found that "parliament's own policy deliberations and perspectives typically do not differ fundamentally from government strategy and tend to focus on effectiveness/efficiency concerns as opposed to discussing policy choices and alternatives".

Yet, when it comes to taxation, there is evidence that despite the numerous constraints, government proposals have been resisted by parliament. The IMF, when reflecting on the limited success of its country programme on tax policy reform, (see section 7.3), note that "various tax policy initiatives put forth by the government have been weakened or delayed during parliamentary deliberation, including real estate taxes and transaction taxes on property sales" (IMF, 2018b, p.16). Similarly, interviewees[147] pointed to the parliament successfully diluting proposed legislation on property taxes law (see section 5.2) and removing capital gains tax from the draft income tax law (see Chapter 8) as evidence of organised resistance to reforms targeting elite interests. This indicates that elite groups in Rwanda can, and have, opposed tax reforms, when they are perceived as a threat to their vested interests.

7.1.2. "Home grown" dialogue structures

President Kagame attributes Rwanda's development successes to "home grown solutions" (HGS) that he claims have fostered collective problem-solving and participatory decision-making, in turn improving governance and accountability (New Times, 2015a). The official RPF narrative is that the search for innovative solutions to the country's development problems led RPF to the "gradual rediscovery and rehabilitation of cultural and social values" (Gatwa, 2018, p.20), which were then adapted into contemporary governance tools, now collectively known as HGS.[148] Two HGS are of particular interest for this thesis, namely *Umushyikirano*[149] (National Dialogue) and *Umwiherero* (National Leadership Retreat). The former is an annual public event, enshrined in the Constitution, providing opportunity for citizens to directly question the country's leaders on issues relating to national development (Umushyikirano, 2020).[150] The latter is an annual meeting of senior representatives of the executive, legislative, judiciary and selected

[147] Interviewees include diplomats (I07, I09, I33, I36) expatriate advisors specialised in tax reform (I05, I10), and tax professionals (I59). The head of one development agency (I07) lamented that on property taxes, parliament "chose a path which is good for the elite of the country, and which is not good for the poor". Similarly, a former adviser to RRA (I05), recounted how property tax reforms proposed by government were repeatedly blocked by parliamentarians with significant real estate assets or were "directly or indirectly connected to the property letting market".

[148] According to Gatwa (2018, p.20) the Rwanda Governance Board is the "public custodian" of Rwanda's HGS. These solutions are grouped into four clusters (Shyaka et al, 2016) and include: governance cluster (Umwiherero; Umushyikirano; Governance month; National forum of political parties; *Itorero; Imihigo*); social cluster (*Girinka*; *Ubudehe*; VUP; Universal Health Insurance; 9&12 Years Basic Education), economic cluster (Agaciro Development Fund; Land Use Consolidation); and justice cluster (Gacaca, Abunzi, Maison d'Access a la Justice).

[149] www.umushyikirano.gov.rw

[150] Each year a particular theme is debated, with the 10th *Umushyikirano* held against the backdrop of the 2012 aid crisis focusing on "self-reliance". Umukunzi (2012) reports, however, that there was no particular focus on taxation at this event.

opinion leaders. Dialogue at both events culminates in a series of resolutions, and performance in their implementation is monitored.

While early incarnations of *Umushyikirano* were notable for the absence of opposition parties, civil society, and private sector organisations (Umukunzi, 2012) and *Umwiherero* originally took place entirely behind closed doors, more recent events project greater inclusivity and openness (Shyaka et al., 2016; Umushyikirano, 2020). Yet, there is little doubt that *Umushyikirano* remains a highly choreographed event, which Golooba-Mutebi (2012) describes as a live televised broadcast taking place in a quasi-festive atmosphere with the President omnipresent. *Umushyikirano* provides the President with a platform to highlight past achievements and elucidate his plans in a State of the Nation address (Umukunzi, 2012). What follows is a series of presentations on selected topics, with the President chairing debates. Throughout, participants are highly obsequious to the President, while criticism is muted, and questions attenuated. Gras (2019) notes how each citizen selected to speak "takes particular care to thank, even flatter the president, before highlighting the successes of the country, at the risk of drowning out the remainder of his remarks". Frank Habineza, President of the Green Party, sums up *Umushyikirano* in equally critical terms, noting "in principle, *[it]* should be an exchange, but the participants mainly engage in mostly favourable presentations of the country's record… Panellists share what they have accomplished and congratulate each other… Then questions are asked but several real problems are not discussed" (Gras, 2019).[151] Yet, on some occasions, *Umushyikirano* is used to apportion blame when government policy is not implemented as planned. Kayumba (2018) describes *Umushyikirano* as a "forum where careers can be enhanced or lost", while Gras (2019) documents Ministers and officials being interrogated and publicly berated by the President for perceived failures.

At *Umwiherero,* the Presidential demands that senior personnel "evaluate themselves against the set development milestones, and devise strategies aimed at achieving the country's vision" (Primature, 2018, p.1). Performance in implementing the previous year's Presidential priorities -outlined in *Imihigo* contracts- is reviewed and new priorities are outlined (Gasana & Porter, 2013). Crucially, *Umwiherero* functions as a forum where officials are personally held to account by Kagame, and where those perceived to have failed are disciplined in front of their peers (Imanishimwe, 2018b). At the 2018 *Umwiherero*, the President "sent home four senior officials for 'gross misconduct' and sacked an entire unit at the Ministry of Health for 'wasting public resources'" (Mugisha, 2020). Similarly, in 2020, the Ministers of Health, Education and Justice, as well as scores of local government leaders were forced to resign in the week prior to *Umwiherero* (New Times, 2020).

Little evidence was found during the research of *Umushyikirano* providing a platform for explicit tax bargaining. Scrutiny of the main resolutions in the 2011-2020 period found no reference to taxation. The resolutions from *Umwiherero* over the same period also reveal an absence of tax-related goals, with the only reference to taxation featuring in the *Umwiherero* resolutions of 2019, where government pledges to investigate issues that

[151] This quote is an own translation of the following statement, in French, attributed to Frank Habineza in Gras (2019) «Sur le principe, il devrait s'agir d'un échange, mais les participants se livrent surtout à des présentations, majoritairement favorables, du bilan du pays. Les panélistes font part ce qu'ils ont accompli et s'auto-congratulent. Puis des questions sont posées mais plusieurs vrais problèmes ne sont pas débattus»

"impede the implementation of Made in Rwanda Policy", and undermine the "competitiveness of locally produced products, including fees and taxes". Since these resolutions feature in the year after the introduction of the 2018 Income Tax Law, it is possible that disquiet over the revised legislation could have reached the ears of the country's leadership, but this was not possible to verify.

While *Umwiherero* and *Umushyikirano* are portrayed in Rwanda as crucial for shaping the government's policy agenda and ensuring its accountability to citizens, given the controlled environment in which dialogue takes place, the events appear more about validating pre-existing government policy and making senior officials personally accountable to the Presidential. In doing so, the events serve to reinforce the image of a government reliant on the personal drive and determination of a visionary President (see Section 4.2.2.5). In this respect, both *Umushyikirano* and *Umwiherero* provide insight into how institutionalised dialogue is managed in Rwanda.

7.1.3. Public-Private dialogue

Public-Private Dialogue (PPD) provides a platform for the government to work collaboratively with the private sector to identify issues and common interests, and to design workable solutions to improve the enabling environment for business (Bannock, 2005; Herzberg & Sisombat, 2016). Successful PPD can reduce misaligned and unresponsive policy, maintain reform momentum, and in turn lead to improved transparency and accountability (Herzberg & Sisombat, 2017). When other lines of communication between government and society are weak, PPD can create an opportunity for businesses to voice issues and provide government with a sounding board for policy (Herzberg & Wright, 2006).

Attempts to foster national PPD in Rwanda have had mixed results. Concerted efforts only began 2012 with the establishment of the Rwanda Public Private Dialogue (RPPD) initiative (Nkubito, 2014).[152] Despite the original aim for RPPD to foster national level dialogue, according to one PSD Advisor (I22) "it was local PPD that took off... There were hundreds of issues that were brought up… small issues mainly… resolved at the local level between 2013 and say the end of 2015". Local media (New Times, 2015b) report that government planned to create "20 new platforms" to strengthen sector and thematic PPD in 2015, but by 2016 the RPPD initiative had floundered. It was not possible to get a clear understanding from interviewees as to why the initiative had stalled. One explanation, consistent with the findings of Herzberg and Wright (2006) and Herzberg and Sisombat (2016), is that the RPPD was not able to deliver and subsequently fell victim to disillusionment, disengagement, and loss of credibility. Another plausible explanation is that that the initiative was primarily donor-driven, and when donor finance ran out the government chose not to invest in the initiative, instead focusing on consulting a small number of large firms. Indeed, in 2017, the Rwanda Development Board (RDB) introduced a quarterly "CEO Forum" where RDB senior management engaged with business leaders and weekly "Investor Open Days", aimed at resolving practical issues faced by investors, including those related to tax (Tuyshime, 2017). Similarly, RDB and

[152] According to one private sector specialist (I22) the decision to establish the RPPD was directly the results of remarks made by the President at the 9th *Umwiherero*. The RPPD initiative was supported and financed by the German Development Agency (GIZ).

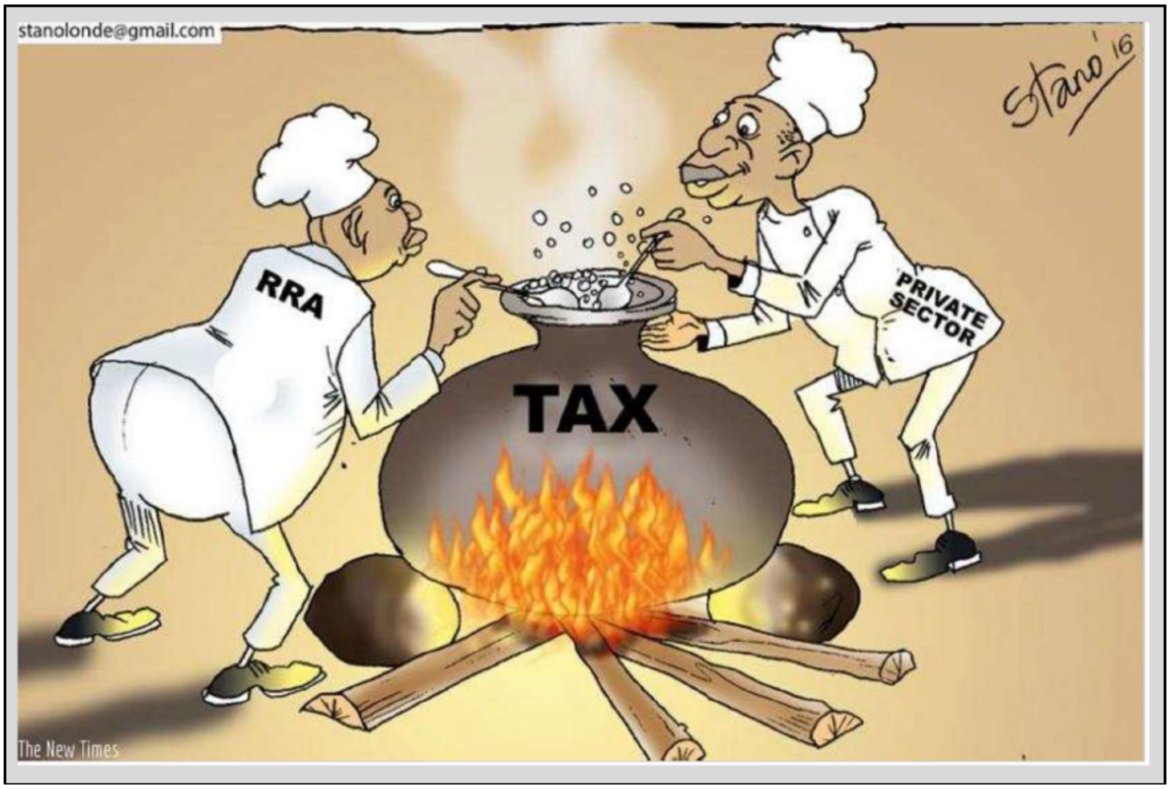
MINICOM began hosting an inter-institutional Private Sector Development Forum (IPSDF), and MINICOM launched an Industrial Development and Export Council (IDEC), which were to be "attended by captains of industry and leaders from the PSF" (MINICOM, 2017, p. 36).

OECD (2015b) reports that the government also established various PPD platforms on tax matters, including a largely ceremonial Taxpayer's Appreciation Day,[153] semi-annual Tax Issues Forum between RRA and the PSF, district level Tax Advisory Councils,[154] taxpayer sensitisation activities, and other ad-hoc events. For example, RRA held "tax dialogue meetings" with "experienced taxpayers (*Inararibonye*)" (RRA, 2018a, p. 37; RRA, 2019a, p. 40) and "top large and medium taxpayers" (RRA, 2019a, p.40). Tax workshops have also been organised between RRA and ICPAR (see Section 7.2.2.2). Unfortunately, little information about the substance of the taxpayer dialogue exists in the public domain, making it difficult to ascertain how much formalized PPD influences tax policy. While the local media may claim such dialogue is productive (see Figure 18), RRA's Customer Satisfaction Survey (RRA, 2016, p. xiv) found that the "tax issues forum and tax advisory council were reported not to be effective".

[153] Taxpayer's Day is an annual celebration of Rwandan Taxpayers, where the country's best taxpayers receive awards from a guest of honour (originally the President, but more recently the Prime Minister). It mainly functions as a platform for highlighting high-level commitment to tax compliance as well as educating taxpayers of their rights and responsibilities. Each event focuses on a particular theme, such as "Voluntary tax compliance, the pillar for self-reliance" in 2016 (RRA, 2017, p.37a) and "My Tax, My Development, My Dignity" in 2017 (RRA 2018a, p.38), which chimes with government rhetoric. According to the OECD (2015, p.153) "during the week leading up to Taxpayer's Day there are various activities geared towards corporate social responsibility, including consultations with taxpayers and stakeholders". However, published RRA reports do not document any such dialogue under the umbrella of Taxpayer's Day in recent years.

[154] According to OECD (2015, p.154) Tax Advisory Councils (TAC), operating all 30 districts and involving a broad range of citizens not just business interests, "have been successful at… educating taxpayers on the need to pay taxes on time and the role that taxes play in development". Interview evidence (I26, I42), however, indicated that the TAC were weak institutions. One decentralization specialist (I26) argued that the TAC were about "giving feedback about how taxes are perceived… how taxes are levied… how taxes should maybe look like… but its more in the sense of what serves the national government, instead of what shall we do in order to maintain a vivid and sustainable economic situation at local level".

FIGURE 18: EDITORIAL CARTOON IN THE NEW TIMES



Source: New Times (2016b)

Similarly, interviewees claimed that the IPSDF and IDEC were ineffective. One PSD specialist (I11) argued that despite the establishment of formal platforms, real high-level strategic engagement between government and the private sector was non-existent in Rwanda, with little scope for dialogue on tax and investment policy. Another embedded PSD advisor commented:

> "All the formal structures that exist… none seem to be working very well… either not working at all, in that IDEC was not convened for the longest time… or very haphazard ad-hoc meetings, where things were brought on the agenda with very little preparation…" (I33)

Another adviser (I41) argued that little substantive or critical discussion occurred at formal IPSDF meetings, which they claimed was because of a tacit truce between public officials not to create problems for each other. The advisor explained that meetings were dominated by presentations from officials and allowed little time for the private sector to comment. They claimed that often the private sector wouldn't even be present, but when they were invited, it was "always the same faces." They also noted that the conclusions of the meetings were not routinely recorded, suggesting that little follow-up up took place.

It is not uncommon for PPD initiatives in LMICs to fail, with Bannock (2005) Herzberg and Wright (2006) and other citing contributory factors such as overt politization and elite capture of platforms, lack of trust between government and the private sector, poor incentives and capacity within public administration to engage with private sector (leading to ceremonial dialogue), and insufficient political will. Likewise, fragmentation of private sector interests, an inability of business associations to lobby effectively, and a muzzled media can also undermine collective action. This is subject to which attention now turns.

7.2. Taxpayer capacity for collective action

According to Sharp et al. (2019, p. 9), NGOs and the media play three key roles in tax bargaining, namely "analysis of tax policy, advocacy for or against policy proposals, and awareness raising on tax rights and obligations". In contexts where tax systems are poorly understood by the population, a capable civil society can highlight tax injustice and nurture political movements by "unifying disparate and poorly defined grievances" (Pritchard, 2015, p. 75). Yet in LMICs, NGOs and the media not only lack technical ability to analyse tax policies, but also lack resources, skills, and political wherewithal to build coalitions, strategically engage in tax debates, and undertake persuasive tax advocacy (Sharp et al., 2019).

By contrast, elite groups find it easier to mobilise and to leverage concessions from government (Fairfield, 2015; Wilson & Hageman, 2022). The private sector, which have both the motivation and resources to organise and engage in dialogue, can also find governments more receptive to their demands since they are drivers of economic growth and job creation, and a significant source of tax revenue (Klitgaard & Paster, 2020). Accordingly, private sector associations (PSA) have successfully influenced tax policy in their favour in both developed and developing countries (Richter et al., 2008; ActionAid, 2013; ICEFI, 2015). Fjeldstad and Ranker (2021, p. 12), for example, document how during the 2014 Tanzanian VAT reforms, "coordinated lobbying [by PSA succeeded in] influencing and greatly shaping a set of uncoordinated policy positions by different government bodies". Similarly, professional associations -acting on behalf of their clients- lobby for tax policy reforms. In Kenya and Burundi, associations of tax professionals, by virtue of their expert knowledge of the practicalities of tax administration, regularly participate in tax policy formulation processes (ICPAK, 2015, 2017; Ogallo, 2019; Dubut, 2016). Yet, in Rwanda, significant barriers exist, not only for the media and civil society to operate freely, but also for private sector organisations and professional associations to meaningfully engage on tax policy.

7.2.1. A muzzled media

Press freedom is a sensitive topic in Rwanda given the media's role in inciting racial hatred prior to, and during, the genocide (Chrétien et al. 1995; Des Forges, 1999, 2007; Dallaire, 2007; Melvern, 2009). Despite constitutional guarantees of freedom of the press, of expression, and of access to information (RoR, 2003), a broader framework of vaguely defined laws severely curb media independence. Laws on "divisionism" (RoR, 2001b) and "genocide ideology" (RoR, 2008a), undermine legal certainty and provide ample scope for the authorities to suppress freedom of expression (Waldorf, 2007; Beswick, 2010; McDoom, 2011; Harber, 2014; Uwizeyimana, 2014; Bonde et al., 2015; Freedom House, 2016; Sobel & McIntyre, 2019). The country's Penal Code (RoR, 2018d), which criminalises insults to public officials and defamation against the President, has also been used to silence the media (Article 19, 2015, 2018; HRW, 2016). The media law (RoR, 2013) establishes that journalists cannot express opinions and disseminate information considered to "jeopardize the general public order and good morals" (RoR 2013c, Article 6), providing further discretionary power to target dissenting voices.

Journalists are also subject to extra-judicial intimidation, including threats, state surveillance, unlawful seizure of material and equipment, arbitrary detention, physical and psychological torture and even assassination, forcing many to flee into exile (Waldorf, 2007; Frère, 2009; Beswick, 2010b; Reyntjens, 2013; Harber, 2014; Freedom House, 2016; Sundaram, 2016). Beswick (2010b) notes that state intimidation not only enables critical voices within media organisations to be forcibly removed and replaced, but also creates an environment in which journalists refrain from questioning government for fear of retribution. HRW (2019, p.491) believe that most Rwandan journalists are "unable or unwilling to engage in investigative reporting on politically sensitive issues and rarely criticize government policies, because of intimidation, threats, and prosecutions in previous years". As a result, self-censorship is ubiquitous with many journalists choosing to work with government, confining themselves within established parameters, and accepting unwritten rules about avoiding politically sensitive subjects (Beswick, 2010b; Harber, 2014; Sundaram, 2016; Sobel & McIntyre, 2019).

Rwanda's media certainly sensitises citizens on their tax obligations (e.g. Mushimiyimana, 2018; Ntirenganya, 2018; Tumusime, 2019) and regularly communicates the importance of taxation for the country's development and self-reliance (e.g. Mwai, 2018b; New Times, 2019). The media also praises government achievements in raising domestic revenue (e.g. Mbonyinshuti, 2017; Ngabonziza, 2017; Mwai 2019a) and in improving tax administration (e.g. Uwanziga, 2016; Bizimungu, 2018a; Mwai 2019b). The media covers tax-related events, such as Taxpayers' Day (e.g. Kwibuka, 2018b, 2018c), and summarises deliberations within parliament on tax policy issues (e.g. Kwibuka, 2017 2018b; Bishumba, 2019a&b). During the presidential election campaign of 2017, the media reported on tax pledges of the opposition candidate, Green Party leader Frank Habanesa, and questioned their viability (New Times, 2017; Mbonyinshuti, 2017b, 2018).[155] There are also numerous examples of the media reporting on the concerns of taxpayers, including delayed taxpayer refunds (e.g. Mwai, 2018a, 2019c&d), the unpredictability of taxes (e.g. Karuhanga, 2019) and the negative impact of taxation on SMEs (e.g. Imanishimwe, 2018a).

The media are careful not to cross the line between reporting and investigative journalism or critical opinion pieces. Closer scrutiny of ostensibly critical newspaper articles reveal that many simply report on issues where the government already acknowledge problems (e.g. Musoni, 2015; Imanishimwe, 2018a) or quote statements by Rwanda's development partners (e.g. Mwai, 2018b)[156] and local organisations such as PSF (e.g. Karuhanga, 2019). Investigative journalism on tax issues is not tolerated by government. USDOS (2017, p.17) and HRW (2017), for example, document the arrest of two journalists that had been investigating cases of alleged tax evasion and corruption. Similarly, Obiang (2016) and Kayitare (2017) report that the independent Rwandan journalist, Robert Mugabe, was assaulted and then interrogated by police for allegedly disturbing public

[155] Scrutiny and objective reporting on the viability of political pledges is an important role that the media can play in educating an electorate to make informed decisions. However, problems emerge when reporting is biased and non-objective. In this case, the Rwandan media rightly questioned the viability of the opposition candidate's tax and spending pledges, but there was no such media scrutiny of the RPF's ambitious development agenda.

[156] The head of one development agency (I09) claimed that a journalist reporting on IMF analysis of Rwanda's tax exemptions (Mwai, 2018b) was subsequently harassed by government officials because of their article.

order and violating state security, which the authors claimed was also linked to his investigation of tax evasion case.

7.2.2. A weak and emasculated civil society

Prichard (2015) documents how tax protests have sparked broader political movements across Africa, leading to better government accountability and responsiveness. Yet, in Rwanda, not even peaceful protest is an option. According to Rwandan law, prior authorization is needed for public gatherings, which the UN discovered to mean "in practice only peaceful assemblies which authorities favour are allowed to take place" (Kiai, 2014) and that "peaceful protests voicing dissent and criticizing Government policies are reportedly not allowed" (UN, 2014, p.8). Kiai (2014) found evidence of citizens arrested for "illegal demonstration", and notes that "undue restrictions on freedom of peaceful assembly have also impacted negatively on the enjoyment of freedom of association as several associations have been prevented from holding general assemblies".

NGOs in Rwanda operate within a highly restrictive environment. HRW (2019, p.491) claim that they "cannot operate independently or criticise government policy", while Bertelsmann Stiftung (2020, p.10) found NGOs to be "politically and socially side-lined by the government" but that their "continued presence is seen by the government as a necessary concession to support its international reputation and as a source of additional funds". According to Burnet (2011, p.375), "RPF leaders envision civil society as an extension of, rather than as a counterbalance to the state" and expect NGOs' work and resources to be fully aligned with government priorities". NGOs that do not conform are impeded by legal and bureaucratic measures, as well as "shadow methods" including intimidation and threats (Beswick, 2010b). Institutions such as the RGB and National Civil Society Platform exert formal bureaucratic surveillance and control (UN, 2014; Musila, 2019),[157] while several interviewees[158] claim that mandatory grouping of NGOs within government-controlled umbrella organisations facilitated censorship. While legal and bureaucratic restrictions may have gradually replaced physical intimidation in the RPF's toolkit, many NGOs continue to be monitored by the security apparatus, with some even infiltrated to "gather information, influence leadership decisions, or create internal problems" (USDOS 2017, p.31).

The work of domestic NGOs that can operate in Rwanda is severely constrained by their limited financial resources. François (2017, p.33) claims that NGOs' financial dependence on the state "weakens their capacity of analysing the action of the government, taking position vis-à-vis the policies and ideologies of the government and the way policies are implemented", while reliance on donor funding makes them "accepting [of] conditionality established by the donors even though these may be against their own principles". He also notes that financial dependence influences the type of work undertaken by Rwandan NGOs, with many activities initiated "because someone proposes funding." The heads of two international NGOs operating in Rwanda (I44&I45) claimed that many local NGOs

[157] NGOs plans and budgets must be pre-approved by RGB; annual reporting requirements are extensive; NGO staff must be vetted by the security services; and all organisations are subject to mandatory periodic renewal of their operating licences (RoR, 2012a. 2012b). The revision of the income tax law (see Chapter 8) provided additional scope for surveillance and sanction, obliging even non-profit making NGOs to report on their financial activities (I44, I45).
[158] I03, I06, I44 and I45 (CSO specialists).

merely existed to create local jobs and tackle poverty in their immediate neighbourhoods. Another civil society specialist claimed that:

> "Most [NGOs] are funded by international organisations. If those organisations are not involving them in research, nor asking them to be active advocates, then they don't [do it]. A lot have become very specialised in delivering particular services or aspects of a program" [I03]

Francois (2017, p.32) also found Rwandan NGOs unable to advocate for policy reform, because they lacked capacity to undertake independent research and the skills to communicate evidence to government, leaving them reactive to events and "incapable of initiating and or promoting any change". Burnet (2008) also found a leadership vacuum in many NGOs -with more capable leaders having been co-opted into government- leaving them less equipped to advocate on contentious issues. As in many countries, Rwandan NGO leaders are drawn from elite circles. While this offers opportunity for intra-elite networking and allows for the informal exchange of views on topics that cannot easily be discussed in public (Keijzer et al. 2018), one CSO specialist (I06) remarked that Rwanda's stark urban-rural divide, resulted in NGO leaders being at arm's length from the citizens they claimed to represent, particularly those in rural areas.

Despite formal requirements for broad-based stakeholder consultation on legislative reforms, and the establishment of formal platforms for dialogue (see section 7.1.2), many interviewees perceived government engagement with NGOs as superficial.[159] For example, the Director of one local NGO (I50) argued that consultations with NGOs on policy matters were often undertaken by government as a box ticking exercise rather than to submit their proposals to scrutiny, an experience which is certainly not unique to Rwanda. Similarly, effectiveness of civil society dialogue platforms was questioned by several interviewees, including one that commented:

> "I have been to these annual CSO-government dialogues. It is not really a dialogue. It is the government giving across certain messages… A dialogue really should be a back-and-forth. It really should be people questioning and listening and responding. It's not really a listening opportunity, because the government doesn't really listen... it is the country directors [of the NGOs], many of which are very close to government. [Government does] impressive events to make it look like we have dialogue, when really there's not." (I06, NGO specialist)

Unlike other African countries, there are no Rwandan NGOs advocating for tax justice. [160] Although some evidence was found of ad-hoc involvement of business and professional associations in tax policy formulation (see sections 7.2.2.1 and 7.2.2.2 below)- there was no evidence of any engagement by mainstream NGOs on tax reform. Umbrella organisation CLADHO are consulted during state budget preparation,[161] but the head of

[159] For example, I03, I06, I44 and I45 (CSO specialists), I07, I11, I32 (diplomats).

[160] The International Budget Partnership's dataset (2020) identified seventy-three civil society organisations to be directly or indirectly active on domestic tax related issues in 23 sub-Saharan African countries in 2020.

[161] CLADHO (Collectif des Ligues et Associations de Défense des Droits de l'Homme au Rwanda), and umbrella organisations of human rights-focused NGOs, signed a Memorandum of Understanding with MINECOFIN in 2009, providing them with the exclusive right to formally engage with MINECOFIN during state budget formulation on behalf of NGOs. While the involvement of CLADHO in the budget process is commendable, the process is nonetheless

one NGO (I58) confirmed that input was only sought on state spending plans in four sectors, with no scope to discuss the revenue side of the budget.[162]

Rwandan NGOs were blindsided by the 2018 Income Tax law reform, under which they became liable to pay tax on their "surplus" incomes having previously been exempt from income tax (see Chapter 8), indicating that there were no broad-based consultations during formulation. After the law was enacted, and once the implications became clear, Rwandan CSO were vocal on the compliance challenges they faced and sought formal consultations with government on the matter (see section 8.4.4). An unintended consequence of the reform could be that now Rwandan NGOs are directly impacted by tax administration, they become more interested in a subject that is now of direct concern to them. This would certainly be an interesting topic of follow-up research. Yet, attention now turns to the two Rwandan civil society organisations known to have been involved in the tax policy reforms covered in Chapters 8 and 9, namely the PSF and iCPAR.

7.2.2.1. The Private Sector Federation

The PSF is an umbrella organization[163] for PSA, including industry groups, professional chambers, and grass-roots organizations (PSF 2018). Compared to other NGOs, the PSF has a privileged position in Rwanda. The PSF must be consulted during the preparation of the annual budget, and during drafting of legislation, including tax laws (MINECOFIN, 2020c). The PSF also has a seat on MINECOFIN's Tax Policy Committee (see section 6.2). Yet, the PSF shares many of the weaknesses of other Rwandan NGOs. In 2006, Torero, Everest-Phillips, and Stern (2006, p.5) found the PSF to be "inadequately staffed and funded to effectively engage with the MINECOFIN and RRA on tax policy and how tax administration effects business development". By 2020, there is little evidence of improvement, with over twenty interviewees claiming that the PSF was unable to articulate the views of business or influence policy.[164]

PSF's own-revenues do not cover its operating costs, making it reliant on public (and donor) grants. Only a few formalized companies are willing and able to pay membership fees. A "Golden Circle" member's group of large enterprises, chief among which are state- and party-statals, pay fees directly to PSF, but these numbered a mere 132 companies in 2018 (PSF, 2018). PSF also receives a part of the membership fees paid to individual chambers and associations (PSF, 2018), but embedded advisors in PSF (I20&I38) indicated that Golden Circle contributions were not only more reliable but also

controlled and limited in scope. CLADHO can only express views on planned expenditures in four sectors: health, education, agriculture, and water and sanitation (Hakizimana, 2020). Moreover, the extent to which CLADHO would be willing to challenge government can also be questioned. HRW (2013) indicates that "since the late 1990s, people who are unwilling to criticize the government have dominated CLADHO". Moreover, the UN Special Rapporteur (Kiai, 2014; UN, 2014), highlighted how RGB interfered in CLADHO's leadership elections to oust the more independent-minded candidates.

[162] Another CSO representative commented: "Investment in education, we are very free and open to talk about that, and obviously we have our budget analysis… But as we then start to look at other portions of budget, we are immediately much more cautious… there are certain areas[where] the input from the NGOs is welcome, but other areas where that input or critical thinking is not as welcome as it could be… MINECOFIN is not used to working with NGOs in this space in Rwanda" (I03).

[163] In common with other NGOs, all private sector associations must operate under the auspices of an umbrella association.

[164] For example, I07, I11, I27, I31, I39 (diplomats and development practitioners), I4, I09, I18, I22, I29, I41, I48 (advisors), and I15, I12, (businesspeople).

represented a disproportionately large amount of PSF's own revenue. Several interviewees argued that this made PSF primarily accountable to government, and more responsive to Golden Circle members than to its broader membership.[165] Indeed, PSF commits itself to annual *Imihigo* performance contracts (Kwibuka, 2015a; JICA, 2017). One advisor at PSF commented:

> "The Golden Circle is this VIP group which pays the highest [fees] and has quite some privileges… these VIPs, they have different needs and therefore they get special attention directly through a Golden Circle Coordinator…" (I38)

A diplomat also commented the following:

> "We tried to bolster PSF … that they become the voice the private sector towards to government. The problem of course being that the PSF represents the larger companies. So, the smaller companies don't have a voice." (I07)

Ironically, larger businesses do not rely on the PSF to articulate their interests. State owned enterprises and party-statals have direct access through party channels. Several interviewees claimed the larger private businesses and foreign investors also enjoy easy access to decision-makers.[166] Jonathan Hall, the former Managing Director of Braliwa,[167] is quoted as saying that for large investors "the accessibility of the government is remarkable. If you want to speak to a minister or to senior civil services, it's easy to do so!" (WorldFolio, 2016). A Rwanda researcher also argued the following:

> "A lot of the people who ought to be making [PSF] work have their own channels… they don't need to bother with this organisation, they just pick up the phone". (I13)

For SMEs, the reality is different. PSF provides few practical benefits and there are no realistic alternatives. The smaller professional chambers and associations face more acute financial and capacity constraints than PSF, with interviewees suggesting that some existed in name only.[168] According to Kacenelenbogen (2019), attempts to foster associations of foreign investors, supported by development partners, initially floundered due to the relatively small number and size of foreign investors, a general reluctance to openly engage in criticism of government, and the legal complexities of establishing NGOs. Parliamentarian, Spéciose Ayinkamiye, summed up SMEs' frustrations during parliamentary deliberations on the new law on tax procedures in June 2019, stating that:

> "Businesspeople, especially outside Kigali City feel left out… They have on several occasions complained of not being consulted and decisions being made for them without their input" (Bishumba, 2019a).

Interviewees highlighted low human capacity and weaknesses in PSF's organisational structure mean that PSF would struggle to articulate SMEs' interests even if incentivised

[165] For example, I07, I41 (diplomats and development practitioners), I04, I22, I38 (advisors).
[166] For example, I07, I27 (diplomats and development practitioners), I04, I29 (advisors).
[167] Braliwa, a subsidiary of the Heineken Group, is the largest producer of beers and soft drinks in Rwanda. It is also Rwanda's largest taxpayer. In 2016, Mr. Hall accepted an award at the National Taxpayer's Day which categorised Braliwa as an "Abahizi" (excellent) taxpayer (Niyitegeka, 2016).
[168] For example, I04, I29, and I38 (advisors).

to do so.[169] Interviewees also suggested that most PSF officials were former civil servants.[170] According to one embedded advisor:

> "What they hope from having these government people here is that they have a good connection to the government… first of all they have somebody who knows how the government works… the procedures … [but] also someone with connections…". (I38)

Yet, by recruiting from government and state-owned enterprises, PSF staff lack working knowledge of the private sector. This is compounded by weak data gathering and analytical capacity. Interviewees[171] claimed that PSF outsources research and analysis,[172] meaning that former civil servants do not acquire a deeper understanding of private sector issues once recruited. Respondents also claimed that the PSF failed to exploit the opportunities provided to it, with PSF representatives seemingly unwilling or unable to participate in consultation meetings and respond to requests for analytical input.[173] For example, a tax professional (I51) involved in the income tax law revision, noted how PSF couldn't provide technical input on the draft circulated for comment (see Chapter 8). Other interviewees commented the following:

> "I don't think I have ever seen them take the initiative and do a single policy paper… or where they have organised a meeting that hasn't been pushed by someone else … or identify issues with the private sector and really try and address them." (I12, PSD advisor)

> "They never came to meetings. The chief operating officer [of PSF] was on the steering committee, but he never attended a meeting. When we tried to hold workshops with them, to exchange views, they used to say, 'are we going to be paid to attend?' These were things to try and help them and their membership." (I04, PSD advisor)

Despite the various challenges, PSF promotional material indicates that it has enjoyed limited tax policy advocacy successes, including the removal of various VAT and customs duties on commercial in 2014, and removing VAT levies on minerals and service exports (PSF, 2014a). Rwirahira (2016) also suggests that "following public outcry", PSF played a leading role in advocating for reduced administrative fines for non-compliant use of VAT EBM (further explored in Chapter 9).

7.2.2.2. The Institute of Certified Public Accountants

The Institute of Certified Public Accountants (iCPAR) regulates the Rwandan accountancy profession. Given the importance of accountants and other tax professionals to the proper functioning of the tax system (OECD, 2008b), and the shortage of professionally accountants in Rwanda (WB, 2015a), iCPAR is hailed as a strategic partner of RRA. Only iCPAR-certified accountants can audit the annual financial

[169] For example, I04, I29, I38 (advisors) I09, I11, I27, I31, I39 (diplomats and development practitioners).
[170] For example, I15, I18, I41, I48 (advisors).
[171] For example, I04, I20, I38 (advisors) I11, (diplomat and development practitioner).
[172] For example, the Business and Investment Climate Survey (BICS) (PSF, 2019) is only produced with the technical and financial assistance of GiZ.
[173] For example, I04, I38 (advisors) I07, I09, I31 (diplomats and development practitioners).

statements and tax declarations of large enterprises. iCPAR is also mandated to advise government on matters related to accounting, including tax law and administration.

In common other NGOs, iCPAR "still faces significant challenges mostly related to inadequate financial and institutional capacity" (WB, 2015a, p.6) and relies on government and donor funding, since the "private sector is not large enough to sustain the body on its own" (DFID, 2017, p.14). The World Bank (2015a, p.30) found that "a large gap exists between what stakeholders expect iCPAR to be doing and what iCPAR can practically deliver given its resource constraints", noting that capacity needed to be significantly strengthened if iCPAR were to properly regulate the profession and be proactively involved in relevant reforms. In the wake of these findings, iCPAR established a Tax Working Group (TWG) and began to convene meetings and dialogue with the RRA through it bi-annual Tax Forum and other events. Formally, the TWG, consists of “tax and industry experts from the iCPAR membership, the private sector and other interest groups” who regularly come together to “continuously identify and propose areas of amendments in the tax laws and procedures” and “to discuss emerging issues in taxation and report considered positions to [the iCPAR Governing] Council” (iCPAR, 2018, p.5-6)

Yet, several tax professionals familiar with the TWG claimed that the reality was different.[174] One accountant (I59) referred to the TWG as “ad hoc” and “purely reactive” to the government’s agenda, while another (I51) described it as “purely informal”. Both noted how the TWG lacked terms of reference and lamented that, unlike PSF, there was no standing relationship with MINECOFIN’s TPC. They indicated that tax policy dialogue with government was unstructured and unsystematic, often reliant on the initiative of individual iCPAR members, and on individual personalities within RRA more amenable to consultation. One accountant (I51) noted that although RRA had consulted the TWG on drafts of the Income Tax Law (Chapter 8), iCPAR played no role in later tax reforms, such as the revision of the Tax Procedures Law in 2019. They also suggested that there were limits to the consultation, noting that position paper drafted by TWG members on the Income Tax Law revisions (see Chapter 8) was neither presented to RRA Management nor to the TPC, with RRA’s drafting team ignoring observations that were not perceived as helpful to their cause.

7.3. Rwanda’s complicated relationship with its donors

The “resource curse” literature analysed in Chapter 2 indicates that governments in heavily aid-dependent countries can be more responsive to donors than to taxpayers. Donors also have leverage to push for tax reforms and can also promote change by empowering local interest groups and facilitating tax bargaining. Rwanda remains one of the world’s most aid-dependent nations, with ODA accounting for substantial proportion of the budget (see Chapter5).[175] Rwandan fiscal self-sufficiency is not a realistic prospect in the medium term (Gaspar et al. 2019; Redifer et al. 2020), especially if the government is to finance the ambitious development agenda upon which the RPF’s claims to legitimacy rest (see section 4.2.2).

[174] I51, I54, I59 (tax professionals).

[175] The IMF (2017b, p.5) state categorically that “Rwanda’s past achievements have relied substantially on official development assistance”, with Redifer et al. (2020, p.xvi) attributing Rwanda’s growth and development trajectory to a “government-led public investment push, financed by aid”.

Despite the country's aid-dependency, the RPF has long viewed donors with suspicion (see Chapter 4) and loathes the conditionality of ODA (RoR, 2006c). The RPF leadership is as irritated by the country's vulnerability to fluctuating aid flows -epitomised by the 2012/13 aid crisis (see section 4.2.3)- as it is by perceived foreign interference in domestic affairs, with Kagame frequently denouncing aid and questioning the intentions of donors, while frequently calling for Rwanda to regain its dignity through self-reliance (Kagame, 2009; 2011; Ngabonziza, 2016).

Despite the rhetoric, realpolitik dictates that the RPF invests heavily in managing donor perceptions to ensure that ODA continues to flow (see Chapter 4). These efforts have paid off, with Rwanda often portrayed as "a role model for aid and development effectiveness debates" (Keijzer et al. 2019, p.37).[176] The RPF's own interpretation of aid effectiveness, as articulated in Rwanda's "Aid Policy" (RoR, 2006c, p.7), emphasises government "ownership" and demands donor "alignment" behind the government's vision, preferably with "un-earmarked budget support". Keijzer et al. (2019, p.36) argue that in practice, this translates into "the expectation that all concerned actors engage in a way that is consistent with the overall priorities set out by the government and the ruling party".

When donors were providing un-earmarked general budget support to Rwanda prior to the aid crisis, government provided room dialogue on "macroeconomic performance…; implementation of GOR's poverty reduction strategy…; and PFM reform" (Purcell et al. 2006, 21). Keijzer et al. (2019, p.37) also note how "privileged access to government information and policy dialogue" was provided to budget support donors. However, the aid crisis, and subsequent withdrawal of general budget support (see section 4.2.3), resulted in a retaliatory withdrawal of donor privileges (Keijzer et al. 2019). Diplomats present at the time claim that the scope and quality of the dialogue deteriorated as a result.[177] Keijzer et al. (2019, p.38) found that while "donors [continue to] meet with Rwandan stakeholders regularly… co-operation relations [became] more distant and more 'bilateralized'". Redifer et al. (2020, p.xvii) found that despite its ODA reliance, the government was more "willing to say 'no' to support/advice it deemed unhelpful", and often chose to push ahead with controversial policies considered to be of strategic importance, regardless of donor objections.[178] Hayman (2007), Beswick (2011) Fisher and Anderson (2015) and others extensively document how donors are entirely excluded from discussion on politically sensitive topics, such as internal security or justice.

No evidence was found of explicit donor-government dialogue on tax policy proposals through formal platforms such as the Development Partner Consultation Group (DPCG)

[176] In 2005, the Paris Declaration on Aid Effectiveness (OECD, 2008), subsequently reinforced in Accra in 2008 and Busan in 2011, made five broad recommendations aimed at improving the effectiveness of ODA, namely: (1) improving "ownership" and giving aid recipients more say over their development agenda; (2) "alignment" of donor support behind the development agendas of recipient governments; (3) "harmonization" of donor support with a view to simplify procedures, reduce transaction costs and avoid duplication; (4) increasingly focusing on results; and (5) establishing "mutual accountability mechanisms".

[177] I32, I33, I52, I56 (diplomats).

[178] Redifer et al. (2020, p.9) identify several occasions where government moved ahead with controversial spending and/or borrowing decisions, despite the objections of donors "include the upgrade of the Serena Hotel to five-star status; construction of the Kigali Convention Centre; investment in new planes and routes for RwandAir; tourism marketing on football jerseys of professional European clubs; and planned construction of a large new airport at Bugesera".

or the subsidiary Sector and technical working groups (SWG/TWG).[179] Indeed, the head of one development agency (I07), described how DPs in one DPCG meeting were surprised to be informed that a new income tax law had been enacted in 2018 (Chapter 8), claiming that development partners were not even aware that a revision was under preparation. In keeping with the observations of Keijzer et al. (2019), some diplomats claimed that government was more receptive to bilateral discussions with the IMF and World Bank (for their technical expertise), the UK and the US (for geopolitical considerations), and China (less conditionality).[180]

Yet, on tax policy, even the IMF had limited leverage since the aid crisis. In 2013, for example, a 3-year Policy Support Instrument (PSI) was agreed with the IMF to increase the tax-to-GDP ratio from 14.2% of GDP to 17.7% in 2015/16 and to 18.6% by FY 2017/18 (IMF, 2013, 2018c).[181] The PSI outlined agreed "policy measures", including the preparation of annual tax expenditure estimates, rationalising VAT exemptions, reforming property tax, and new agriculture and mining sectors taxes (IMF, 2013, p.13). In a subsequent review, the IMF (2018c) found the PSI to have had limited impact with tax revenues falling well short of expectation.[182] In fact, "DRM gains plateaued starting in FY15/16" (IMF 2018c, p.9), with a "real decline in revenues in FY16/17" (IMF 2018a, p.12). The IMF attributed this to additional tax incentives introduced under the 2016 Investment Code (IMF, 2017 Jul; 2018a&b&c), and lengthy delays in passing tax reforms (IMF 2016; 2018b). Tax expenditure analysis only began in 2017, a watered-down new property tax law was only enacted in 2018 (IMF 2018b) and plans to tax agriculture and mining were shelved.[183] The review concluded that "absent meaningful momentum in domestic revenue mobilization, it will be difficult for the country to garner the necessary resources to achieve its ambitious goal of becoming a middle-income country" and suggested that "tax policy capacity and intragovernmental coordination could be strengthened" (IMF, 2018b, p.16&10).

7.4. Chapter summary

Contemporary Rwanda is a dominant authoritarian state that combines ostensibly democratic institutions with highly authoritarian practices. The RPF's carefully crafted image of inclusive democracy, political plurality, and electoral competition lacks substance (Matfess, 2015). The reality is that organised political opposition is non-existent. The RPF's systematic elimination of opposition groups and critical voices, through both legal and extrajudicial means, coupled with tightening restrictions on the media and civil society -under the guise of national security concerns- mean that political space is closed to ideas that contest the RPF's political vision (Reyntjens, 2013, 2015b).

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179 The author's professional experience of the technical working groups for PFM and tax administration, in which he participated from 2015 to 2020, was that dialogue focused almost entirely on operational issues relating to ongoing and planned donor programs. There was no ex-ante dialogue or consultation within these groups on headline tax policy reforms, such as the revision of the income tax law (Chapter 8), but donors were requested to support the implementation of approved policy, such as the procurement of VAT electronic billing machines (Chapter 9).

180 I9, I36, I40, I47 (diplomats and development practitioners), I45 (Head of International NGO).

181 The original three-year PSI programme agreed in 2013 was extended to January 2018 (IMF, 2018c).

182 The tax-to-GDP ratio only reached 15.7% by 2017/18, equivalent to 3.1 percentage points lower than targeted (IMF, 2018c).

183 A UNDP-financed study on taxing incomes in the agriculture sector was undertaken in 2019, but only after the promulgation of the revised income tax law (see Chapter 0), meaning that it became largely an academic exercise with no impact on policy.

Many interviewees suggested that NGOs in Rwanda were largely government-controlled, with the primary function of umbrella organisations, such as CLADHO or PSF, being to serve bureaucratic expediency and bolster Rwanda's image as a functioning democracy with representative institutions and consultative processes.[184] In Rwanda, both the media and civil society are expected to proactively support, and not challenge, government policy (Kaijzer et al., 2018).

Institutions charged with holding government to account may have been strengthened in *de jure* and technical terms, often with the support of donors, but in practice are subject to direct and indirect political interference and control. Those working within the institutions are subject to coercive bureaucratic accountability mechanisms, rendering them incapable and unwilling of challenging RPF policy. Hedger and Blick (2008, p.15) found that in many African countries, formal and public processes of accountability serve "a dual role of holding government to account for its actions based on a predictable set of agreed rules, and of demonstrating to government officials and to the public that such accountability exists". This chimes with evidence from Rwanda, where institutions of accountability are used to explain why approved government policy was not implemented as planned, and thereafter apportion blame, rather than challenge the basis of government policy. Moreover, the chain of accountability invariably goes inwards and upwards towards higher authorities, ultimately the President, rather than downwards and outwards towards citizens (Reyntjens, 2011).

Despite a continuing aid dependency, government accountability and responsiveness to the donors is limited, and a few high-profile cases aside, public criticism of the RPF and its policies by the donor community is muted (Hayman, 2010; McDoom, 2013; Hasselskog, 2015; Mann & Berry, 2016).[185] Several interviewees[186] noted how government skilfully manipulated the "aid effectiveness agenda" and deployed institutional mechanisms to keep donors at arm's length. Hasselskog et al. (2017, p. 1821) argue that it is the Rwandan leadership's belief that "policy initiation is 'Rwandan business'". Yet, as was shown in section 7.1.2, even these internal platforms offer limited opportunity for alternative views. Moreover, Rwanda's home-grown dialogue platforms (see section 7.1.2) are often ceremonial in nature, primarily serving to reinforce the image of Presidential power and to create a common perception that the President alone can fix the country's problems.

Yet, as noted by Gready (2011, p.642), "there remain occasional spaces created by electoral politics, progressive development initiatives, and the dependence of the government on other actors", that offer the possibility of exploitation by domestic and

[184] For example, I04, I12 (advisors) I09, I27, I29, I31 (diplomats and development practitioners), I13, I28, (researchers)
[185] Some suggest that residual guilt for the genocide continue to define the country's aid relations (Samset, 2011; Zorbas, 2011; Marriage, 2016). Others point to the country's progress since the genocide and the RPF's perceived commitment to economic reform and robust technocratic governance - earning the country a "donor darling" status - coupled with a strong desire among donors for African success stories, as an explanation for elevated aid flows (Hayman, 2010; Hasselskog, 2015; Mann & Berry, 2016). The country's involvement in international peacekeeping operations is also cited as a reason for continued support of the RPF (see above). Some also highlight the RPF's skilful deployment of development discourses and "rhetorical convergence to Western tropes" such as good governance, pro-poor growth and women's rights as a means of deflecting criticism (Jones & al., 2013, p.18).
[186] For example, I4, I7, I27, I29 (diplomats and development practitioners).

international stakeholders. These spaces, although imperfect, sometimes provide opportunities to influence policy at the margins. One diplomat noted:

> “Government does listen to what people think… it doesn't want a groundswell of opinion against it. It knows that its license to govern is not open ended… not without challenge… Even though there is that autocracy, there is a little bit of room in the margins for push-back. I think, where the government feels that there is a sufficient weight of opinion against something, they will move, because they know they have to.” (I33)

Although an expatriate advisor also cautioned:

> “You can only have dialogue provided that it is on the government’s terms and it's not political” (I22).

However, as Gready (2011, p.642) notes, “the problem is that these spaces are ad hoc and personalized, rather than based on institutional relationships between society and the state in which individuals and groups can demand access to rights as citizens”. The impact of the institutional and human dynamics on the formulation of tax policy will now be examined in more detail in the Chapters 8 and 9.

8. Revision of the Income tax law

This chapter is the first of two in-case studies and focuses on interaction between government and taxpayers in the formulation and approval of the 2018 “Law Establishing Taxes on Income” (RoR, 2018a).[187] This case is chosen in the knowledge that the type of tax, its visibility, and its political salience influences the likelihood of political engagement over tax reform, while the extent of government reliance on a particular tax can influence its willingness to bargain and make concessions (see section 3.1.1). Pritchard (2015) argues that income tax reforms are more likely to be visible to taxpayers, therefore more politically salient. Similarly, Lakin (2000) notes that wealth and income taxes primarily impact powerful elites, who have resources and power to politically engage and challenge policy. At the time of the revision, direct income taxes represented the RRA’s second largest tax handle, equivalent to 23% of total tax receipts (see section 5.2 and Table 12 in Appendix), providing incentive for government to bargain and make concessions.

Richard Tusabe, RRA CG, claimed in a regional business publication that the new law was “a good law,” since in his view, it widened the tax base, closed loopholes, and was pro-business (East African, 2018). Provisions for capital gains tax, previously outside the scope of the law were introduced, although perhaps less ambitious than originally intended (see section 8.4.1). Rules on benefits-in-kind and sitting allowances to board members were clarified (see section 8.4.2). Tax exemptions for self-employed professionals (see section 8.4.3) and NGOs were removed (see section 8.4.4). Yet, some reforms with revenue-raising potential were not pursued, with the government choosing not to alter PIT and CIT thresholds nor to remove tax exemptions for the agriculture sector (see section 8.2). By foregoing such reforms, the government effectively reduced the options available to the drafting team, in turn creating pressure to find alternative ways of raising revenue.

Since the Rwandan income tax law covers both PIT and CIT, and since the reforms impacted taxpayer segments differently, scrutiny of the law revision illustrates if, how and with whom government bargained and made concessions. Historically, governments have been most responsive to taxpayers upon whom they are most reliant for revenue (Levi, 1988; Timmons, 2005) or are perceived to wield the greatest economic and political power (Bates & Lien, 1985; Fairfield, 2013). That wealthy elites and business interests have leverage over government in contemporary LMICs and actively resist tax reforms that erode their wealth is also well documented (e.g. Sokoloff & Zolt, 2006; Di John, 2006; Everest-Phillips 2009; Ardanaz & Scartascini 2011). In the case of Rwanda, where low-income individuals are outside the tax net and most Rwandan businesses in the informal economy, a logical conclusion is that the revision would be most keenly felt by elite groups, formalised businesses, and professionals (see sections 5.1 & 5.2), which are also most likely to engage in formal tax bargaining and organised collective action.

[187] The law amended Law 16/2005 of August 2005 on “Direct Taxes on Income”. In October 2022, against the backdrop of the COVID-19 pandemic, the law was once again amended with the enactment of Income Tax Law 027/2022. Examining the changes in the amended law and their rationale would make an interesting follow up study.

Unfortunately, structured process tracing of the reform was not possible. The government did not officially announce its intention revise the law,[188] and the revision process took place entirely behind closed doors with the draft legislation treated as confidential throughout. Consultations with external experts and organizations were by invitation only. Moreover, the revision went unreported by the media until the draft law was debated and voted upon in parliament.[189] Subsequent sections will show that this lack of transparency resulted in many organisations and individuals being caught by surprise when the legislation was enacted. With relevant government officials unwilling to be interviewed, it was not possible to establish a clear timeline for the validation and approval of the law, nor to obtain draft versions of the legislation as it negotiated the various stages, to see how stakeholders may have influenced the draft.

Analysis in this chapter therefore draws on the grey literature relating to taxation, tax administration and tax policy in Rwanda, and on published statistical data, which is supplemented with new empirical evidence based on interviews with private sector and CSO representatives, tax professionals, technical advisors, and development practitioners in Rwanda. The analysis also draws on the author's observations of several public sensitization events, organised after enactment of the new law. The chapter is structured in accordance with the theoretical model outlined in section 3.2.1. Section 8.1 examines the driving forces behind the reform, finding that –contrary to what the literature suggests- the fiscal crisis of 2012/13 (see section 4.2.3) was not an immediate catalyst. Rather, the reform appears to have been driven by administrative necessity. Section 8.2 analyses the structural constraints faced by the RRA drafting team and explores whether pre-emptive concessions were made. In section 8.3, attention turns to the consultation process, revealing an absence of meaningful stakeholder dialogue. Section 8.4 examines the extent of tax resistance and documents the contrasting fortunes of different taxpayer segments in securing concessions. Section 8.5 looks for evidence of collective action, only to reconfirm the constraints on such activity in Rwanda (see Chapter 7). This chapter concludes that that reform was mostly consistent with "coercive expansion of taxation," with little tax bargaining having taken place and only few concessions made, which were also mainly aligned with higher-level political priorities.

8.1. How did tax reliance drive the reforms?

Tax reforms in most LMICs are born out of necessity, with Bird (1993, p.2721) famously declaring that "fiscal crisis has often proven to be the mother of tax reform". Sanchez (2006) documents how the debt crises of the 1980s "forced governments [in Latin America] to concentrate on the tax instrument as a source of finance". Fjeldstad and Rakner (2003) and Pritchard (2015) identify fiscal crises as the main driver for major tax reforms in Tanzania, Malawi, and Ghana during the 1980s, while Ndlovu (2016, p.18) argues that the 2008 global financial crisis resulted in the "most comprehensive tax reform since independence" in Botswana. Pritchard (2015, p.128) also documents how in Kenya,

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[188] The Minister of Finance's pre-budget statement for the 2017/2018 fiscal year (MINECOFIN, 2017, p.30), for example, provided no detail on the government's plans other than that "the Government is assessing new tax policy changes and administrative measures that will boost revenue mobilization."

[189] Even key normative milestones in law-making went unreported, such as formal cabinet approval of the draft law. Typically, Cabinet decisions are published in "Statements of Cabinet Decisions", available on the website of the Office of the Prime Minister: www.primature.gov.rw. Despite comprehensive author review of statements published during the time the draft was under consideration, no announcement specifically mentioning this draft could be found.

"tax reform flowed from a major economic crisis that emerged after the [1992] election". Major tax reforms in Rwanda followed from the 1994 genocide and from subsequent fiscal crises (see Section 6.1).

The 2012/13 aid crisis created a major economic, fiscal, and political shock in Rwanda (section 4.2.3). The collapse of state revenue led to drastic cuts to public spending, in turn jeopardizing the RPF's legitimisation strategy. Kagame denounced international donors and vowed to end Rwanda's aid dependency. Yet, it took a further 5 years before a revised income tax law was enacted. The question must therefore be asked as to why, given the acute fiscal and political pressure, the crisis did not spur an urgent reform of income taxes. Scrutiny of government statements, when combined with analysis of budget data, indicates that there are several plausible and inter-linked explanations why revision of the income tax law was not prioritized after the aid crisis.

First, the government was able to borrow money to finance its budget deficit, which is consistent with Toye's (2000, p.33) observation that many LMICs "borrow their way out of the problem" when faced with fiscal crisis. Indeed, the crisis precipitated a sharp increase in public borrowing in Rwanda (see section 4.2.3). Initially, funds were sourced from domestic markets (largely RPF controlled banks), but Rwanda has since shown a greater appetite to borrow from international markets as grant ODA has dwindled. Yet, borrowing without tax reform is unsustainable (see section 2.3.1), with Toye (2000, p.33) noting that "if the fundamental problem of the limited size of the tax base is not addressed, the government's ability to borrow will decline". In other words, increased borrowing is a short-term solution, but which creates more downstream pressure for tax reform.

Second, the government found more convenient solutions to its revenue problem. Again, this is consistent with Toye's (2000, p.37), observation that because of the challenging politics around income tax reforms in LMICs, "in the short run, additional tax revenue will have to come from other sources than direct taxation". In Rwanda's case, however, sensitivity to political opposition presented was no obstacle to reforming income tax laws. Yet, rather than initiate a lengthy process to passing a new law, government simply imposed *de facto* income taxes on citizens, including those that normally fall outside the tax net. Public officials had to forego their salaries, and businesses and citizens were obliged to donate money through contributions to the *Agaciro* sovereign welfare fund and other means (Provost, 2012). One diplomat in Kigali at the time recollected:

> "The suppliers were not paid… and they cut tremendously [public] salaries… That was implemented via voluntary contributions to development… they said 'okay, we have a new development fund and now government employees donate freely'… but I know from people who worked for the government… their salaries were just cut… and the money was transferred…" (I32)

In parallel, the government focused on strengthening the administration of indirect taxes, again aligned with Toye's (2000, p.37) finding that "the best hope [for tax revenue collection] lies in the most recent tax technology, namely the value-added tax". With VAT already introduced in Rwanda in 2001, the major tax reform in the wake of the aid crisis was the rapid roll out of VAT EBMs (see Chapter 9).

Third, other government priorities eclipsed the need to revise income tax laws. The crisis prompted a rethinking of Rwanda's development vision (see section 4.2.3), with the government adopting a more aggressive pro-growth outlook and ramping up efforts to attract FDI. In fact, policymakers amended the investment law in 2015, outlining a range of new tax incentives and exemptions, before turning their attention to income tax reform three years later. Leonard Rwgwabiza, MINECOFIN's Chief Economist, stressed at the time that the government's overarching priority was to stimulate growth, with improved tax performance expected to come from an enlarged tax base, and efficiency gains in tax administration (including EBMs), rather than by amending tax policy (CNBC Africa, 2015). A similar argument was made by Richard Tusabe, RRA CG, who claimed that the government's would raise more domestic revenues: "Without any tax policy measure… we are collecting all this money purely on economic growth and efficiency gains with the tax administration" (Contact TV, 2017).

Finally, the Presidential election in August 2017 appears to have influenced the promulgation of new tax legislation. Incumbent politicians often engage in opportunistic fiscal manipulation to increase their chances of re-election, increasing public spending or delaying highly visible and potentially unpopular tax reforms (Norhouse, 1975; Lindbeck, 1976), and such manipulation is not limited to countries with electoral contestation. Rogoff (1990, p.34) found that "even in dominant-party systems, the country's leaders still generally care about their party's margin of victory… [It] not only affects the leaders' ability to govern the populace, but also their ability to contain internal dissent within the party." Rogoff's statement is entirely consistent with the Rwandan political economy (see Chapter 4), with Kagame winning 98% of the vote in the 2017 Presidential election, ensuring a higher share of the vote than the 93% obtained in 2010. Politicized budget cycles are evident in Rwanda,[190] even if the manner of fiscal manipulation, according to one Rwanda scholar (I08), appears "less crude" than elsewhere. The RPF's legitimacy, as in other dominant authoritarian states, is largely based on its perceived performance, and the government believes that its past achievements contribute to the credibility of its political pledges (see section 4.2.2). Little public discussion takes place on how state spending is financed. Ensuring that tax policy discussions took place behind closed doors, and delaying approval of the income tax law until after the presidential election certainly fits with overarching political considerations.

With a political decision to revise the law having eventually been taken, the authorities still needed to define the scope of reform. As illustrated in Section 2.2, structural constraints inhibit LMICs from collecting taxes, and Rwanda with its high levels of income inequality and poverty, low levels of urbanization, and large agricultural and informal sectors is typical in this respect. In many African LMICs, political considerations prompt governments to forego revenues from agricultural activity, and tax exemptions are provided to low-income individuals and businesses. In Rwanda, with the elites drawn from an urban minority ethnic group, and the rural dwelling masses drawn from another, political considerations are even more stark. The next section therefore examines the policy choices faced by government and the impact that structural constraints on raising income taxes in Rwanda had on the government's reform path.

[190] Budgetary analysis presented in section 4.2.3, for example, shows how public spending in Rwanda rose sharply in 2017/18 ahead of the electoral cycle, as the government aimed to deliver on its ambitious pledges.

8.2. Did structural constraints lead to pre-emptive concessions?

In the enacted income tax law, PIT and CIT rates as well as tax exemptions for the agriculture sector remained untouched, despite the revenue potential of reform. In this section, the rationale behind this is examined while questioning if such non-reforms represent explicit or implicit pre-emptive concessions to taxpayer groups.

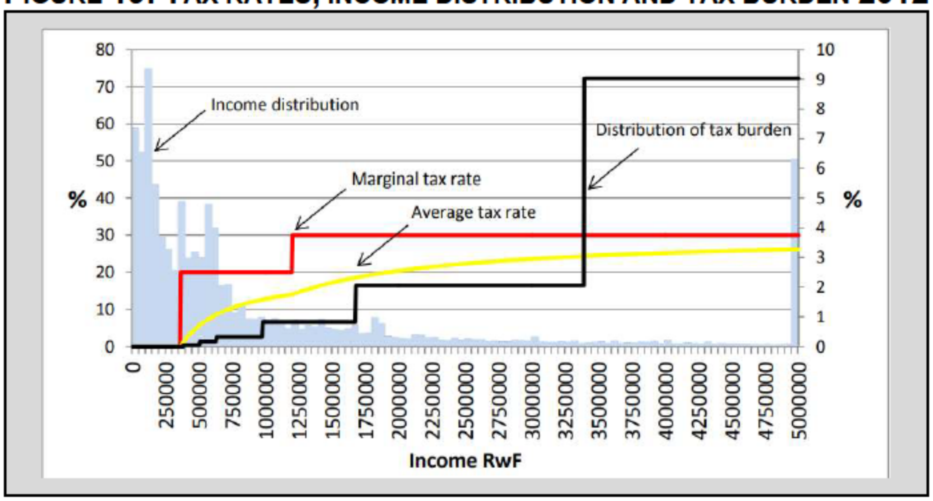
TABLE 3: RWANDAN PERSONAL INCOME TAX RATES

Annual taxable profit (FRW)		Tax rate
From	To	
0	360,000	0%
360,001	1,200,000	20%
1,200,000	More	30%

Source: RoR, 2005a, Art. 12; RoR 2018a, Art. 13

Rwanda's relatively progressive PIT rates (see Table 3) at the time of the reform saw citizens earning below RFW 360,000 per annum taxed at a zero rate, and those with incomes over RWF 1.2 million facing a top marginal rate of 30%.[191] In a study undertaken for MINECOFIN,[192] based on 2012 data, Flood & Savini (2014, p.6&10) found that 40% of formal sector workers had annual incomes below RWF 360,000, while the top quintile with "income much higher than the top bracket" accounted for 90% of PIT collected (see Figure 19).[193]

FIGURE 19: TAX RATES, INCOME DISTRIBUTION AND TAX BURDEN 2012



[191] Flood & Savini (2014, p.6-7) found Rwanda's tax schedule to be relatively less progressive than in Kenya, Uganda, Tanzania, and South Africa, since Rwanda "applies higher tax rates to lower incomes" and capped taxes on high incomes at 30%. They noted that "Rwanda applies a 20 percent tax rate on incomes starting from approximately USD 580 USD/year. In Uganda, the same rate would start to apply to incomes 2.6 times higher, in Kenya and Tanzania, to incomes 4.6 times higher".

[192] Flood, L. & Savini, M. (2014) work draws on 2012 social security data. They note that social security data is "Rwanda's only source of administrative data on individual level salaries". As such, they conceded that their figures did not exactly match personal income tax declarations or collections. The head of one IFI (I09) also questioned the comprehensiveness of such data, noting that there was little information available on wages outside the public sector.

[193] Flood & Savini (2014) found that individuals with incomes in the 10th decile (above RWF 3,393,000) would pay 70% of income tax, and those in the 9th decile (with an income between RWF 1,677,000 and RWF 3,393,000) would pay an additional 16%.

Source: Flood & Savini (2014)

This author's analysis of budget data (see appendix) and public sector salary scales for the same period (RoR, 2012c), indicates that those paying PIT were predominantly public officials and employees within a few large companies (most likely parastatals), contributing through PAYE withholding tax schemes.[194] This is consistent with Bird and Zolt's (2005, p.1629) finding that "personal income taxes [in LMICs] often amount to little more than withholding taxes on labor income in the formal sector". Even in 2012, most public officials earned well above the threshold for the top marginal tax rate of 30% (see Table 4).

TABLE 4: OFFICIAL GROSS SALARIES OF PUBLIC OFFICIALS IN 2012

Title	Gross salary
Permanent Secretary (MINECOFIN)	19,358,004
Government Chief Economist (MINECOFIN)	10,715,554
Department Director (MINEDUC)	7,761,684
Legal Advisor (MINICOM)	7,761,684
Professional / Specialist (MINICOM)	5,823,996
Accountant (MINEDUC)	4,854,180
Secretary (RAB)	3,457,308
Driver (RAB)	2,041,716

Source: Author calculations based on RoR (2012)

Flood and Savini (2014, p.10) projected that adjusting the lower tax bracket would have negligible impact on tax receipts, since the "contribution to tax revenue at low incomes is so small". They also found that increasing the number of tax brackets, while maintaining a top marginal rate of 30% would be revenue neutral. They therefore concluded that increasing the top marginal rate for those earning well above RWF 1,200,000 would yield the greatest revenue impact. In the event, no revision was made, which came as a surprise to some interviewees, such as a senior diplomat who commented:

> "In this country we have a small elite, where I would assume some of these guys earn tens of thousands [of dollars] every single month, and they also only pay 30%. It seems to me that the elite do not pay their fair share." (I08).

Unfortunately, as relevant officials declined to be interviewed, it is only possible to speculate whether increasing PIT rates was considered. One possibility, as suggested by the diplomat (I08) above is that officials would have been reluctant to target politically connected elite groups in such a direct and visible manner. Yet, with the knowledge that most PIT taxpayers are public officials, another rational explanation is that it would have been counterproductive, by eroding the state's own capacity. The World Bank (2012, p.3) found that within Rwandan public administration, "skills shortages are compounded by a high turnover of professional staff, stemming in part from low and differential pay issues" with the result that ministries "carried a high number of vacancies and relied heavily on short-term Technical Assistance or contractors to achieve their deliverables". Increasing

[194] The state budgets for 2013/14 and 2014/15 project PAYE to account for 96.7% of PIT receipts (see Table 133 in Appendix).

the top PIT rate would have been felt by public officials contributing through PAYE schemes, potentially driving some to more lucrative private sector jobs. Yet, as will be illustrated in section 8.4.2, senior civil servants did not escape entirely. In fact, a less visible way of ensuring that high income earners in both the public and private sector paid more taxes on their incomes without raising thresholds was found.

CIT rates were also left untouched in the 2018 reform (RoR, 2018a, Art. 12), with a single rate of 30% for large companies operating under the "real regime",[195] SMEs subject to "a lump sum tax of three percent on annual turnover", and micro-enterprises paying a flat tax based on turnover (see Table 5).[196]

TABLE 5: FLAT INCOME TAX RATE FOR MICRO-ENTERPRISES

Annual Turnover	Annual flat amount of tax due
From 2,000,000 to 4,000,000	RWF 60,000
From 4,000,001 to 7,000,000	RWF 120,000
From 7,000,001 to 10,000,000	RWF 210,000
From 10,000,000 to 12,000,000	RWF 300,000

Source: RoR, 2005a, Art. 12; RoR 2018a, Art. 13

External pressure can influence a country's CIT policies (see section 2.2.4). Abbas and Klemm (2012), for example, find evidence of a partial race to the bottom on CIT, where countries aggressively lower rates to boost investment. ActionAid (2016, p.22) research found harmful tax competition among EAC members, noting that "smaller EAC economies are more inclined towards granting more incentives… in a bid to ward of competition from the more established economies of the region". The Rwandan government has publicly declared that attracting FDI was an overarching priority and had adopted a range of generous incentives in the 2015 Investment Law (see section 8.1). In 2017, RRA CG, Richard Tusabe, confirmed that Rwanda was:

> "Competing for investment… one of the key indicators that is making investors invest in the countries is the business climate… one of the key ingredients of the business climate is the tax administration aspect. Is it predictable? Is it certain? So, the moment we have a competitive tax policy and a competitive tax administration then you are going to create confidence in the businessman to bring his capital here." (Contact TV, 2017)

A rational conclusion is that the drafting team would have refrained from policy proposals that would have conflicted with such high-level ambitions.

The 2018 revision also maintained the agriculture sector's exclusion from the tax net, with annual agricultural incomes below RWF 12,000,000 remaining tax exempt (RoR, 2018a, Art. 21). MINECOFIN's Chief Economist clearly understood the scale of revenues forgone, noting:

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[195] The real regime is defined as paying tax based on real profits.

[196] According to the Income tax law (ROR, 2018a) SMEs are defined as having a "turnover ranging between twelve million and one Rwandan francs (RWF 12,000,001) and twenty million Rwandan francs (RWF 20,000,000) per each tax period" whereas micro enterprises are defined as businesses with "a turnover equal to or of less than twelve million Rwandan francs (RWF 12,000,000) per each tax period".

> "Agriculture is 33% of GDP… it contributes 1% tax revenue… agriculture is not at all in the tax base… there is a lot of discussions and consultations to be made, and to study the sector… what can be taxed in such a way that we do not discourage agriculture productivity or production… but it means that we are missing a third of the economy in terms of taxation" (Contact TV, 2017)

The government had agreed in 2013 to an IMF proposal to remove agriculture sector tax exemptions, but the reforms never materialised and pressure from development partners had little effect (see section 7.3). MINECOFIN only agreed to study the issue in 2019, a year after enactment of the 2018 income tax law, rendering the findings academic since another revision to the income tax law would be needed to implement any recommendations. Moreover, a development practitioner involved in the study argued that officials had no real appetite to tackle the issue:

> "I would say that [taxing agriculture] is something that is not owned at all by the entities that are supposed to deal with tax policies… MINECOFIN first and foremost, then RRA… MINAGRI was not interested in what we were doing…" (I36)

Consistent with challenges of taxing agriculture highlighted in the literature (see section 2.2.1) an advisor involved in the study summarized the conflicting pressures faced by MINECOFIN and RRA officials:

> "Their main point was about 60% of [their] workforce are in agriculture and none of them are being taxed… [officials wanted] a way to broaden the tax base, because the President has these really aggressive plans, and they want to try and help pay for them… [but] politically it's dicey… [MINECOFIN officials] said 'it looks bad in terms of food security… that 'we don't have people starve'… they said 'the optics are bad'… The RRA were like 'how are we supposed to administer? and the cost may not justify the effort'" (I49)

The advisor also suggested that the reluctance to pursue such reforms could be explained as follows:

> "The political economy matters a lot more than you think… where there is a powerful figure behind it, like a Minister of Finance… then [study] results tend to be reviewed and understood in a quiet way, with an open mind… [but in Rwanda] there was no powerful person backing it…" (I49)

Several other interviewees agreed that the issue had a strong political dimension.[197] A former advisor at PSF summarized the situation as follows:

> "Agriculture is consistently not taxed or undertaxed… Productivity levels don't warrant a high level of taxation. Also, the fact that that's where a large part of informality lies. Doesn't again create the necessary incentives for government to go looking for taxes there. But more importantly, what they are terrified of is that since there is a large level of informality and a high level of participation of the under employed or not-employed-at-all, they can't risk the cost of social instability vis-à-vis the benefits of having it… So, they go very lightly on that." (I20)

[197] For example, I09, I11, I39 (diplomats and development practitioners), I10, I20, I21 (advisors).

The analysis above therefore suggests the non-reforms were more likely the result of overarching government priorities rather than pre-emptive concessions to emerging threats from taxpayers. Yet, by foregoing such large sources of tax revenues, RRA's drafting team were obliged to find other, more creative ways of collecting revenue. While much of the political rhetoric in Rwanda centred on broadening the tax base, researchers such as Byiers and Dalleau (2011, p.4) have long argued that revenue pressure, coupled with limited administrative capacity, lead "tax administration [in LMICs] to focus revenue extraction on the softest targets, thereby punishing the formal sector… essentially those who cannot escape". In keeping with their findings, a tax professional, reflected on the income tax law revision as follows:

> "There is always talk of 'let's expand the tax base'…. But there isn't much you can do… [Rwandan policymakers] moved away from expanding the tax base to deepening the tax base… through legislation… what you see is not necessarily an increase of the corporation tax rate… but [policymakers] can go within the law and deny certain deductions… what [policymakers] have done is increase the tax [burden], but no one is seeing it… [They] looked at the law and said 'OK, how much can I get from the existing people?'… [This explains] most of the amendments" (I51)

As will be shown in section 8.3, the government's ability to extract more tax from the existing revenue base was made easier because of the way the law was formulated and enacted.

8.3. Did institutional arrangements and policy-making processes provide room for direct tax bargaining in relation to the revision of the income tax law?

Revision of the income tax law is consistent with Pritchard's (2015) definition of "coercive expansion of taxation". The law was formulated and passed in the absence of any significant representation for taxpayers in tax policy decisions, and its impact on some taxpayer groups appears arbitrary and unfair. The evidence suggests that the main factors that contributed to such an outcome were the perverse incentives influencing the RRA drafting team (see section 8.3.1) and the lack of meaningful consultation (see section 8.3.2), which was compounded by insufficient scrutiny of the RRA's proposals, due to capacity constraints within MINECOFIN (see section 6.2.2) and other governance weaknesses.

8.3.1. Who led on the income tax law revision?

A crucial finding, with respect to this thesis' focus on tax bargaining, is that the lead agency on the reform was RRA rather than MINECOFIN's TPU.[198] Under Rwanda's NPM model of government, policy and legal teams within parent ministries are expected to set policy, which executive agencies then implement (see section 6.2.1). However, since MINECOFIN lack sufficient capacity to develop coherent tax policy, the task of formulating the draft and undertaking public consultations was delegated to RRA (see section 6.2.2). This arrangement created perverse incentives for the RRA drafting team, which had implications for tax bargaining and the fiscal-social contract.

[198] For example, I10, I16, I21, I25 (advisors), I36 (diplomat), I51, I54, I59 (tax practitioners).

Unsurprisingly, researchers such as Mucciaroni (1990) and Peters (1991) found that revenue agencies strongly advocate for reforms that increase revenues and empower tax administration. Similarly, Lakin (2020, p.16) claims “revenue agencies may also principally be concerned about the volume of revenue and less about its incidence, so they may be allies on increasing taxation but indifferent (or even hostile) to concerns about equity, especially if more equitable taxation is administratively more complex”. Therefore, allowing RRA to lead the drafting provided it with the opportunity to shape the law to its own institutional preferences at the expense of other bigger picture considerations. Given the intense pressure faced by RRA to raise revenues, and the harsh penalties for failure (see Chapter5), a logical conclusion is that the drafting team were mostly incentivized to adopt reforms that made it easier for RRA to administer taxes and meet revenue goals. This narrow approach to problem solving could have been mitigated with stronger direction and oversight from MINECOFIN and the TPC, but as shown in section 6.2, they lacked capacity on tax policy, and the nominal checks and balances were ineffective.

Gordon and Thuryoni (1996, p.2) found that in many LMICs, “the lack of institutionalized experience with tax legislation means that the process often does not move forward smoothly, does not involve adequate consultation, and often does not involve people with the necessary expertise at relevant stages of the process”. Interview evidence from tax professionals suggests that the RRA did not establish an interdisciplinary team consistent with good international practice,[199] and RRA own capacity constraints (see section 6.3.3) negatively impacted formulation.[200] Although the revision was formally overseen by the RRA Commissioners for Domestic Taxes and for Legal Services, interview evidence suggests that the Head of RRA’s Legal Department led on the policy reform, with the Head of the Large Taxpayer’s Office and his team providing technical input when needed.[201] This is consistent with common practice in Rwanda, summarized by Gateraruke (2012, p.37), whereby legal teams lead on legislative reforms to “ensure easy comprehension of its content and its conformity with the relevant laws”. Yet, the interviewed tax professionals pointed to numerous technical inconsistencies and errors, as well as unclear language in the enacted legislation, which one described as “recklessness in wording and drafting” (I59) and linked it to insufficient capacity within the Legal Department.[202] According to Thuronyi’s (1996, p.72) comprehensive review of tax

[199] According to Gordon and Thuryoni (1996, p. 5), for example, “tax rules must seek to implement sound economic theory. They must, however, also be drafted in response to the realities of law, business practice, and bureaucracies, and the social and political settings in which these realities exist. This requires people from many disciplines to work together to craft rules that reflect the knowledge and experience of those disciplines”.
[200] I51, I54, I59 (Tax professionals).
[201] I51, I54, I59 (Tax professionals).
[202] This is not unusual in LMICs, with Thuronyi (1996, p. 72), for example, noting that “Those who draft tax legislation in developing or transition countries usually are not subspecialists in this area (i.e., lawyers who have specialized in legislative drafting and the drafting of tax legislation). While the RRA drafting team contained lawyers, it is unlikely that they were specialists in drafting. A further complication in Rwanda is the need to draft legislation in the three official languages (English, French and Kinyarwanda) with the “initial draft generally language written [in the] language the initial legal drafter is most familiar with”, and then translated (Gateraruke, 2012, p. 36). Nzanze (2012, p. 46) notes that the “arrangement has numerous imperfections, mainly due to inaccurate translations to English or French”. For the income tax law, the Head of the Legal Department, a francophone, adopted terminology such as “liberal professions” (see section 8.4.3), which is a clearly defined business category in the French legal system (“les professions légales”), but is only loosely defined in English.

legislative processes, both developed and developing countries experience similar challenges:

> "Poor drafting often leads to substantial problems in implementation of a new tax law that could have been avoided… The effectiveness of a tax law is enhanced if its words are meaningful, intelligible, well thought out, and well organized. Many tax laws do not come close to meeting these criteria."

The evidence presented in Chapter 6 indicates that Rwandan policymakers face challenges in acquiring sufficient data to formulate evidence-based policy, and internal communication remains problematic. The RRA drafting team were certainly able to draw on available internal knowledge on the administrative challenges faced by RRA arising from the existing income tax law. However, they had less exposure to alternative viewpoints. Bottom-up communication flows are suboptimal within RRA since taxpayer-facing staff are reluctant to communicate problems to their superiors and feedback mechanisms are ineffective (see section 6.3.4). In the event, formal, structured dialogue with relevant external stakeholders on the income tax law revision was limited (section 8.3.2). Moreover, senior officials involved in the drafting process were often more amenable to externally generated information obtained informally from contacts within elite networks. This indicates that the drafting team faced information asymmetry.

Finally, institutional, and cultural dynamics in Rwanda created perverse incentives that undoubtedly influenced the reform process. Unfortunately, it was not possible to confirm the extent to which this took place, due to the lack of transparency of process and the reluctance of Rwandan officials to be interviewed. Yet, RRA's managers are clearly under significant pressure to raise sufficient resources to support the RPF's legitimization strategy, with severe consequences for perceived failure. At the same time, their ability to deliver is compounded by low levels of institutional capacity and resources. Cultural norms dictate that Rwandan public sector managers be authoritarian and paternalistic in outlook, over-confident in their knowledge and judgement, and assertive in their decision making (see section 6.3.3). These factors drive undesirable behaviour, such as rushing policy formulation because of the need to be seen to be doing something, shaping the reforms to RRA's own institutional preferences, and minimizing the scope for stakeholder contestation of its proposals.

8.3.2. Was there sufficient consultation with taxpayers on the income tax revision?

According to the OECD (2020) external consultation on tax reform is crucial since it prevents regulators from being subjected to one-sided influences, especially during policy formulation, which in turn ensures that regulators act in the public interest. Public consultation processes are well established in high-income countries, but less so in LMICs. Gateraruke (2012, p.36), in his review of the Rwandan legislative process, for example, notes that "there are no systematic procedures in place" for external consultation, and that it is typically "done in an *ad hoc* manner". The government also publicly acknowledges that regulations guiding the drafting of legislation have "many loopholes particularly on the issue of public consultations" (UN, 2019, p.2). Interview evidence certainly indicates limited consultation during preparation of the income tax law, with only the PSF and iCPAR consulted on the full draft of the legislation, with other stakeholders informally consulted on specific aspects or ignored. This is in keeping with usual practice in Rwanda of framing stakeholder consultations in terms of "validation," whereby:

> "There's opportunities for stakeholders to validate policy but not to feed into policies" (I02, embedded advisor)
>
> "[invitees] are guys you feel comfortable with inviting… [consultations on tax reforms take place] when [drafts are] 90% or 95% finalised." (I16, advisor at RRA)

Validation, as opposed to broad-based consultation, is advantageous to drafting teams. It enables tight control of the dialogue and reduces the scope for changes to the overarching policy direction. For the income tax law, formal consultations with PSF and iCPAR focused on the minutiae of the draft legal text, which according to one tax professional (I51) meant that only few individuals consulted were technically capable of engaging. Validation also allows drafting teams to create their own narrative around the consultations. Having PSF and iCPAR "validate" the draft, even if consultations were superficial, provided credibility to RRA's proposals, while a tax professional (I51) familiar with the process claimed that RRA only divulged specific stakeholder comments to MINECOFIN and others in the approval chain when it was in their interest to do so. However, it was not possible to verify this claim.

While PSF was formally consulted on the reforms, interviewees claimed that it was unable to articulate the concerns of business. Moreover, PSF chose not to alert businesses to the ongoing revision, nor did it initiate any broad-based consultations of its own, thereby reducing any leverage it might have enjoyed. One tax professional summarized PSF's involvement in the revision as follows:

> "I attended some of [the income tax law consultations with PSF]… there is no way you are going to get decent contributions [because of] the composition of the people who come… you have [a PSF representative] attending the forum who owns a computer shop… [RRA] are presenting sophisticated things…things to do with transfer pricing… PSF are not able to [understand the issues]… So, it passes through PSF… 'yes, the business community was presented to, and they are OK with the legislation'… (I51)

iCPAR by contrast, by virtue of the tax professionals among its membership, had the capacity to engage with the RRA on the technical detail, were able to highlight inconsistencies in the draft, and flag provisions that could create problems in implementation. One tax professional opined that iCPAR were approached by individuals within RRA because the feedback from PSF was disappointing:

> "you put [PSF] guys in a room… they have never seen the document… and you are taking them through [a draft legal text] paragraph by paragraph and you want them to respond… so that was the approach [of RRA]… and they saw that they didn't get much contribution… so, they approach iCPAR… 'can you put together a team that can focus on some of our proposals?'" (I51)

Although consultations took place, these were purely informal, with iCPAR's involvement owing more to the willingness of specific individuals within the RRA to reach out to professional contacts,[203] and upon a handful of tax professionals within iCPAR who took it upon themselves to engage.[204] As noted in Section 7.2.2.2, there were no formal arrangements for consultation between RRA and iCPAR, and iCPAR had neither the capacity nor willingness among its leadership to formally engage. The tax professional confirmed:

> "It was purely informal, in the sense that you don't have an instrument that is really governing it… it was more of a personality thing…" (I51).

Yet, although consultations had taken place, the view shared by all the tax practitioners interviewed[205] was that there was only limited impact on policy.

> "[We were] able to really comment in detail on the legislation, even including wording… Whether it was taken up is a different thing altogether…" (I51).

The tax professionals in iCPAR did present a written commentary on the draft law to the RRA drafting team. Yet, the paper got no further than RRA, and iCPAR's tax professionals[206] were not involved in the discussion at MINECOFIN's TPC. The tax professionals believed that had the TPC been aware of their critiques of the draft they could have taken up some of the issues and challenged RRA. In the event, the tax professionals who engaged received no feedback from RRA on their comments and could only see the impact of their intervention once the law was enacted. After promulgation of the law, tax professionals continued to highlight issues in the legislation, indicating many of their initial observations had been ignored (author's notes[207]).

While tax professionals in iCPAR had their say, it is worth considering whether their contributions were representative of the interests of citizen taxpayers. Tax professionals certainly have a duty of loyalty to, and represent the interests of, their clients. Yet, the profession more broadly has also been accused of abusing loopholes in the law to engage in aggressive tax planning (OECD, 2008b). Indeed, some interviewees questioned the neutrality of the tax professionals:

> "I don't trust the audit firms… it really felt like they were in on the act… and the moneymaking possibilities…" (Head of INGO, I44)[208]

> "What the [tax professionals] will not tell you is, of course, the other side… how they take advantage of this weak system. They will only ever complain about it when it makes their life difficult… the tax avoidance industry is also a side of this that doesn't get discussed" (Consultant at INGO, I19)

Interview evidence indicates that Rwanda's broader CSO community was not consulted, despite the inclusion of reforms that made NGOs liable for income taxes.[209] The head of

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[203] There were longstanding professional relationships between RRA officials and tax professionals involved, with the latter frequently engaging with the former while representing their clients on tax matters. It is not possible to provide additional details without compromising the anonymity of interviewees.
[204] I51, I54, I59 (Tax professionals).
[205] I51, I54, I59 (Tax professionals).
[206] I51, I54, I59 (Tax professionals).
[207] The author attended the 3rd iCPAR Bi-Annual Tax Forum, 23-24 July 2018, Kigali.
[208] The head of another Rwandan NGO (I50) found it ironic that tax professionals had been consulted whereas NGOs were not, noting that several tax professionals had "hiked their fees" after the law was promulgated.
[209] I44, I45, I50, I58 (tax professionals).

one INGO (I45) claimed "[Rwandan NGOs] were completely taken by surprise" when the law was enacted, while a senior representative of a local CSO (I58) insisted that dialogue between RRA and NGOs only began after enactment of the new law, with the focus squarely on implementation. This topic is further explored in section 8.4.4.

Although several donors were providing financial and technical support to both MINECOFIN and RRA at the time of the revision, representatives of these organizations -as well as technical specialists working on their behalf within RRA and other relevant institutions- confirmed that there was no donor involvement in the revision.[210] According to a senior diplomat at an Embassy providing technical and financial support to both MINECOFIN and RRA:

> "We just discussed it in [*donor meeting*[211]]… There has been a change in income tax, and this has never been discussed with anyone within the business community. This is, when it comes down to predictability, is not acceptable… It was never presented to us DPs. [A colleague[212]] told us it was never discussed with the Private Sector Federation or the private sector in its entirety… It is somehow the typical approach by the government. That the government always knows better… that they don't have to consult. They do what they want. In hindsight, some people might complain. They might do some adjustments." (I07)

That there was only limited external consultation comes as no surprise perhaps, given the controlling nature of the state, the perverse incentives influencing the drafting team, and the conscious emasculation by the RPF of any potential challenge to state authority (see chapter 7). Yet, in the theoretical model (see section 3.1.1), various pathways can still lead to tax bargaining even if the initial act of government is to coercively push through tax legislation. Taxpayers can engage in tax resistance, or they can engage in collective action. It is to the former that attention now turns.

8.4. Was there tax resistance by those most impacted by the reforms?

Scholars have observed that elite groups in LMICs enjoy a disproportionate influence over tax policy, enabling them to leverage fiscal benefits or resist tax reforms that threaten to redistribute their wealth or erode their power (see Section 2.2.2). The process through which the income tax law was enacted meant that its formulation was an intra-elite affair, which is not uncommon. Parliamentarians representing elite interests were able to remove clauses in the draft legislation relating to capital gains taxes, thanks to their formal role in the approval process. With other groups largely or wholly excluded from the formulation process or consulted in an informal and ad-hoc manner, there was simply no opportunity for ex-ante resistance, even when the perverse incentives influencing the RRA drafting team, combined with insufficient consultation and scrutiny of the RRA's proposals, led in several cases to poor policy or policy overreaction -defined by Maor

[210] For example, I07, I09, I11, I14, I21, I25, I36, I42 (development practitioners).
[211] Redacted to ensure anonymity.
[212] A representative from another Embassy. Redacted to ensure anonymity.

(2012) as the imposition of social costs, without necessarily producing the desired effect.[213]

8.4.1. Were elite groups able to influence policy?

Article 36 of the new law introduced a capital gains tax of 5% on the sale and transfer of shares, with the gain defined as the difference between the acquisition value of shares and their selling or transfer price. According to local media, the government had originally proposed a 5% tax levy on the sale or transfer, by individuals,[214] of immovable property valued more than RWF30 million[215] (Kwibuka, 2017, 2018b). This was rejected by the parliamentary Standing Committee on National Budget, and removed from the draft law because taxing the sale of property would be a "burden on low-income citizens" and would discourage new buyers from entering the property market (Kwibuka, 2018b). Deputy Chair of the Committee, Annonciata Mukarugwiza, also claimed that the clauses were removed because ordinary Rwandans could not understand the concept of capital gains taxes on the sale of houses (Kwibuka, 2018b).

Yet, parliamentary opposition on ostensibly pro-poor grounds lacks credibility. In a study commissioned by MINECOFIN (Kopanyi & Murray, 2016), 94% of properties in Kigali were valued less than the proposed RWF 30 million threshold,[216] meaning that the levy would only impact the wealthiest. There is also a long history of pro-elite parliamentary opposition to property tax in Rwanda (see also section 5.2) One tax policy adviser to MINECOFIN and RRA remarked:

> "It is interesting that parliament has that power to hold up [tax reforms], because sometimes there is criticism of [parliament] in Rwanda… that everything is just coming from the top. [Yet] there is an element of elite capture to it… clearly, things are being held up against the will of people at the top… It shows that there is some distribution of power, but the people who are involved in that distribution are not really representing the interests of the majority." (I10)

Tax professionals also claimed that the clauses in the draft law demonstrated a clear misunderstanding of capital gains taxes, which undermined the credibility of the RRA's proposals and making it easier for the parliament to reject.[217] The tax professionals claimed that such technical errors were highlighted by the iCPAR group during the consultations but ignored. In the draft circulated for consultation, for example, a clause was included in which a 5% fee was levied on the *sale price* of immovable assets. This, they argued represented a *sales tax* rather than a *capital gains tax,* with the latter normally levied on the *computed gains* from an investment. Angello Musinguzi, another tax professional, later claimed in the media that he had advised government that the

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[213] In Maor's view, policy overreaction is the consequence of overconfidence and groupthink by policymakers. Similarly, Kahneman (2011) argues that such outcomes arise when decisions are taken intuitively, when decision-makers are overconfident, both in their own ability, and in the comprehensiveness and accuracy of the information they possess. As has been shown in this thesis, such characteristics are common to public administration in Rwanda.

[214] Under the 2005 law, the sale or free transfer of immovable properties owned by companies was taxable, but taxes were not applied when the property is owned by an individual.

[215] RWF30 million represents the so-called 'affordable housing threshold' set by MININFRA (Kopanyi & Murray, 2016)

[216] Kopanyi & Murray (2016, p. 3) found that "70% of properties in Kigali are worth less than RWF 10 million, and 90% are worth less than RWF 20 million".

[217] I51, I54, I59 (Tax professionals).

proposed levy be called a sales tax as it fell short of short of definition of capital gains tax (Kwibuka, 2018b).

Secondly, the tax professionals claimed that provisions in the enacted law demonstrate that the RRA drafting team were also ignorant of how shares are traded, a clause that they also highlighted as unworkable during the consultations. The enacted law requires companies to withhold capital gains taxes on the sale or transfer of shares in their company. In a later policy brief, PWC Rwanda (2018, p.12) called the regulations "unusual" noting that companies could not be expected to have full details of their shareholders.[218] A senior RRA official at the iCPAR sensitization event conceded that better consultation could have prevented such problematic regulations from having been included in the enacted law (author's notes[219]).

8.4.2. Why didn't senior civil servants resist changes?

Article 59 introduced withholding tax of 30% on sitting allowances allocated to the members of Boards of Directors of both private and public sector entities. The RRA appears to have targeted the latter to close a loophole in the existing legislation, whereby sitting allowances were taxed at flat rate of 15%. In 2016, sitting allowances for Board Members were sharply increased from RWF 50,000-60,000 to RWF 114,000-171,000 (RoR, 2016b).[220] Since the salaried incomes of those appointed to government boards (i.e. senior civil servants) by far exceed the top marginal tax rate of 30% (see section 8.2), it would not have been difficult for RRA to argue that sitting allowances be taxed at the same rate.

It is the members of public boards that is of interest to this case study, since senior officials involved in the formulation of the income tax law -many of whom also serve on government boards- would have had the means and opportunity to dilute reforms that could have impacted them directly. Yet, no evidence of resistance by senior Rwandan civil servants was found during the research, nor would it have been expected. It has long been claimed that power of appointment to Government Boards not only strengthens political control over public institutions and enterprises, but is also used to dispense patronage (Daalder, 1966; Mainwaring, 1999, Flinders & Geddes, 2016; Quaresima, 2019). Brollo et al. (2017) found that high quality party members were appointed to senior positions in Brazil, indicating that "politicians value both loyalty and expertise when appointing senior bureaucrats". The Rwandan approach appears similar, where Board members are formally appointed by cabinet decision (i.e. at President's discretion), to reward loyalty and to groom promising cadres for future leadership positions. Loyalty and idealism aside, rational civil servants would not willingly choose to jeopardise their promising careers by being seen to resist such proposals and could presumably see the trade-offs between short-term marginal pain and expected long-term career progression gains.

[218] PWC (2018) note that the sale or transfer of shares in companies could happen between two non-residents (in which case RRA would have no jurisdiction to enforce compliance) or that sometimes the sales or transfers could be indirect. As such the company could be unaware of any transfer having taken place, and therefore unable to withhold capital gains taxes.

[219] The author attended the 3rd iCPAR Bi-Annual Tax Forum, 23-24 July 2018, Kigali.

[220] The increase to sitting allowances for government Boards came in the wake of an OAG report (2014) that found insufficient remuneration of Board members hindered the work of boards of public entities.

Of particular interest in this example is the way in which RRA opted for a less visible and more targeted approach to taxing the incomes of senior civil servants, rather than, as will be shown in the next sections, the one-size fits all approach applied to the liberal professions and NGOs.

8.4.3. Why weren't the liberal professions able to successfully oppose reform that impacted them?

The Tax Justice Network (2011) reported that unclear income tax laws in many LMICs, particularly insufficient delineation between PIT and CIT regimes, was a major contributor to low tax compliance in most African countries. Divergence between PIT and CIT rates enables self-employed taxpayers to act against the spirit of the law (or wilfully misreport) by declaring all their income in the category that attracts the lowest tax rate. In reforming the income tax law, RRA sought to close loopholes that had previously enabled self-employed professionals to avoid taxes by declaring their income under the simplified tax regime intended for SMEs (see section 8.2), or by identifying themselves as consultants even though they were, in practice, regular employees.[221]

Article 12 of the enacted law stipulates that those in "liberal professions" are to be taxed under the real regime irrespective of turnover and will keep full books of accounts. Similarly, the revision strengthened a definition of "employee" as "any person who undertakes to work for another person for payment, under the supervision and in accordance with directives of his/her employer in relation with his/her work" (RoR, 2018a, Art. 3.14).

While capturing liberal professionals under the real regime was in principle a progressive step, the legal text was criticized by tax professionals,[222] who argued that it amounted to policy overreach, since the impact of the legislation would be felt far beyond the taxpayer segment being targeted by RRA. The tax professionals claimed that the real targets of the reform were lawyers and accountants who were perceived within RRA to be systematically exploiting legal loopholes. One tax professional remarked:

> "For me this was again another knee jerk reaction… you can tell that there is an underlying current of knowing that they are tackling something, but they won't explain openly why they are tackling it… and they come out with the brush that tars everyone… I subsequently came to find out [that RRA believed] that lawyers weren't paying any taxes… lawyers and perhaps even accountants" (I54)

In the revised law, "liberal professions" are defined as "a profession exercised on the basis of special skills, in an independent manner, in offering services to the clients" (RoR, 2018a, Art. 3.18). The iCPAR team had argued that such a loose definition would lead to inconsistent legal interpretation. Mukanjishi (2019, p.3), also a tax professional, argued

[221] Two interviewees inadvertently confirmed RRA's suspicion that such practices took places. The first, a consultant (I22), claimed "One of the reasons I set up here was that I could just pay 3% of revenue every year… and, as a managing director, not be liable for income tax. So that meant that I could earn well and it's easy to do business, right?... what [the new law] means now is that I must go into the real regime." The second, an entrepreneur (I12), explained that "to formally employ someone, it costs about 30-40% [on top of the salary]… you pay in taxes and RSSB [social security contributions]… there is a few other insurances and things… so on the formal side it costs me 40% and extra to employ someone. If I employ them as a consultant, it costs me 15%. We were hiring guys as consultants the whole time…."

[222] I51, I54, I59 (Tax professionals).

that the exclusion of taxpayers from the simplified regime based on profession, rather than income level "fails to achieve any legitimate purpose" and can therefore be considered as "unfair discrimination". Yet, according to one tax professional involved in the process (I51), the RRA drafting team dismissed such concerns. This interviewee illustrated their point thus:

> "We asked them 'OK, what do you understand by liberal professions?' In the UK, they understand liberal professions as people who are regulated… accountants, doctors, guys in insurance… So, do you want to go to that extent?'… They said, 'no, that would be very restrictive'… but remember, they were just looking at lawyers and accountants, but they didn't want to mention it, so they said liberal professions… but liberal professions was never [properly] defined… Again, 'if you go that route, what are you going to do with artists? They are not regulated but they make money. What about plumbers or wedding designers?'… 'That category will just have to deal with it'…" (I51)

This example highlights, in the author's view, how the RRA drafting team was so focused on resolving their own organization's problems, and how little they valued bigger picture considerations. Many of the provisions in the 2005 income tax law, such as the simplified accounting regime, were introduced in response to the country's development needs, and specifically the lack of human capital in Rwanda in the wake of the genocide (I59). The provisions were designed to attract professionals to Rwanda, encourage entrepreneurship, and allow space for small businesses to grow. Although lawyers and accountants may have outgrown the need for a simplified accounting regime, the letter of the law now denied small-scale self-employed professionals with low turnover, such as plumbers or electricians, the ability to benefit from the simplified accounting regime, potentially rendering their business models unsustainable. As one tax professional (I54) suggested, simply requiring lawyers and accountants to maintain full books of account, and allowing RRA to verify the validity of their tax declarations could have been a more appropriate solution to a narrow problem.

Although iCPAR highlighted inconsistencies in the regulations,[223] primarily from the perspective of legal certainty, it was not possible to ascertain if the issue was raised by PSF. There is no evidence of overt resistance to the new provisions by those affected, a reflection of the challenge of coordination. However, drawing on Pritchard's (2015) Kenya case study (see section **Error! Reference source not found.**), those affected by the revision could have resorted to more tacit forms of resistance. Self-employed professionals could have redoubled efforts to conceal their wealth, aided in part by tax professionals; internationally mobile consultants could have relocated their businesses to other tax jurisdictions, while smaller scale firms may have simply faded into the informal economy. Unfortunately, the distortionary impact COVID-19 pandemic on tax receipts a mere two years after promulgation of the law makes it difficult to examine the revenue impact of the law on the liberal professions, but it is a topic that merits future research.

[223] I51, I54, I59 (Tax professionals).

8.4.4. How did civil society respond to changes in the income tax law that directly impacted them?

The 2018 revision also heralded a significant shift in the treatment of NGOs, faith-based organizations (FBOs), schools, and other non-profit organisations, which had previously been exempt from CIT. Under the revised law, these entities were obliged to submit annual financial statements to RRA and pay CIT on "surplus" annual revenue over expenditure. As with the liberal professions, policy overreaction is evident, with a broad, one-size-fits-all approach adopted to tackle a narrow administrative problem faced by RRA.

The revision occurred during one of the government's regular clampdowns on civil society, particularly FBOs.[224] In February 2018, Anastase Shyaka, the Chief Executive Officer of the RGB announced that the government's "Patience [towards churches] had come to an end" (Taarifa, 2018a). At the National Leadership Retreat in March, President Kagame also expressed concern over the growing number of Rwandan churches, instructing officials to resolve the "mess" (Kanamugire, 2018). This led, in September 2018, to the promulgation of a new Law on Faith Based Organizations to regulate the sector (RoR, 2018c). Yet, as with the "voluntary" contributions to the Agaciro fund (see section 8.1), the authorities first adopted a more coercive *de facto* solution. Over the first six months of 2018, between 6,000 and 8,000 places of worship were forcibly closed for alleged health and safety standard violations and breach of noise pollution ordinances, effectively implementing the September 2018 law before its enactment (USDoS, 2018; Kanamugire, 2018; Lumbaale, 2019).

Media reports, and interview evidence from tax professionals[225] indicates that RRA were convinced that many churches were running "profit-making businesses like shops, hotels and schools" and using their NGO status to evade taxation (Kanamugire, 2017). While RRA's primary motivation appears to be to collect revenue from such sources, it is also plausible that the proposed removal of income tax exemptions from NGOs and FBOs may have been part of a broader clampdown, with RRA keen to do their part following President Kagame's instructions to regulate the sector. Equally, RRA could have exploited the opportunity to push through reforms in its own interest. Certainly, the prevailing political climate may have inhibited scrutiny of the RRA's proposals, given widespread unwillingness to challenge, or be seen to challenge, the dominant political narrative.

Irrespective of the motivation for the reform, comments made by CSO representatives and tax professionals during public sensitization events on the enacted legislation indicate

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[224] Lubaale (2019, p. 25) portrays the crackdown on churches as "a move to stifle the right to freedom of belief, religion, opinion and conscience". Himbara (2018b) claims the decision was motivated by "fear and paranoia" of civil society at large, while Grant (2019) points to RPF intolerance of any religious "messages that contravene state doctrine" and fealty to any authority higher than the state. Woods (2019), by contrast, claims that the crackdown was prompted by unacceptable levels of unruliness and disorder, incompatible with the RPF's worldview. Many churches were perceived to "suffer from untrained leadership and poor accountability", and "pastors [were] accused of enriching themselves and living lifestyles far beyond the reach of their congregations". Wood (2019) quotes a RGB source as highlighting a need to address "troubling behaviour of unscrupulous individuals masquerading as religious leaders", while Mwai (2018c) reports the RGB CEO criticizing evangelical "religious leaders who operate churches like a business… with some fleecing their followers".

[225] I51, I54, I59 (Tax professionals).

that RRA's proposals were based on flawed assumptions and ignorance of how NGOs functioned.[226] One such assumption made by RRA was that all NGOs could be taxed akin to profit making enterprises. Yet, Rwandan NGOs are non-profit organizations, which rely on donations earmarked for specific activities (see Section 7.2.2). Accordingly, revenue "surpluses" at the end of a fiscal year cannot be considered as equivalent of profit to be spent at the CSO's discretion. The head of an INGO commented:

> "RRA say they will tax the "surplus"… but this is all development money… it doesn't belong to [NGOs]… that RRA will tax it is strange… [it demonstrates a] lack of understanding of the aim and the workings of civil society from the tax authority…" (I44)

Moreover, donor funding for NGOs is often for multi-annual projects, with the transfer of funds determined by a development agency's processing schedule rather than the Rwandan fiscal cycle. NGOs at the sensitization event[227] argued that "surpluses" would be the natural consequence of advance payments, and that it still effectively belonged to the donors until fully utilized for the agreed purpose.[228] Others also highlighted the incompatibility of the law with government's bilateral agreements with development partners that their funds are exempted from any taxes. Donor organizations, they claimed, could deem expenditure relating to taxes as ineligible and require reimbursement. Yet, RRA officials present at the sensitization events dismissed such arguments, insisting that NGOs should fully comply with the law. One RRA official even suggest that that if NGOs did not want their surplus to be taxed, they should return it to the donor organization at the end of the fiscal year, then ask the donor for the same money at the start of the next fiscal year to continue implementation of agreed activities. This official failed to grasp the many impracticalities of such a suggestion.

It also seems clear that in their rush to find short-term solutions to alleviate the revenue pressure on RRA, the drafting team failed to anticipate the downstream challenges that RRA would face in implementing the regulations, given the NGOs unfamiliarity with tax matters, on the one hand, and the administrative cost of dealing with small non-compliant organizations, on the other. The head of one INGO claimed:

> "One thing we have noticed is that many of our [local CSO] partners have no clue about the tax requirements… like you have to have a tax receipt for everything [or that] you have to withhold if you use a consultant… they just don't know… some of them find it quite irritating that we point this out…" (I45)

The head of one CSO (I50) even claimed that in 2019, the year after enactment of the law, "hundreds" of NGO were non-compliant, although it was not possible to verify such a claim. They argued the situation was partly due to insufficient awareness and low

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[226] Author's notes from two events aimed at sensitizing taxpayers on the enacted income tax law, namely the 3rd iCPAR Bi-Annual Tax Forum (23-24 July 2018), involving over 100 Rwandan tax professionals, and a meeting organized by PWC Rwanda (3 October 2018), involving over 200 representatives from NGOs. At both events, Lawrence Gakwaya, Head of the Large Taxpayers Office delivered a presentation on the key revisions of law and then responded to questions from attendees.

[227] Notes on exchanges between Lawrence Gakwaya, Deputy Commissioner General, Large Taxpayers Office, RRA and civil society representatives at a public consultation event organised by PWC Rwanda in Kigali on 3 October 2018.

[228] Several tax professionals suggested that, in cash accounting terms, earmarked donations could be more accurately defined as "restricted funds", money that can only be used for specific purposes, or "deferred income", an item that can be presented as a liability in the balance sheet.

capacity on the part of NGOs, but also noted RRA's lack of preparation. RRA, for example, failed to modify their tax declaration forms from those designed with profit-making businesses in mind, rendering many NGOs that chose to declare their income non-compliant by virtue of being unable to provide the information required in the standardized templates. In this respect, RRA's short-run success in getting the reforms enacted, could turn out to be self-defeating in the medium term. Dealing with an increase in compliance issues by small taxpayers necessitates additional human resources, potentially drawing resources away from more productive areas (Moore, 2020). Moreover, revenue gains are likely to be small and further undermined by the high administrative cost of collections.

8.5. Was there collective action in response to the reform?

Little evidence was found during the research of collective action in the wake of the law's enactment, which is unsurprising given the weaknesses of taxpayer capacity for such action, on the one hand, and the extent of government repression, on the other (see chapter 7). Two professional organizations were directly involved in the process of draft legislation, namely PSF and iCPAR, but by the end of the field research phase in 2021, there was no indication that the experience prompted either organization to further strengthen organizational capacity to advocate on tax-matters. Other taxpayer segments, such as those in liberal professions, were too fragmented to engage in collective action and would have been disincentivized from doing so given the perceived risks of openly criticizing government. It remains to be seen whether the experience of being taxed makes taxation a more salient issue for NGOs and FBOs and would surely make for an interesting case study in future.

The PSF had the most privileged position among stakeholder groups the consultation process but failed to take advantage of the opportunities provided to it, though a combination of poor capacity and vacillation. The PSF could have mobilized its membership, but instead neglected to even inform its membership of the ongoing reforms. It would be too much to expect that the experience of the 2018 income tax revision would prompt organizational changes in PSF, since the PSF's very purpose is to be a non-confrontational pro-government umbrella organization, and a useful tool for a government mostly interested in tokenistic consultation.

iCPAR had the capacity to engage on the draft law, but did so in an unstructured manner, with a few tax professionals taking it upon themselves to engage with RRA, with iCPAR's leadership indifferent.[229] Even if some of the tax professionals' technical input was valued by the RRA drafting team, it did not lead to iCPAR becoming a trusted partner in tax policy formulation. iCPAR was not consulted during revision of the 2019 Law on Tax Procedures, which was passed by parliament less than six months after enactment of the income tax law (I54). Nevertheless, one positive development has been the organization of regular bi-annual tax workshops between iCPAR's tax professionals and RRA. Although these events are primarily seen as a means of allowing RRA to sensitize tax professionals as part of the Continuous Professional Development of iCPAR members, they could provide a platform for more two-way dialogue in future. In the interim, ad hoc

[229] I51, I54, I59 (Tax professionals).

bilateral exchanges between individual tax professionals and their RRA counterparts while handling client files, of course continued.

As previously noted, most Rwandan NGOs function as small-scale service providers using donor funds to support local communities (see section 7.2.2). Prior to the revision, advocacy-leaning CSO were few in Rwanda, and none advocated for tax justice. Broader NGOs and FBOs were exempt from CIT under the 2005 income tax law making it a less directly salient issue. Following enactment of the law, NGOs were, according to the head of one INGO:

> "getting together and protesting, but the deal is done… we have, as a member of NINGO [The Network of International NGOs in Rwanda] tried to advocate on this… and supported the NGOs to get together and be aware of the law… putting together their positions and raising their complaints… but all very late to the game…" (I45)

Rwandan NGOs certainly came together under the Rwanda Civil Society Platform (RCSP) to highlight problems with the law, with dialogue meetings with government held in October 2018[230] and in the Annual Civil Society Dialogue in February 2019. Subsequently, the RCSP wrote to the Minister of Finance on behalf of Rwandan NGOs expressing concern and stressing that they were "not meaningfully consulted during the modification of the law".[231] RCSP requested further dialogue to "deepen understanding on part of relevant Government institutions about *the modus operandi* of National NGOs and explore concerns/issues by National NGOs in relation to the implementation of the law which may warrant appropriate legal/policy reforms". The RCSP requested a "grace period of one year in order to fully prepare and comply with the requirement to file declaration of financial statements", noting that RRA had yet to issue filing forms suitable for NGOs to use and that "most the NGOs were still struggling to fully understand and subsequently comply with the amendments introduced under the law".[232]

8.6. Chapter summary

The timing of the adoption of the new income tax law, coming in the wake of a presidential election where little discussion on taxation took place during the campaign, deficiencies in the process of formulating the legislation, the minimal amount of public consultation during preparation, coupled with the lack of representativeness of those groups that were consulted, all point to an approach was consistent with what Pritchard (2015) labels "coercive expansion of taxation". The law was formulated and enacted without meaningful taxpayer representation in tax policy decisions, resulting in seemingly arbitrary and unfair impacts on certain taxpayer groups.

The RRA drafting team faced structural constraints that hindered their ability to propose more radical revisions that could have contributed to higher tax collection rates. While it is tempting to conceptualize some of these constraints, such as the non-taxation of the

[230] Public meeting organized by PWC Rwanda (3 October 2018), involving over 200 representatives from NGOs, and attended by the author.
[231] Letter shared by I50.
[232] RSCP also requested flexibility in the calendar for "filing declaration and financial statements" to be compatible with the calendars of donors, as well as an exemption on the taxation of sitting fees of Board Members (see Section 8.4.2) since most board members of NGOs received RWF 30,000 in sitting fees, far less than that earned by those sitting on public boards.

agriculture sector, as implicit pre-emptive reciprocal concessions to specific taxpayer groups, many of the possible reforms that the RRA chose not to pursue were because of the overarching political priorities of the RPF (see section 8.2). Moreover, the non-reforms were not new concessions, but a continuation of the status quo. In Rwanda, with accountability invariably upwards to Kagame rather than downward to the population, a more plausible scenario is that the decision not to amend certain aspects of the 2005 income tax law reflected institutional politics and overarching political considerations, rather than responses to specific concerns articulated by taxpayers.

In the event, the government pushed through the reforms, with little or no consultation or direct bargaining with stakeholders prior to its enactment, although concessions were clearly made to parliamentarians representing elite interests. No evidence was found of overt organized resistance or protest in the wake of the law's enactment. For most Rwandans, certainly the "have nots" below the minimum income threshold, the legislation had no impact and no incentive for popular resistance. Those most affected by the legislation were Rwanda's "haves" -its civil servants, and salaried employees within the formal sector, as well as those in the "liberal professions"- whose privileged standing and livelihoods rest on remaining part of the existing political system. Such groups are disincentivized from challenging the existing legal and political order, as to do so would invite repercussions from the authorities. Moreover, salaried employees in the formal sector, as PAYE contributors, lacked the means to engage in more tacit forms of resistance, such as tax evasion or avoidance.

The country's larger taxpayers, by contrast would certainly have had the means to tacitly resist, but it was not possible to ascertain whether they did so in any large numbers in response to the law, and whether any economic impact of such resistance had an impact on the authorities.[233] Interview evidence from businesspeople indicates that some stepped up efforts to relocate their businesses, partly or entirely, to other tax jurisdictions within the EAC and elsewhere.[234] Yet, this is an easier prospect for expatriates and service-providers with low sunk costs, such as consultants, compared to individuals embedded in Rwandan society and those with low asset mobility. It is also plausible that many larger businesses, particularly those with good connections to the state and the RPF, simply accepted the legislation in the knowledge that it was another cost of doing business in the country, while at the same time employing tax professionals to minimize their tax burden.

[233] Such activities, by definition, are tacit and difficult to track. Yet in Rwanda, the challenge is greater, since publicly available statistical data does not provide sufficient disaggregated information. Finally, the impact of the COVID-19 pandemic makes it difficult to measure impact over time.

[234] For example, I12 and I22 (entrepreneurs).

9. The trouble with Electronic Billing Machines

With the previous chapter having focused on legislative revision and taxpayer's involvement in the process, this chapter offers a useful contrast, by focusing on an administrative reform to improve VAT compliance, namely the introduction of mandatory VAT electronic billing machines (EBM), and its impact on relations between the RRA and taxpayers. Often perceived as less distortionary than other forms of tax, VAT also facilitates tax administration by encouraging self-enforcement by firms (Bird & Gendron 2007). VAT imposes withholding tax at each stage of the production and distribution chain. Since firms can deduct VAT input costs from their tax bill, there is an incentive to claim receipts from suppliers. This generates a paper trail of transactions, recorded in two sets of books of account, making it easier for tax authorities to detect evasion (Bird & Gendron 2007). In practice, however, VAT has underperformed throughout Africa (Baunsgaard & Keen, 2005, 2010; Keen & Mansour, 2009; Cnossen, 2015; Moore, Prichard & Fjeldstad, 2018), where widespread exemptions erode the VAT base (Fenochietto & Pessino, 2013; Cnossen, 2015), and administering VAT is hampered by the pervasiveness of SMEs, predominantly cash economies, and widespread informality (Gordon & Li, 2009; Besley & Persson, 2013). Rwanda certainly suffers from such issues, with the RRA (2017b, p. 5) reporting that manual VAT invoicing was characterized by prevalent "falsification of books of accounts, parallel sales invoice book-keeping especially for some family-owned companies… fictitious VAT invoices resulting into undue [VAT refund] claims … and [un]reliable source of taxpayers' transactions information".

To overcome such challenges, many SSA jurisdictions introduced electronic fiscal devices (EFDs)[235] to better monitor commercial activities and the VAT obligations generated. First used by European tax administrations in the 1980s, EFD then spread to Latin America and East Africa (Casey & Castro, 2015), with Kenya, Ethiopia, and Tanzania, adopting EFD in 2004, 2008 and 2010 respectively.[236] EFDs are designed to collect and securely store records of business transactions, to automatically calculate the VAT amounts payable (independently of the taxpayer), and to digitally transmit this information to the tax administration. This eases the compliance burden on taxpayers, while enhancing the quality, timeliness, and reliability of information to tax administrations. In practice, however, the rollout of EFDs in SSA has been problematic, and their impact on tax compliance and revenue collection has been mixed. In their empirical study on the impact of EFDs in nineteen countries, both developed and developing, Casey and Castro found that:

> "EFDs implemented as part of a comprehensive compliance improvement strategy produced positive results, both in terms of additional revenue and improved taxpayer behavior. Conversely, those cases in which the EFDs were implemented

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[235] Casey and Castro's (2015) identify a variety of devices as EFD, including Electronic Cash Registers, Electronic Tax Registers, Electronic Fiscal Printers, Electronic Signature Devices, and Sales Control Devices (Modules), and others. EFD have become increasingly sophisticated over time, with flaws in earlier models being corrected by technological advances.

[236] Both Kenya and Tanzania had previously rolled-out electronic cash registers (ECR), but these devices were ineffective and subject to falsification (Weru et al. 2013; Kira, 2016). More advanced electronic tax registers were introduced as replacements in Kenya and Tanzania in 2004 and 2010 respectively.

> as a standalone measure showed few, if any, results in the medium term, despite some incidental short-term revenue gains that were unsustainable." (Casey & Castro, 2015, p.7).

In practice, many LMICs adopted EFDs as standalone measures because of capacity and resource constraints. The resulted in coercive enforcement of EFDs, minimal consultation or taxpayer education, and harsh penalties for non-compliance (Naibei et al., 2011; Nyareru et al., 2017; Steenbergen, 2017). Moreover, according to Casey and Castro (2015, p.7), EFDs created "additional administrative burdens, both to the involved administrations and to taxpayers, without necessarily alleviating some of the preexisting compliance problems".

Empirical evidence suggests that the rollout of EFDs created pathways for tax bargaining between government and businesses consistent with the theoretical model (see section 3.1.1). In Kenya and Tanzania, for example, the introduction of EFDs prompted open tax resistance and collective action, with organized strikes and street demonstrations by merchants. Casey and Castro (2015, Appendix, p.43) document that in Kenya "members of Parliament joined the demonstrators to campaign against implementation of [EFDs], even though these same politicians had approved [them]". The Kenya Revenue Authority (KRA) was taken to court by business associations (Moyi & Ronge, 2006; Weru et al., 2013; Ngowi, 2014; Nyareru et al., 2017), and Malawian businesses obtained a court order to block the rollout of EFDs (Kenani et al., 2021). More tacit forms of resistance, through persistent non-compliance and evasion, are also documented in Kenya, Tanzania, Malawi and elsewhere (e.g. Weru et al., 2013; Ikasu, 2014; Casey & Castro, 2015; Mativo et al., 2015; Shao & Dida, 2020; Kenani et al., 2021). In some cases, governments listened and responded to business grievances. Concessions were made to reduce the administrative burden of EFDs or to improve taxpayer services (e.g. Nyareru et al. 2017). In other cases, EFDs became an issue around which taxpayers coalesced to air broader grievances. In the wake of the Tanzanian EFD protests, for example, the government not only established a special Task Force to remedy EFD shortcomings, but also agreed to a more comprehensive review the tax system (Rugonzibwa, 2015).

Accordingly, examining the roll-out of EFD in Rwanda offers the prospect of identifying similar dynamics playing out between taxpayers and government. This chapter is organized as follows. Section 9.1 describes the key features of the reform, characterized by a problematic rollout and coercive enforcement, generating resentment in the business community. In Sections 9.3 and 9.4, tax resistance and collective action in relation to the EFDs are examined, with evidence presented of tacit non-compliance, and complaints being voiced by the private sector, including through Rwanda's normally pliant media. Section 9.5 explores the degree of government responsiveness to the demands of the business community, finding that while the government acknowledged deficiencies in EBMs and their administration by RRA, and articulated an intent to respond to taxpayer concerns and behaviour, the government ultimately did not deliver on its commitments.

9.1. Key features of the reform

In 2010, the RRA announced that "Electronic Tax Registries" would be introduced to better manage VAT (RRA, 2010). In 2011, the government pledged to issue "Electronic Sales Registers" by January 2012, but the rollout was delayed by a year since necessary legislation was not enacted in time (IMF, 2011b, p.17; 2012). An amendment to the VAT law in November 2012 (RoR, 2013a, Art. 24) eventually provided the legal basis for VAT "Electronic Billing Machines" (EBMs), stipulating that "[VAT] tax registered persons are obliged to use a certified billing machine that generates invoices". Initially, an incremental roll-out was foreseen, starting from March 2013 with a pilot for large VAT registered taxpayers (Eissa et al., 2014). However, this approach was quickly abandoned in the wake of the aid crisis (see section 4.2.3), with RRA instructed to deploy EBMs as quickly as possible. By 8th May 2013, less than three months after the start of the pilot, a Ministerial Order on "the use of certified electronic billing machines" was adopted, obliging all VAT registered taxpayers to purchase EBM from a licenced supplier, install it at all sales locations, and issue EBM-generated receipts to all customers (RoR, 2013b, Art. 11). [237] The subsequent sections will show that the way in which the rollout was handled led to taxpayer grievance.

9.2. How did government choose to roll out the EBMs?

In keeping with neighbouring countries, such as Kenya (Naibei & Siringi, 2011; Nyareru et al. 2017), the rapid rollout of EBMs in Rwanda was coercively enforced.[238] Harsh penalties for non-compliance were first detailed in the 2013 Ministerial Order and were subsequently enacted into law with the 2015 amendment to the VAT Law (RoR, 2015).

Table 6: EBM fixed administrative fines

Taxpayer category	Definition of taxpayer group (annual turnover)	Administrative fine non-use *of EBM*	Administrative fine for non-compliance	Administrative fine for tampering
Large taxpayer	Determined by RRA	RWF 20,000,000	RWF 10,000,000	RWF 20,000,000
Medium taxpayer	> RWF 50 million	RWF 10,000,000	RWF 5,000,000	RWF 10,000,000
Small taxpayer	RWF 12,000,001 to 50 million	RWF 5,000,000	RWF 2,500,000	RWF 5,000,000
Micro taxpayer	< RWF 12 million	RWF 1,000,000	RWF 500,000	RWF 1,000,000

Source: RoR (2013b, Arts. 15-17) RoR (2015b, Art 24)

Failure to use, or tampering with EBM, attracted fixed fines between RWF 1 million and RWF 20 million, depending on the size of the business, while non-compliance resulted in fixed penalties of RWF 500,000 to RWF 10 million (see Table 6), regardless of the nature of the offence. Such fines were potentially catastrophic for SMEs. For example, an SME neglecting to use their EBMs could face a fixed penalty of up 25% of turnover, but if they were also found to be non-compliant, then the fine could amount to 37.5% of turnover. The Ministerial Order also provided power to RRA to suspend a non-compliant taxpayer's business activity for a month (RoR, 2013b, Art. 19), which local media report was regularly exercised (Bizimungu, 2018b; Taarifa, 2018b).

[237] The regulations formally came into effect in August 2013.

[238] The legislation nonetheless provided some pre-emptive concessions, in the form of exemptions on EBM use for non-VAT registered businesses - MSMEs with an annual turnover below the VAT registration threshold of RWF 20 million per year (RRA, 2013).

Table 7: Administrative penalties for non-compliance with Rwandan tax law

Offence	Taxpayer group	Penalty
Interest charges for late payment	All taxpayer groups	2% per month
Fixed fine for failure to: (i) declare tax on time, (ii) file a withholding declaration on time, (iii) calculate and pay withholding tax, (iv) provide information required by RRA, or (v) Cooperate with RRA officials	Large taxpayers	RWF 500,000*
	Taxpayers with an annual turnover greater less than RWF 20 million	RWF 300,000*
	Taxpayers with an annual turnover equal to or less than RWF 20 million	RWF 100,000*
Late payment of fines	All taxpayer groups	10% of taxes payable
Understatement fines (Applicable to all taxpayer groups)	Understatement ≥5% but <20% of tax liability	10% of taxes payable
	Understatement ≥20% but <50% of tax liability	50% of taxes payable
	Understatement ≥50%	100% of taxes payable
Value-added tax violations (Applicable to all taxpayer groups)	Operating without VAT registration	50% of taxes payable
	Incorrect issuance of a VAT invoice (resulting in a decrease in VAT payable or an increase of VAT input credit)	100% of taxes payable
	Issuance of a VAT invoice by a person who is not registered	150% of taxes payable
Failure to pay withheld tax	All taxpayers	200% of taxes payable & referral to the prosecution service (up to 3 years imprisonment)
Additional penalties (according to the gravity of the offence)	All taxpayers	Closure of business activities for 30 days
		Barred from public tenders
		Withdrawal of business register
		Publication in newspapers

Source: RoR (2005)

*Notes: * fines are doubled and quadrupled if the same violation is committed twice or three times within a 5-year period*

The 2013 Ministerial Order also stipulated that EBM noncompliance could be simultaneously prosecuted under the Law on Tax Procedures (RoR, 2005b) and the Penal Code (RoR, 2012f). For example, a taxpayer fined under the Ministerial Order for failing to correctly use EBMs could also be fined under the Law on Tax Procedures for failing to declare and withhold VAT, or for failing to cooperate with, or provide relevant information to, RRA, as well as interest charges for late payment (see **Error! Reference source not found.**). In addition, failure to issue a VAT invoice, or the issuance of an incorrect VAT invoice would result in a fine equivalent to 100% of the VAT due. Similarly, failure to render withheld tax resulted in a fine of 200% of the unpaid tax. The Law also allowed RRA to name and shame offenders in the media.[239]

RRA aggressively implemented the regulations, and launched regular crackdowns (Bizimungu, 2018b; Taarifa, 2018b). A 2016 taxpayer survey by RRA (2016a, p.91) found that close to a fifth of business respondents had been fined for EBM violations. [240] The same survey noted widespread fear among businesses of RRA fines, with some businesses claiming they would be forced to close if fined, as they simply could not afford to pay. The IFC's 2018 Investor Perceptions Survey also found that "punitive fines" for infringements, including minor filing delays, "can easily cause business closures" (IFC, 2018, p.76). Interviewees also claimed that RRA were heavy handed with administrative penalties. One diplomat (I11) referred to the fines as "draconian… to scare people of what would happen if they don't comply and pay their taxes on time", while another (I40) claimed that investors regularly complained to the Embassy about RRA's uncompromising approach to fines. A PSD expert (I04) highlighted "excessive penalties for any sort of breach of [tax] regulations", while an entrepreneur (I12) deplored RRA ability to effectively "rule by decree". One self-employed businessperson (I22) also recounted:

> "I constantly go around in fear … if you don't pay your VAT on time, the fine is a hundred thousand plus [a percentage] of what you owe… the total you're paying is multiples of what you owe… I got a text message 'your EBM has no credit'… you must load RWF 1,000 MTN airtime every month. But I don't invoice every month because I work off big contracts… Then I get an SMS 'if you don't update your airtime, by tomorrow you will be fined RWF 500,000'".

Bird (1986, p.11) notes that in LMICs "governments hard-pressed for revenues are sometimes driven to discretionary and unpredictable enforcement efforts –collecting money where they can and (as the common problem with refunds suggests) keeping it when they get it". The rollout of EBMs in Rwanda took place in a context where aggressive tax administration was the norm (see section 6.3), and it provided RRA with further discretionary power to police businesses. While these powers were certainly unpopular with businesses, the next section will show that the introduction of EBMs in Rwanda was also problematic, providing further grounds for business disgruntlement.

9.2.1. Why was the rollout of EBM problematic for taxpayers?

Casey and Castro's (2015, p.7) cross-country study concludes that "the path to successful implementation of [EFDs] is complex, requiring legislative support, effective design of administrative and technical procedures, and extensive consultation processes with key

[239] The practice of naming and shaming EBM offenders continued beyond the scope of the research. One example is provided by the New Times (2023), where a newspaper reporter accompanied plain clothes RRA officials to Matteus, Kigali's busiest wholesale trade area, and names individual businesses that RRA found not to have issues EBM invoices for some commodities.

[240] The survey was based on a sample of 37 large, 154 medium and 139 small taxpayers (RRA 2016). The survey found that 18.9% of large enterprises admitted to having been fined, compared to 18.9% and 19.9% of medium and small enterprises respectively.

stakeholders". They also found that when rollout of EFDs was rushed, as in many SSA countries, "implementation faced considerable challenges" (Casey & Castro, 2014, p.52). Problematic EDF implementation is also highlighted in survey research from Kenya (Chege, 2010; Naibei et al., 2011; Weru et al., 2013; Mativo et al., 2015; Sagas et al., Maisiba et al., 2016; Nyareru et al., 2017), Tanzania (Bakar, 2014; Siraji, 2015; Chege et al., 20915; Kapera, 2017), Ethiopia (Mohammed & Gela, 2104; Mohammed, 2015), Malawi (Kenani et al., 2021) and elsewhere. In this respect, the rollout of EBMs in Rwanda is not dissimilar to the experience of many of its neighbours.

The cost of acquiring EFDs was often borne by businesses, although some governments made efforts to minimize business outlays. In Kenya, Tanzania, and Malawi, for example, taxpayers could offset the purchase cost of EFDs against their VAT liability. Yet, even in these countries many SMEs could not afford such up-front costs, while many of those that could, experienced a negative impact on their working capital (Mativo et al., 2015; Kira, 2016; Nyareru et al. 2017; Kenani et al., 2021). Casey and Castro (2015), note how purchasing costs in Kenya swelled "for businesses that were required to procure multiple devices for all their sales points", while Mativo et al. (2015) record business disgruntlement at having to repeatedly buy new devices as technological advances rendered their existing devices obsolete.

In Rwanda, businesses were required by law to purchase EBMs themselves and to pay for all maintenance costs, with no provisions for VAT offsetting (RoR, 2013b). Steenbergen (2017, p.8) calculated that with EBMs priced at a minimum of USD 250 in Rwanda, the additional cost borne by firms represented on average four times the median VAT liability of USD 66 per year. Eissa et al. (2014) also found that outlays on EBM posed a liquidity challenge for smaller VAT-registered businesses. In RRA's (2016, p.91) survey, 51.4% (large), 61% (medium) and 47.9% (small) taxpayers complained that purchasing and maintenance costs were too high. One adviser to RRA questioned the decision to force businesses to pay for machines as follows:

> "They should have given out the EBM for free. If you want businesses to use it, why make them pay a lot of money?" (I14)

Similarly, an entrepreneur complained that:

> "I had to pay RWF 275,000[241] for a new machine. [Why am I] paying money for a machine to pay VAT?" (I46)

The mandatory adoption of one-size-fits-all devices, irrespective of the nature of business operations, became an additional compliance cost for business. Casey and Castro (2015) claim that since the authorities "did not fully engage with the Ethiopian businesses or their representative associations in the initial design stages, [there were] challenges in the adopted technology, particularly the universal requirement of English as the main language in the devices", which most traders did not understand. Often, businesses with existing sales hardware and accounting systems were required to install and operate EFD in parallel (Casey & Castro, 2015; Nyareru et al. 2017). In Kenya and Ethiopia, EFDs turned out to be cumbersome and costly for businesses making few transactions, increasing the administrative costs of reporting (Casey and Castro, 2015; Nyareru et al.

[241] Equivalent to USD 317 (based on the 2018 average annual exchange rate of RWF 868 to the USD).

2017). Similar remarks were heard from interviewees during this research. A tax adviser to RRA stated:

> "This is just a device for the RRA. It doesn't help the taxpayer that much. When I would checkout [of my hotel] I would always run into two transactions [hotel billing and VAT billing]" (I14)

A Rwanda tax professional commented:

> "We have a number of [clients] that have restructured their entire model of businesses because of a machine… RRA is trying to collect VAT on a monthly basis… [one client's] model was based on leasing… he was not being paid on a monthly basis and he received credit notes… the guy has had to change his business model, and that is costly…" (I51)

FIGURE 20: AN EARLY MODEL RWANDAN EBM

Source: Kigali Today (2014)

The EFD hardware supplied in many SSA (see example in Figure 20) countries was often low quality and susceptible to malfunction and breakdown, and these technical problems were compounded by erratic internet and mobile phone connectivity and inconsistent electricity supply, which interrupted the flow of sales data to the tax authorities (e.g. Bakar, 2014; Kira, 2016). In RRA's (2016) survey, 45.9% (large), 54.8% (medium) and 58.9% (small) taxpayers noted that Kigali's frequent and lengthy power outages effectively disabled their devices. Such problems had a negative impact on the accuracy of tax records and hindered the timely filing of taxes. For example, one adviser at RRA recounted how:

> "The CEO of [redacted] started to see inconsistencies between the information the RRA was gathering on her EBM transactions and what she had… [she went to] RRA with paper documents and showed the inconsistencies… it was because not every transaction gets transmitted… you are [relying on Rwandan] wireless or cellular connection and can't expect that to be perfect." (I14)

An entrepreneur also described how connectivity issues created problems:

> "even if you have put in all the information correctly, if the [seller's] machine isn't communicating with the system, then [my VAT input reimbursement request] get rejected as well… you have to again manually go to RRA and say 'Here are all the sales that didn't go through, what's wrong with my EBM receipt?'… 'Absolutely nothing'… Why do I get penalized because that person's SIM card isn't communicating with the system?" (I46)

Mohammed and Gela (2014) found that in Ethiopia EFD suppliers provided low quality aftersales services and rarely rectified problems in a timely manner. Similar findings are recorded by Nyareru et al. (2014) and Mativo et al. (2015) in Kenya, and by Ikasu (2014), Siraji (2015), and Kira (2016) in Tanzania. Although Rwandan legislation stipulated that EBM suppliers must repair faulty machines within forty-eight hours (RoR, 2013a), PSF (2018) report that such services were not only unreliable but also unavailable outside Kigali. PSF also claim that RRA were slow to authorize businesses to issue manual receipts while their EBM were under repair.[242] Consequently, many businesses closed business operations until their EBM problems were resolved, for fear of incurring hefty penalties (PSF, 2018).

Finally, governments in many countries did not appreciate the size of the challenge, often putting too much faith in the technology, and underestimating the cost and extra effort to taxpayers and tax administrations (Casey & Castro, 2015). Tax authorities were reluctant to listen, and unable respond, to taxpayer problems. Ikasu (2014), Kira (2016), Maisiba and Atambo (2016), Nyareru et al. (2017), Eliu (2018) and others note that in Tanzania and Kenya there was little taxpayer education prior to and during EFD roll-out. In Kira's (2016) survey of taxpayers in Dodoma, close to 80% of respondent claimed not to have received instructions on EFD from the Tanzanian authorities. Mascagni et al (2019, p.24) found that in Rwanda "many taxpayers have been forced to adopt an EBM… but might not have sufficient knowledge about its functioning". Initially, the RRA only assigned three staff to the EBM project team, who eventually returned to their previous posts, and it was only in 2015 that the EBM Department was established within RRA, but staffing continued to remain an issue.

Mohammed and Gela (2014) and Kira (2016) found that in both Ethiopia and Tanzania, it was difficult to correct genuine errors made while entering data into EFD, necessitating lengthy interactions with the tax authorities, with the latter inclined to treat errors like wilful fraud or evasion. Similarly, RRA showed little flexibility to taxpayers who had erred when inputting data into the EBM, or who encountered issues outside their control. RRA's (2016, p.125) taxpayer survey documents the one respondent complaining that "once a mistake is made while entering data it is not reversible" and that "when taxpayers do not meet deadlines due to the lack of network connection" RRA insist that they "have to pay taxes with fine". Similarly, the survey found cases of taxpayers being unable to fulfil their obligations in time since RRA had not responded their queries, but that RRA had still imposed penalties (RRA, 2016, p.63).

Survey results in several African countries also indicate that, despite the many problems, many businesses welcomed the introduction of EFDs, indicating that they made taxpaying

[242] Businesses were obliged by law to report malfunctions of certified EBM to RRA within six hours, who would then formally authorize the use of manual receipts.

easier. In Mohammed & Gela's (2014) survey of 363 traders in Addis Ababa, 92.3% of respondents agreed that using EFD had "significantly" reduced the time needed to prepare and calculate VAT return payments, compared to manual processes. Similarly, in Kira's (2016) survey of 75 businesses in Dodoma, and Vinold et al.'s (2017) survey of 99 businesses in Arusha Municipality, approximately two thirds of respondents claimed EFDs reduced the time needed to prepare VAT reports. In Rwanda, RRA's (2016) survey found that 89.2% (large), 82.5% (medium) and 65.3% (small) were satisfied with EBMs, with 91.2% (large) and 78.8% (medium) VAT-registered taxpayers claiming that EBMs improved their business processes. Yet, only 50.5% of small-sized VAT-registered taxpayers shared this view (RRA, 2016). In Harelimana and Gayawira's (2020) survey of 159 VAT-registered SMEs in Musanze, 79.9% of respondents strongly agreed that EBM facilitated the reporting of VAT sales, while 74.5% of respondents claimed EBM facilitated the timely filing of VAT declarations. Yet, as will be shown in section 9.3, the EBM failed to meet the high expectations placed on them in terms of revenue collection -with widespread taxpayer non-compliance- which in turn highlights potential response bias in the surveys.

9.3. Did dissatisfaction with EMBs lead to tax resistance?

The success of tax reforms is typically measured in terms of the additional revenue generated. Outwardly at least, revenue authorities across East Africa lauded the devices as an overwhelming success. Yet, Casey and Castro (2015, p.7) concluded that EFDs were "not associated with noticeable increases in VAT revenue as a percentage of GDP" in any of the nine countries they scrutinized.[243] In Chile, they found a significant *fall* in tax yields, with VAT collections only recovering to pre-EFD levels after three years of implementation. Kenani et al. (2021), using Casey and Castro's methodology, discover a similar drop in Malawi's VAT receipts after the introduction of EFD with "no significant difference in VAT revenues" over the medium term. Casey and Castro (2015, p.28) note that "the Kenyan experience has been often cited as a success story by other governments and tax administrations, particularly in the neighbouring countries", but found that "Kenya's VAT performance is not as dynamic as claimed or as expected". Measuring Kenyan VAT collections as a percentage of GDP over the period 1991-2013, they found no sustained revenue increase since EFDs were introduced in 2005, claiming that any increases were "most likely because of VAT withholding and non-payment of VAT refund claims, rather than EFDs" (Casey & Castro, 2015, p.29). The authors also found that in Tanzania, despite a steady increase in total VAT collection in nominal terms between 1998-2013, and the mandatory use of EFDs "coincide[ing] with a period of VAT revenue increases from 2002 to 2005", that "this increase did not prove to be sustainable from 2005 to 2011", which the authors attributed to compliance issues (Casey & Castro, 2015, p.33). The authors concluded that VAT collection as share of GDP had remained relatively flat over the period.

In a submission to the OECD (2017, p.43), the Rwandan authorities claim that "VAT collected on sales increase[ed] in 2015 by 20% when compared to 2014", while "VAT payable registered an increase of 22% for 2015/2016 fiscal year compared to 2014/2015

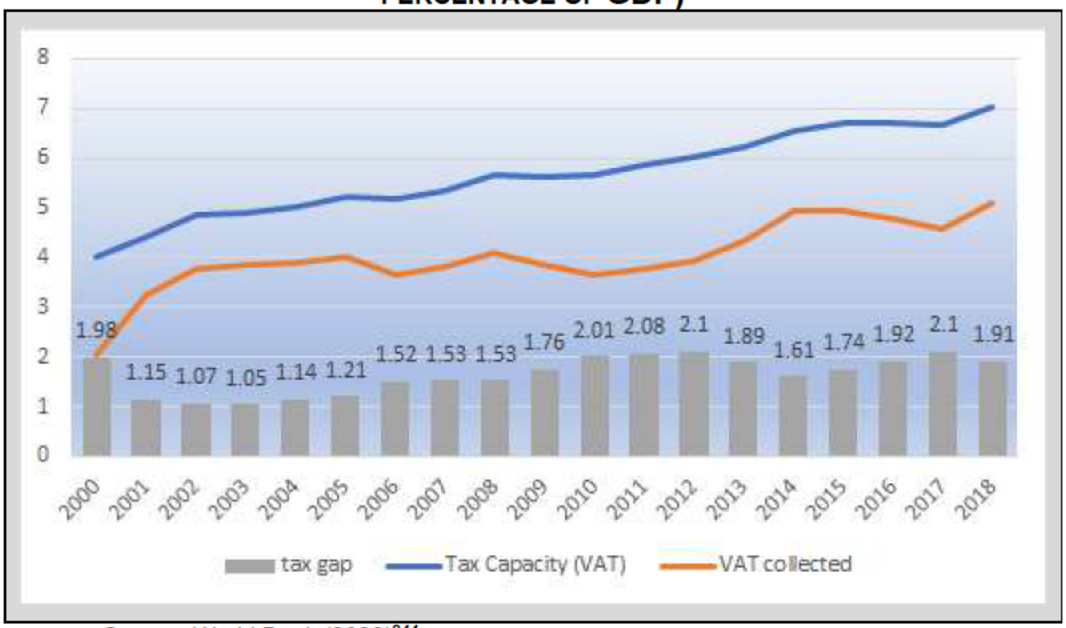
[243] The nine countries were: Brazil, Chile, Dominican Republic, Greece, Kenya, Argentina, South Korea, Sweden and Tanzania.

fiscal year. The subsequent section demonstrates however, that the real impact of Rwandan EBMs was much less impressive.

9.3.1. Underwhelming revenue gains

Eissa et al. (2014), document that following issuance of the 2013 Ministerial Order, the number of active EBM users rose from 306 in the first quarter of 2013 (when EBMs were being piloted among large taxpayers – see section 9.1) to 3,943 by the third quarter of 2014, equivalent to 77.8% of VAT registered taxpayers at that time. Using data on VAT collection from 9,655 Rwandan firms between 2012 and the third quarter of 2014, they also estimate that "the adoption of an EBM has a statistically and economically significant impact on VAT payments [by registered firms], raising these by an average of 6.5 percent", while noting that the impact varied substantially between economic sectors (Eissa et al., 2014, p.1). Although the timeframe of the study is limited, the findings are consistent with a short-term spike in revenues seen in other countries. Commenting on Eissa's findings, however, Steenbergen (2017, p.8), a former adviser to the RRA on EBM-related issues, claims that the increase was "relatively little, and much lower than expected by the RRA".

FIGURE 21: RWANDA: VAT CAPACITY, VAT PERFORMANCE AND VAT TAX GAP (AS PERCENTAGE OF GDP)



Source: World Bank (2022)[244]

Statistical data compiled by the World Bank (see Figure 21) also indicates that Rwanda's VAT performance improved between 2012 and 2014. Crucially, however, this period also coincides with *both* the promulgation of the revised VAT law in November 2012 and the Ministerial Order of August 2013 mandating the use of EBM for all registered VAT taxpayers, not to mention the reclassification of some excise taxes as VAT (see

[244] World Bank Tax Revenue Dashboard (https://dataviz.worldbank.org/), accessed on 15/05/2022.

Figure **15** in section 5.2 and Table 16 in Appendix). Despite the VAT reforms and the reclassification, VAT collections still plateaued at 4.95% GDP in 2014 and 2015, before falling to 4.56% of GDP by 2017. Examining the gap between Rwanda's estimated VAT tax capacity[245] and actual VAT collection performance, a similar pattern emerges (see Figure 21: Rwanda: VAT capacity, VAT performance and VAT tax gap (as percentage of GDP)Figure 21). The gap narrowed from 2.1% of GDP in 2012 to 1.61% of GDP by 2014. By 2017, however, the gap had returned to its pre-reform level of 2.1% of GDP. The trend in Rwanda is therefore consistent with other countries that experienced an initial increase in VAT revenues that proved unsustainable.

Questions can also be raised over the veracity of RRA's tax data. In its 2020 audit report, OAG (2020, p.33) concluded that the "accuracy of information reported in annual revenue accountability statement is unreliable for evaluation of revenue collection performance". A year later, OAG found that RRA had been systematically overstating its VAT collection performance, having erroneously included RWF 80.9 billion of withheld VAT in its annual statements between 2016 and 2020, which was in fact "refundable to taxpayers" (OAG, 2021, p.37). The same report noted that "84% of taxpayers claiming VAT were refunded between one and seven years" (OAG, 2021, p.40) rather than the legally mandated thirty days (RoR, 2013a). This mirrors Casey and Castro's (2015) observation that improved VAT revenue performance results in Kenya following EFD introduction were distorted by incorrect VAT withholding and non-payment of VAT refund claims. In its 2022 report, OAG stated that the government's consolidated financial statements for the fiscal year ending in 2021 included RWF 449 billion in filed taxes that had not actually been paid to RRA, equivalent to 18% of total government revenue collected by RRA (OAG, 2022).

Considering the above, the question must therefore be asked as to why the results were so underwhelming. The subsequent section will show that, in keeping with the economic literature, EBMs in Rwanda were not a panacea to tax compliance, and that while the EBMs may have had improved collections in the short turn, widespread non-compliance continued.

9.3.2. Did taxpayers protest?

Pritchard (2016) defines tax resistance as both overt tax protest and more discrete tax avoidance, both of which ultimately undermine the fiscal health of the state (see section 3.1). Unsurprisingly, given the degree of state repression (see Chapter 7), there were no public protests over EBMs in Rwanda, in contrast to the street demonstrations in Kenya and Tanzania. Nevertheless, there is evidence of widespread non-compliance by taxpayers, despite the coercive rollout. One expatriate advisor at RRA summed up the situation as follows:

> "When I arrived, and I heard [RRAs] perspectives on EBMs… it was 'this is a perfect solution.' You can have very good solutions, but you are not going to have perfect solutions. But they felt that the EBM was the salvation to compliance, at least as VAT is concerned… what they didn't appreciate is the taxpayer's use of the EBM" (I14)

[245] The World Bank define Tax capacity as "the predicted tax-to-gross domestic product ratio that can be estimated empirically, taking into account a country's specific macroeconomic, demographic, and institutional features" (Le et al., 2012).

Despite the introduction of EFDs, informality, VAT non-compliance, and tax evasion persisted across East Africa, including Rwanda. Shao & Dida (2020, p.2), for example, not only document widespread non-use of EFDs and continued preference for informal transactions, but also pervasive misreporting of transactions and fake invoicing by traders using EFDs. This tallies with Bizimungu's (2018b) findings that Rwandan businesses routinely undervalued sales prices and refused to issue EBM invoices to customers. Similarly, Mascagni et al. (2019), analysing VAT transactions between July 2016 and June 2017, concluded that "discrepancies between sellers' and buyers' reports are widespread in Rwanda, despite the great enforcement efforts that the RRA has made on VAT, including the introduction of EBMs". They found that only 18% of VAT declared by sellers matched that reported by corresponding buyers, with the figure rising to 40% when both buyers and sellers were matched with EBM. They also found that most discrepancies were due to one of the trading parties failing to report the transaction at all. They concluded that such discrepancies arose from mistakes in inputting VAT "due to lack of knowledge or the machine's technical glitches" and from deliberate evasion through limited or inaccurate usage of EBM, which they speculated was motivated by "taxpayers' perception that the RRA does not have the necessary data to uncover cheating or that it does not have the capacity to use such data" (Mascagni et al. 2019, p.29).

Capacity constraints within RRA were also highlighted by interviewees to have a negative impact on deterrence. The head of one development agency, for example, claimed:

> "One good thing with [EBM] is that it does provide tons of information… so, the tax records are pretty rich. If someone could sit down and analyse it, then you could use it… but [they] don't use the information hardly at all." (I09)

Mascagni et al. (2019, p.24) confirm that prior to 2017, "RRA did not have any system in place to systematically cross-check [EBM-generated] data", and that later "data [was] still used on a more ad-hoc basis". At the outset, the RRA relied on simpler enforcement techniques. In 2016, for example, the RRA "obtained 91 interns" to help manage EBM roll-out of, deploying them as "field staff" to physically monitor businesses' use of EBM (RRA, 2016).[246] A survey of 352 businesses in Kigali's Kicukiro district by Amani and Harelimana (2017) also indicates that scepticism of RRA's enforcement capacity influenced VAT non-compliance. Although 59.2% of respondents agreed that was wrong and punishable to evade VAT, almost nine out of ten respondents claimed that VAT avoidance was "easy" or "very easy."[247]

VAT administration in LMICs also faces challenges at the end of the value chain, since final consumers have no incentive to ask for receipts, and because both buyers and sellers can collude to reduce their tax burden (Gerard & Naritomi, 2018). In 2017 Fjeldstadt et al. (2018), based on a sample of 314 sales by Tanzanian businesses, found that only 60% of traders would voluntarily issue an EFD generated receipt.[248] They

[246] Remuneration of the interns was financed by development partners through the PFM Basket fund.

[247] According to Amani and Harelimana's (2017) survey, 74.2% of respondent admitted that it was easy to avoid paying VAT with a further 12.5% claiming that VAT avoidance was "very easy". Only 12.5% of respondents believed that VAT avoidance was "difficult" (10%) or "very difficult" (2.5%).

[248] The study was only able confirm that an invoice had been printed but was not able to establish whether the transaction was recorded in the EFD or whether the recorded amounts were correct. The authors acknowledge that some traders issuing invoiced could "reduce their VAT payments by recording lower amounts on the receipt than the price paid" (Fjeldstad et al. 2018, p. 10).

concluded that the behaviour of traders was more influenced by their perception of other businesses' use of EFD, rather than by any fear of detection and punishment. Siwale et al. (2021) in their survey of 628 Zambian consumers, found that 62.1% of purchases at formal shops triggered a formal VAT invoice, whereas only 6% of consumers received VAT invoices at semi-formal shops. In the study, 21% of respondents claimed to have been offered a lower price to forego a formal receipt. Eissa et al. (2014, p.15) undertook 129 "mystery shopper" visits to EBM-active retailers in Kigali in 2014, finding that only 21% of consumers received EBM receipts for small purchases, which rose to 42% when the mystery shopper requested a receipt.[249] They also found that mystery shoppers paid more for their goods when asking for a receipt, but that VAT costs were only partially passed on to consumers. They speculated that businesses were wary of charging full VAT-inclusive prices to consumers because of perceived price competition from informal retailers. A later study by Campbell et al. (2017) found that a third of surveyed Rwandan consumers were worried that retailers would raise prices if they asked for receipts.

Another widespread problem with VAT administration, even in industrialized countries, is VAT fraud, whereby VAT refunds are claimed on illegitimate invoices (Bird & Gendron, 2007). The RRA were concerned about such practices in Rwanda with the RRA CG, Richard Tusabe, claiming that some VAT-registered taxpayers were buying EBMs[250] solely to produce illegitimate EBM invoices (New Times, 2016c). In 2016, the RRA also claimed to have identified 25 EBM machines responsible for generating RWF 38 billion in fictitious receipts with a VAT value of RWF 6.8 billion (New Times, 2016d). The following year, RRA detected companies issuing RWF 3.4 billion in fictitious EBM (VAT) invoices (OAG, 2018, p.19). While acknowledging anecdotal evidence of widespread fraud through fictitious invoicing, Mascagni et al 2019, however, conclude from their data analysis that VAT EBM refund fraud was less prevalent in Rwanda than VAT underreporting.

Based on the evidence above, it is hard not to agree with Steenbergen (2017, p.10), an advisor actively involved in the EBM project, who concluded that in Rwanda "EBMs alone do not have a large impact on VAT compliance because they do not form a true third-party reporting system: firms can still choose not to comply by not issuing EBM receipts". From the point of view of this thesis, an additional observation can be made. If EBM did little to counter widespread non-compliance that was commonplace in Rwanda, particularly among smaller traders operating in both the formal and informal sectors, then tax resistance (non-compliance) was rooted in other underlying factors and would have changed little in response to the initial rollout of EBM. As will be shown in the next section, however, the EBM may have been a more salient issue for large taxpayers, having exposed unfairness within the tax system, encouraging them to engage in collective action.

9.4. Did the problematic rollout of EBMs lead to collective action?

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[249] Steenbergen (2017), involved in a follow up study found that if a tax administration officer sat with the shopkeeper, the overall receipt issuance increased to 94%, providing a clearer justification for the recruitment of 91 interns (above).
[250] Interview evidence also validates the concern that EBM machines were being used to generate fraudulent invoices. One interviewee (I46) recounted "I inherited [an EBM] when I bought the business. Then it was stolen. It is literally the only thing that has ever been stolen from our building… I was told that people try to make fraudulent receipts to then reclaim [VAT credits]".

Rwanda did not see the legal challenges and other forms of overt collective action seen Kenya and Tanzania following EBM rollout. There is evidence, however, that EBM related issues did lead to mobilization of the business community, with even the normally toothless PSF (see section 7.2.2.1) able to raise its voice publicly and highlight problems over an extended period. In 2014, for example, PSF drew attention to excessive EBM fines during parliamentary deliberations on the 2015 budget (PSF, 2014b) which was also reported by the local media (Gasore, 2015). In 2015, during consultations on the revision of the VAT law, PSF submitted a position paper to RRA to highlight problems to businesses arising from the coercive implementation of VAT-related legislation (PSF, 2015). In it, PSF welcomed the introduction of the EBM, stating that:

> "Compliance with the use of EBM is necessary and should be encouraged because it results to fair trade and encourages tax compliance, thus generating more revenue for the Government." (PSF 2015, p.3)

> "PSF shares similar objectives with RRA of increasing taxpayers in the VAT bracket and having all of them use EBM" (PSF 2015, p.13).

The paper nonetheless highlights several key shortcomings with the EBM[251], including:

> "Heavy penalties stifle economic growth and lead to taxpayer evading taxes… penalties for not using EBM are considered too high and too punitive." (PSF 2015, p.10)

> "[If a] VAT registered taxpayer fails to use EBM unintentionally or due to technical problems of EBM, RRA should not charge fines and penalties" (PSF 2015, p.15).

> "RRA should stop closing the businesses of taxpayers in case of litigation arising out of EBM and when a decision has not been reached by both parties… [and should] stop inviting the press to cover the closure of business because this has an impact on taxpayer's clients" (PSF 2015, p.15)

> "Regarding VAT refund in Rwanda, in practice, taxpayers take more than prescribed period to get their refunds."

There is also evidence of the PSF organising business dialogue to discuss EBMs. One such meeting, documented by the New Times (2016a), reports the PSF and traders calling for more realistic penalties and fairer implementation of legislation, and quote the RRA's Commissioner General vowing to have further dialogue on the issue. It should be noted, however, that the aforementioned roundtable, and the RRA's commitment to listen to businesses, came after the revisions of the VAT law had been passed in 2015 (see section 9.5.5), indicating that it came too late to make a significant impact. Reflecting on the PSF's approach to lobbying on EBMs, one private sector development specialist (I04) suggested that PSF would have been compelled to act because of the visible and tangible impact of on its members:

> "It's probably only when it's an issue which impacts on a number of different chambers, so there is a consensus across the organisation. It's not something that

[251] The paper focuses exclusively on the legislation, and no mention is made of the problematic devices. This may reflect the fact that the paper was written to lobby for changes in the tax law.

only affects the beekeepers or only effects the lawyers… it affects all business areas so there is a unified view." (I04)

The expert nonetheless suggested that PSF were pulling their punches in their analysis of EBM:

> "[PSF] prepared a well-considered paper… which is unusual for them… [Yet] it is the gentlest prod that you have ever seen. A paper from the British Chamber of Commerce would have hammered into the government about not consulting them properly beforehand, how this would be extremely deleterious to trade, etc. [PSF's paper] is saying that 'this is an absolutely scorching, wonderful idea… it's really, really, good for the country… just a little thing you might change.' Probably the only way they could have got a change was by being as delicate as that. It's indicative again of this climate of pervasive fear that seems to run through all strata of society… That one mustn't speak ill of the government." (I04)

Even the normally compliant Rwandan media felt confident enough to repeatedly highlight EBM challenges and the RRA's administration of VAT. The New Times, for example, published a series of articles, reporting on problems raised by taxpayers. Also, in keeping with Pritchard's (2016) observation that small tax issues can spark citizens to coalesce around a broader issue, the media was able to draw a line between problematic EBM and coercive administration, and arguably a bigger problem for businesses, namely that of delayed VAT refunds (see sections 9.3.1 and 9.5.3). Yet, the media was also careful not to be too critical of the government's stance on EBM and VAT. A few days after it reported on business complaints over EBM (New Times, 2016a) the New Times published a letter -seemingly from a pro-government commentator[252]-, which described businesses "whining about high fines" and claiming that the "people of Rwanda are [VAT noncompliant] business' collective victims" (Kalinda, 2016).

Although the softly-softly approach of PSF and the media can be criticized, the subsequent section will demonstrate that sufficient noise was made for the government to listen, acknowledge failings, and then promise to make concessions.

9.5. The government committed itself to respond, but ultimately failed to deliver

Although the authorities' first instinct throughout was to coercively impose EBM on taxpayers (see section 9.2), RRA eventually realized that a more multifaceted approach was needed. RRA were undoubtedly concerned with the underwhelming performance of the EBM (see section 9.2.1) and likely concerned about the increasingly vocal critiques of EBMs reaching the ear of the political leadership (see section 9.4), In 2017, RRA issued a formal EBM compliance strategy for the period 2017-2020 (RRA 2017), which complemented actions on EBMs and VAT administration detailed in RRA's Strategic Plans between 2015 and 2024 (RRA 2015, 2019). The EBM compliance strategy reviews

[252] A search of the New Times database on 13 August 2023 reveals that 360 letters purportedly penned by "Mwene Kalinda" were published in the paper between March 2016 and March 2018 (an average 3.4 published letters a week in a two-year period). This indicates that the letters might not, in fact, have been written by a very concerned and diligent citizen, but were simply a way for The New Times to report pro-government propaganda through bogus letters, and to temper previous articles that may have upset the RPF. Indeed, upon closer examination, "Mwene Kalinda" is recorded in the electronic versions of the New Times as being a "Times Reporter".

the rollout of EBMs and in doing so acknowledges many of the main problems (see section 9.2.1). The strategy outlines initiatives to promote voluntary taxpayer compliance, including the gradual replacement of EBM devices with software-based solutions with improved functionality (see section 9.5.1), further incentivize consumers to request invoices by upgrading the VAT lottery (section 9.5.2), and improving taxpayer services for EBM through the creation of a dedicated team within RRA.[253] The strategy also outlines a vision to improve EBM enforcement, by making better use of data analytics to uncover fraud, and -under the slogan "EBM for all"- by expanding the coverage of EBM and eliminating unfair competition between VAT-registered and non-VAT-registered taxpayers (see section 9.5.4). The strategy also pledged to streamline VAT administration, and to "implement a strategy for improving VAT refund process, so as to reduce the average time to issue a VAT refund"[254] (see section 9.5.3).

Yet, while the strategies and plans may have acknowledged deficiencies in EBMs and their administration by RRA, and articulated an intent to respond to taxpayer concerns, the subsequent sections will show that RRA did not deliver on its commitments. This is not uncommon in Rwanda, where the RPF government repeatedly articulates ambitious plans and vision, but where in practice implementation often falls short (see sections 4.2.2.3 and 4.2.2.4).

9.5.1. EBM 2.0

By March 2017, over 99% of the EBMs in use in Rwanda were physical devices (RRA, 2017b). Acknowledging that the devices were "associated to a host of practical difficulties leading to poor quality of service and relatively high costs of acquisition and maintenance" and that devices inconvenienced "many taxpayers who had to maintain a dual invoicing system in order to comply with RRA regulations", RRA pledged to move to software-based EBM whereby "taxpayers will be given the choice of using basic application modules offered by RRA or any private company duly authorized by RRA" (2017, p.8). The software-based EBM was deployed in April 2018, and offered free to VAT registered taxpayers, with RRA having learnt the lesson that costly EBM made them very unpopular. This change in approach was welcomed by one tax specialist, who commented:

> "EBM machines were a pain… I feel that that message didn't really get communicated as thoroughly as it could have… that feedback loop wasn't as strong as it should have been… the fact that they are moving to software… at least they have responded… eventually. (I10)

Yet, the transition from physical devices to digital systems also created challenges for taxpayers. One advisor (I23) suggested that while software-based solutions would be welcomed by larger firms:

> "The problem [with digital EBM] is a lot of small companies don't have computers…. Or don't even have smartphones…" (I23)

[253] The strategy envisages the establishment of a dedicated EBM department within RRA, subdivided into divisions that focus on (i) Data and Business Analytics, (ii) Field Operations and (iii) Support Services.

[254] The strategy commits RRA to completing automatic VAT refunds withing 30 days and audited VAT refunds within 90 days against a 2014/15 baseline of 120 days for automatic refunds and 210 days for audited refunds.

Another businessperson expressed frustration at the lack of consistency in RRA's approach, which they believed created uncertainty and increased compliance costs or business:

> "Often it feels that the private sector here is the testing ground for revenue authorities… 'let's put in EBM'… everybody buys RWF 150,000 EBM… 'buy this model' and everyone buys the model… 'no, buy this model' and everybody has to change… Now we have gone online" (I12)

The PSF (2018, p.46) also encouraged RRA "to be mindful of additional costs such as training costs associated with the implementation of the new technology… considered to be additional burdens by many small-scale businesses, especially in rural areas where access to the internet and other support infrastructure are limited".

An entrepreneur (I61) also highlighted flaws in the way the software-based EBM was originally designed and implemented. While acknowledging the benefits of moving away from unwieldy hardware, they nonetheless claimed that the software-based EBM was primarily driven by the needs of RRA, and no serious thought was given to developing a system that would give flexibility to businesses. They also claimed that flaws in the procurement of digital service providers contributed to a sub-optimal digital EBM system: the local companies selected to develop the software lacked technical capacity, and the tender value was too low, disincentivizing the firms to develop a flexible system. The businessperson (I61) noted that RRA subsequently approached development partners to enhance the software-based system. Indeed, the Korean Development Agency eventually provided USD 6 million in support to "develop various versions of EBM software to fit various operating systems… and simplify the EBM software interface to make it more intuitive and user-friendly for small businesses" (MINECOFIN, 2018). This businessperson (I63) also revealed that many businesses were wary of installing "free" government software on their computers, citing the widespread accusations of government's use of malicious spyware.[255]

9.5.2. The VAT Lottery

To incentivize consumers to act as third-party enforcers of VAT EBM compliance, the RRA emulated other countries by introducing a VAT lottery in 2015 (see Figure 22). [256] VAT lotteries aim to overcome the last-mile problem of VAT self-enforcement by incentivizing consumers to request VAT invoices (Febbri, 2015).[257] Under such schemes, VAT invoices -issued through EFD- become lottery tickets, offering the prospect that

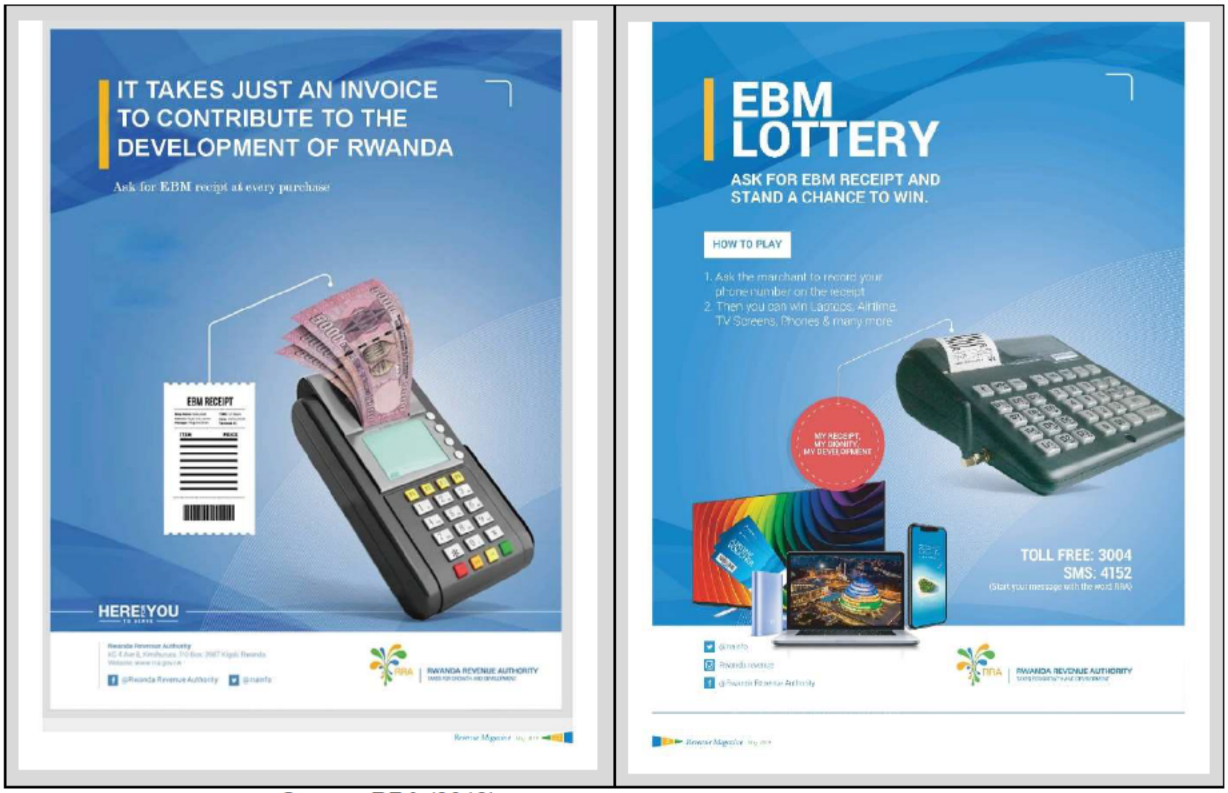
[255] See, for example, Wrong (2021b) or Amnesty International (2021) who claim that the Rwandan authorities targeted thousands of activists, journalists, political opponents, foreign politicians, and diplomats with Pegasus spyware developed by the NSO Group.

[256] A VAT lottery was first introduced by Taiwan in the 1950s, with other Asian countries such as the Republic of Korea, the Philippines, and China following suit in the subsequent decades (Wan, 2010). Similar schemes have been deployed in Latin America, most notably Brazil (Naritomi, 2019), Argentina, and Puerto Rico (the scheme was later shelved in Puerto Rico), as well as in European countries such as Malta, Portugal, Poland Slovakia, Slovenia and Romania (Fooken et al. 2014, Ungureanu & Dascalu, 2015).

[257] Febbri (2015, p. 9), for example, found that "customer enforcing invoices emission is a costly action that generates a positive externality whose benefits are not internalized by the customer himself", and highlights that a consumer may enjoy a price discount on a good by colluding with the seller to avoid VAT (Febbri, 2015). In Chang and Lai's (2004) theoretical framework, third-party enforcement of tax compliance may impose a social cost on the consumer in contexts where tax evasion is the norm.

consumers who play part in fighting tax evasion can win prizes. Lotteries nonetheless impose costs on revenue authorities -paying prizes and administering the lottery- and are only effective if such costs are outweighed by an increase in tax revenues and an improved taxpaying culture.

FIGURE 22: PROMOTING CUSTOMER AUDITING OF EBM



Source: RRA (2019)

Quasi-experimental evidence from China (Wan, 2010) and Brazil (Naritomi, 2019) indicate that VAT lotteries can reduce VAT evasion, by making it more difficult for sellers to avoid declaring VAT transactions. Yet, Fooken et al. (2014) found revenue and compliance effects of VAT lotteries to be inconclusive in Europe, while Fenchietto and Benitez (2021) conclude that the revenue impact of VAT lotteries in Brazil and Argentina "was short-lived". In November 2017, the IGC interviewed 556 consumers and consumer facing shops in Kigali (Naritomi & Jensen, 2018; Tourek, 2021). IGC found that the lottery's incentive effect was limited in Rwanda, with only 4% of EBM receipts submitted to RRA as lottery tickets in 2017, and only 10% of Kigali's citizens having ever participated since its establishment (Tourek, 2021). IGC found that while 40% of the population was unaware of the lottery, price penalties -30% of those interviewed reported being charged higher prices to obtain EBM receipts- outweighed the incentive effect of the lottery.

This example illustrates the disconnect between Rwanda's policy making elites' thinking and Rwanda's impoverished citizens. Flashy initiatives are attractive to central level policymakers, but for the masses the tangible benefit of lower priced staple goods far outstrips the distant prospect of winning impractical luxury goods.[258] There is evidence that the authorities did acknowledge the flaws in the Rwandan lottery. In June 2023, the government submitted a proposal to the National Assembly to revise Rwanda's VAT law, which included provisions for VAT rebates to incentivize consumers to request EBM receipts (IMF, 2022; Ntirenganya, 2023b).

9.5.3. VAT refunds

Bird & Gendron (2007, p.177) claim that many LMICs are slow to process VAT refund claims because of fiscal pressure or a lack of cash, resulting in "borrowing from taxpayers through what amount to 'forced loans'". Similarly, Garrison and Krelove (2005, p.14) report that although most countries have statutory deadlines for payment of VAT refunds encoded in laws, such provisions are "insufficient in guaranteeing that timely refunds will be made", particularly in LMICs. The 2012 revision of Rwanda's VAT law set RRA a deadline of 30 days to refund valid claims. Yet, Mascagni et al. (2018, p.531&544) in a study of VAT in Rwanda found that the "refund mechanism is not functioning properly", noting that Rwanda's refunds-to-VAT-revenue ratio was 9% in 2019, well below the average of 15% in comparable countries, and that "Rwanda scores very weakly on the 'adequacy of refund processing' in TADAT assessment(s)".[259]

As noted in section 6.3.4, lengthy VAT refund delays are often decried by Rwanda's private sector, and even Rwanda's pliant local media feel able to repeatedly highlight RRA's shortcomings on the matter. In February 2019, for example, the frontpage headline in the New Times declared "RRA owes Rwf30b in VAT refunds" (Mwai, 2019d). In June 2019 RRA CG Pascal Ruganintwali admitted that VAT refunds were delayed because of insufficient budget to reimburse taxpayers, and pledged that RRA would refund VAT to businesses within the 30 days stipulated in the law (Mwai, 2019c&d).

Yet, the issue was never fully addressed. Two years after the pledge was made, OAG (2021) reported that close to nine out of ten VAT refund claimants face lengthy delays. Four years after the public pledge, Ntirenganya (2023a) reports that VAT refund delays was the main point of contention in a consultative meeting between representatives of the PSF, MINECOFIN and RRA in February 2023. Ntirenganya (2023a) claims that by January 2023, the RRA still owed businesses RWF 30 billion in VAT refunds, with some companies waiting over three years for their refund. At the meeting, Hajara Batamuliza, RRA's Commissioner for Domestic Taxes, is reported to have acknowledged the problem and said that the government was working to expedite refunds. She indicated that while MINECOFIN had increased RRA's budget to pay refunds, and that RRA routinely retained 12% of the VAT collected to pay the refunds, in the authorities' view the solution lay in enforcing mandatory use of EBM by all taxpayers (see below), which would assist RRA

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[258] A similar example can be found in the flagship one-laptop-per child policy, launched to great fanfare in 2008 with a pledge to provide basic laptops to every Rwandan child between the ages of nine and twelve. The OAG (2014, p.41) later found that "in most schools, laptops are still kept in the boxes and store rooms and have not been put to use", and laptops had even been delivered to schools with no access to electricity. Chemouni (2016, p. 774) concludes that the failure lay in "bureaucrats at the centre consider[ing] it would be an excellent initiative, without wondering if this was meeting real local needs and if any teacher knew how to use a laptop". Moreover, at the time the policy was launched, Beaumont (2010) claims that "two of the larger government-to-government donors… informed the Rwandans that money would be better spent on training teachers rather than personal computers".

[259] The Tax Administration Diagnostic Assessment Tool (TADAT) is an internationally agreed methodology for assessing the performance off tax administrations.

to expedite VAT refunds by providing more accurate verification data. In other words, the government was not able or willing to act, despite the rhetoric, and hoped that the solution would resolve itself by doubling down on EBMs.

9.5.4. EBM for all

In the EBM Compliance Strategy (RRA, 2017), the RRA announced its intention to extend EBM usage to non-VAT registered taxpayers, under the slogan “EBM for all”. The decision surprised many (see below), chiming as it does with Bird and Gendron’s (2007, p.120) observation that “it does not make sense for most countries to apply VAT as widely as their laws require, and it is puzzling that so many developing and transitional countries persist in (nominally) attempting to do so”. Cnossen (1994), for example, found that VAT compliance costs are typically much higher for smaller firms, while Keen and Mintz (2004) document how tax authorities can be overwhelmed by the challenges of processing the low-value VAT returns of small taxpayers. Part of the reason Rwanda -like other LMICs- introduced VAT registration thresholds, was to reduce administrative and compliance costs to the revenue authority and small businesses, respectively. Bird & Gendron (2007) also question the value of collecting additional data on taxpayers, pointing out that “such an explanation would be more convincing if there were evidence that anyone had really put such information to good use.”

In keeping with this literature, one expatriate advisor to RRA summarized the RRA’s decision-making on “EBM for all” as follows:

> “My immediate reaction [to EBM for all] was that it seems like overkill… You have got very small businesses, and you are putting a massive burden on them… and are [RRA] using the data? [An advisor from] HMRC flagged similar issues… Someone from the IMF had come in while I was there and said ‘I am concerned about you doing this’… and [RRA officials responded] ‘No, we are doing this… everyone is really non-compliant, there are people below the VAT registry threshold we cannot identify… unless we do this we are not going to know if they are under the VAT threshold’… Well in terms of proportionality, it seems a bit misplaced” (I60)

Officially, “EBM for all” was introduced to raise more revenue as well as “to mitigate the effect of price distortion and unfair competition between VAT registered taxpayers and non-VAT registered taxpayers and to access sales transactions data from non-VAT registered taxpayers” (RRA, 2017b, p.13). In this respect, “EBM for all” does appears to respond to the needs of larger taxpayers, who complained of the distortion of competition associated with the differential tax treatment of firms above and below the VAT threshold (PSF, 2019). However, RRA’s own priorities were more likely to be the main driving force. Bird & Gendron (2007, p.116), for example, summarize that “since good tax administration rests on information, it is obviously advantageous in principle to include as large a share of economic activity in the tax base as possible in order to be sure to capture as much information as possible.” Bird & Gendron (2007, p.120) also note that a “the deep distrust of taxpayers prevalent in many tax administrations induces policymakers to dip as deeply as possible into the pool of potential taxpayers to try to catch some ‘hidden whales’”. The inclination to collect data and monitor citizens’ behaviour, as well as deep mistrust of citizen-taxpayers, are certainly characteristics ingrained in the RPF psyche.

9.5.5. Legislative revision

As previously noted (see section 9.2) the government's first instinct was to coercively enforce EBMs through strict legislation, and the RRA's harsh treatment soon became the main grievance of businesses (see section 9.3). In September 2019, a new law on tax procedures was published, replacing the law of 2005 (see section 9.2). According to one tax professional involved in both PSF and iCPAR (I51), the former, but not the latter[260], were invited by RRA to comment on the draft legislation during formulation. This provides an opportunity to examine the extent to which the government responded to the demands of the business sector (as outlined in section 9.4).

The new law provided the RRA with a stronger legal basis for "EBM for all" (see above), by requiring persons carrying out taxable activity in Rwanda to possess an EBM certified by the RRA, and to issue EBM-generated invoices (RoR, 2019b). This was undoubtedly a welcome development for those larger businesses that had complained about an uneven playing field, but also benefitted RRA.

The law also heralded a revised framework for penalties and fines, but as will be shown below, on balance the changes were not favourable for taxpayers. Indeed, a tax professional summed up the revision as follows:

> "While the law on tax procedures was amended, it is still punitive." (I51)

The law maintained most administrative penalties for VAT non-compliance and introduced new penalties specific to EBM non-compliance. Businesses operating without VAT registration continued to face administrative fines of 50% of taxes due, whereas unregistered businesses found to have issued VAT were now liable to fines of 100% of the taxes due (down from 150% in the previous law). Failure by VAT registered businesses to use EBM resulted in administrative fines of RWF 200,000 (doubled for repeat offenders) in addition to fines equivalent to 10 times the unpaid tax (again doubled for repeat offenders) (RoR, 2019b). Those businesses undervaluing the price and quantity of goods and services, which now needed to be issued through EBM invoices, faced fines equivalent to 10 times the unpaid tax (doubled for repeat offenders) (RoR, 2019b). This last revision could, in principle, be considered a concession to taxpayers when compared to old law where fines between 10-100% were imposed based on the value of the understated taxes (see Table 7). Equally plausible is that the revisions were introduced for the benefit of RRA, since they would simplify the calculation and administration of fines.

The law (RoR, 2019b) maintained fixed administrative fines for "wrongdoing" at RWF 100,000, RWF 300,000, and RWF 500,000 for small, medium, and large taxpayers respectively, but also introduced a provision that fixed fines would be doubled for taxpayers who failed to maintain proper books of account. The law introduced a new fine of RWF 500,000 per month for late submission of certified annual tax declarations and financial statements (doubled and quadrupled for repeat offenders). Finally, taxpayers

[260] Had they been consulted, iCPAR members would have undoubtedly opposed provisions in the law for administrative fines of RWF 200,000 to be imposed on tax professionals found to have obstructed the activities or duties of the tax administration (Art. 77, RoR, 2019b).

found to have evaded their taxes (in whole or in part) would face a fixed administrative fine equivalent to the evaded tax and still be subject to criminal investigation.

One change to non-fixed administrative fines that appears to be a major concession to businesses that inadvertently default on tax payments due, for example, to short-term cashflow challenges to were also revised. Here, penalties for late declaration and payment of taxes significantly reduced and pegged to the length of time taxpayers remained in default (See Table 8). Moreover, interest charges on late payment of taxes were reduced to 1.5% per month (from 2% per month in the old law) and up to a maximum of 100% of the taxes due (RoR, 2019b). It was not possible to independently verify what motivated such revisions to the law, or why these concessions were made and not others.

TABLE 8: NON-FIXED ADMINISTRATIVE FINES FOR LATE DECLARATION AND PAYMENT

	2005 Law (Art 61&62)	2019 Law (Art. 78)
Administrative fine for non-payment on time (declaration on time)	50% of taxes due	10% (up to 30 days in default) 20% (31-60 days in default) 30% (>60 days in default)
Administrative fine for non-declaration and non-payment on time	60% of taxes due	20% (up to 30 days in default) 40% (31-60 days in default) 60% (>60 days in default)

Source: RoR, 2005b, 2019b

The law revision did not respond to the PSF's request (see section 9.4) to curtail the RRA's discretionary power to impose "additional sanctions" (RoR, 2019b), allowing RRA to close businesses it deemed non-compliant, to bar them from public tenders and to withdraw them from the public register, or even to name and shame companies in the media (see **Error! Reference source not found.**Section 9.2).

The analysis above suggests that while some concessions were made in response to business complaints of punitive fines and penalties, particularly in relation to inadvertent late declaration and payment, most of the reforms to the fines and penalties framework in the 2019 law on tax procedures appear primarily driven by the RRA's needs. Moreover, many of the apparent concessions were also in line with the interests of RRA by streamlining procedures and reducing administrative burden.

9.6. Chapter summary

In contrast to the revision of the income tax law (see chapter 8), the roll-out of EBM is a closer fit with the processes outlined in the theoretical model (see section 3.1.1). In response to the aid crisis (see section 4.2.3), the government enacted punitive legislation to coercively enforce the use of EBMs in Rwanda, with little in the way of consultation. The planned phased introduction of the devices was quickly abandoned in the interest of political expediency. The rushed approach proved unpopular with businesses. The devices were expensive, unwieldy, and prone to malfunction, and their usage was further inhibited by the country's poor power and internet infrastructure. Harsh penalties for non-compliance, and a lack of flexibility by RRA to device fallibility and operator error compounded matters. RRA were also unprepared for an accelerated -and what proved to be problematic- rollout, as evidenced by a small team tasked with managing the introduction of EBMs and insufficient resource allocation to taxpayer services and aftercare.

Discontent with the EBMs resulted in taxpayer resistance (see section 9.3). While Rwanda did not experience the open public protests of neighbouring countries, which is unsurprising given the oppressive nature of the Rwandan state, there is clear evidence of tacit resistance by citizen-taxpayers who simply chose not to use the EBMs. For those who complied, the fallibility of the devices and the perceived unfairness of RRA's harsh EBM administration also emboldened the business community, often through the normally pliant PSF and the media, to voice criticism -albeit muted- of the EBMs. The critical discussion around EBMs also provided a platform for the private sector to unite and to draw attention to another more pressing concern relating to VAT administration, namely ineffective VAT refund practices.

The introduction of EBMs also proved to be far from the panacea to VAT administration that the RRA had expected. Initially, the government would neither recognize the concerns of business nor countenance that the devices were fallible, and its first instinct was to respond to the disappointing results with even more coercive enforcement. Eventually, however, the government recognized that a change in approach, at least at the margins of its overall EBM policy, was necessary.

Whether the decision to reform came primarily in response to concerns articulated by taxpayers, or from a clear and pressing need to solve practical problems encountered by the RRA is debatable. Closer examination of the reform outcomes (see section 9.5), however, suggests that the latter may have dominated the thinking of decisionmakers. While a case can be made that some -mostly larger- businesses benefitted from the more reliable and flexible EBM 2.0 and from a more level playing field under "EBM for all", RRA was undoubtedly the main beneficiary of an expanded tax base and technological solutions to ease the payment of taxes and further simplify tax administration. By contrast, Rwanda's smaller businesses would not have welcomed such reforms and the associated increase in compliance costs. Despite the rhetoric, the government did not -or could not- honour its pledge to address the VAT refund issue, and businesses continued to face harsh penalties and fines with only limited concessions evident in the revised tax administration law.

10. Conclusion

This research sought to uncover the extent to which a dominant authoritarian regime in a LMIC –faced with acute revenue pressure- may be prepared to cede power, accept increased political accountability, and become more responsive to the needs of its citizens through implicit or explicit tax bargaining. In doing so, the thesis supplements the small body of research testing the assertion that greater reliance on taxation can create "governance dividends" in present day LMICs in SSA. The primary question of this thesis, addressed in Section 10.1, was how revenue pressure influenced the Rwandan government's willingness to make concessions to citizens –or specific groups of citizens- in exchange for citizens acquiescence to pay taxes [RQ1]. Three secondary questions were also posed: [RQ2] What were the contextual factors that determined the likelihood of tax bargaining in Rwanda? [RQ3] How do local actors cooperate, coordinate and conflict with regards to the formulation of tax policy in Rwanda? [RQ4] What does the Rwandan experience tell us about development partners' role in the fostering governance dividends in low-income dominant authoritarian countries? These secondary questions are addressed in Sections 10.2, 10.3 and 10.4 respectively. The thesis concludes by discussing how applicable is the model to dominant authoritarian country contexts more broadly (section 10.5) and by identifying new areas for follow up research in Rwanda and further afield (section 10.6).

The theoretical framework for this thesis adopts a model developed by Pritchard (2015), which identifies contextual factors that influence the likelihood of tax bargaining and outlines causal processes through which taxation may lead to direct or indirect governance dividends (see section 3.1). The research focuses on the period 2012 to 2020, first analysing the contextual factors that shape tax bargaining prospects in Rwanda (see Chapters 4-7), before examining two of the most significant tax reforms undertaken during this time -revision of Rwanda's income tax law (see Chapter 8), and the rollout of VAT EBMs (see Chapter 9)- through the prism of the theoretical model.

The research contributes to several strands of the academic literature, complementing the existing body of work on development economics, and shedding new light on the political economy, organizational theory, political sociology, governance, public administration, and formulation of public policy in contemporary dominant authoritarian LMICs in SSA. New evidence is presented that the emergence of governance dividends from taxation is far from assured in dominant authoritarian countries in SSA. In Rwanda, little evidence was found of direct tax bargaining, or of positive outcomes from the causal processes envisaged in the model during the period under observation. Government was predisposed to coercive expansion of taxation to finance its legitimization strategy. On the demand side, the extent of state repression eliminated any prospect of tax resistance envisaged in the model, while those that may have sought to challenge government's tax plans faced insurmountable collective action challenges. On the supply side, the research provides further evidence how normative institutions and *de jure* institutional checks and balances established in dominant authoritarian regimes –in this case the semi-autonomous revenue agency model strongly promoted by donors in SSA- are overridden by *de facto* systems and practices arising from relationships, interests and incentives of policymakers and bureaucrats within the system. Rwanda's governance arrangements -with accountability invariably inward and upwards to the President- generated strong perverse incentives that negatively affected the behaviour of decision makers on tax policy. This was compounded by the de facto practice of delegating tax policy formulation to the revenue authority -an entity with a vested interest in coercive expansion of taxation- and a lack of oversight and scrutiny by the Ministry of Finance. Despite these factors, the research does find some evidence of "mutual behaviour adjustment without direct negotiation" as predicted by Moore (2008, p. 37), opening the prospect of governance dividends emerging in Rwanda over a longer timeframe.

In undertaking the research, evidence was collected through a mix of desk research and fieldwork, including document collection, interviews, budget analysis, informal exchanges, and observations (see section 3.4). In total, 63 interviewees -whose identities have been anonymised- participated in the research (see section 3.4.2). To mitigate the risk of positive bias, interviews were undertaken sequentially, with stakeholder groups outside government approached before government insiders. This was done to obtain more objective views up front and gather evidence to question the official narrative in later interviews. This strategy was undermined by COVID-19. Thereafter face-to-face interaction became impossible, and civil servants targeted for interview would not communicate electronically once the author had left the country, presumably in fear of state surveillance. To compensate, the author undertook new and unique analysis of the Rwandan state budget (see section 3.4.4), revealing a significant gap between the political rhetoric and the reality of government expenditure commitments, as captured in law. The research also reflects first-hand experience of the institutional context and behavioural norms of government officials in relation tax reform in Rwanda. From 2015 to 2020, the author was posted to Rwanda as a diplomat and worked directly with public officials, including those responsible for tax policy and tax administration (see section 3.3.2). The author was also able to gather contextual information through informal exchanges (see section 3.4.3), but such privileged information is only used in this thesis where it can be triangulated with publicly available documentation or formal interviews.

10.1. RQ1: To what extent did an increase in revenue pressure incentivise the Rwandan government to bargain and compromise over taxation?

The starting point for the in-case studies, as in the theoretic model, was a fiscal crisis precipitated by ODA being withheld in response to the Rwandan government's destabilization of the Eastern DRC (see section 4.2.3). While the crisis prompted a more rapid deployment of EBMs, it did not accelerate reform of the income tax law, with the latter only enacted five years after the crisis (see section 8.1). There are two equally compelling reasons why the government was able to stave off legislative tax reform in the short run. First, the government's uncontested coercive power allowed it to extort revenue from citizens (withholding salaries of civil servants and forced donations), representing perhaps one of the oldest and purest examples of "taxation" without bargaining. Second, the government was able to borrow heavily from domestic commercial banks, over which it also exerted strong influence.[261] The latter is consistent with Toye's (2000) observation that contemporary governments typically try to borrow their way out of trouble.

[261] It is possible that the government was able to borrow on favourable terms because of its ownership of some banks and influence over others. Behuria (2020, p. 129) in his study of the Rwandan banking sector, for example, found that

While the short-term measures alleviated some of the negative effects of the aid crisis, the government realized that more strategic reforms were needed to secure more stable domestic resources in the long-term. However, this realization did not prompt immediate tax reform. Rather, the government chose a more pro-growth development trajectory, reasoning that economic expansion would broaden the tax base. It also believed that large-scale, visible tax reforms would discourage FDI and domestic private investors (see section 8.1). In fact, the government chose to reform its investment code, outlining tax exemptions for investors, before turning its attention to tax reform. The government also decided to increasingly finance this vision through the accumulation of debt.

Nevertheless, tax reforms were still necessary to provide assurance to Rwanda's new creditors that the country would repay its growing debts. Yet, rather than undertaking a complex and time-consuming revision of tax policy, the government chose to put its faith in a technological innovation, the EBMs, which it believed could be rolled out at short notice and be a panacea for tax administration (see Chapter 9). Against this backdrop, revision of the income tax law appears less like a direct response to a fiscal crisis, and more like routine regulatory updating and clean-up. In short, the government repeatedly chose the path of least resistance when faced with revenue pressure, rather than embarking on structural change.

10.2. RQ2: How did contextual factors shape the potential for tax bargaining in Rwanda?

Although Rwanda faces similar structural constraints to other LMICs when it comes to raising revenues, other more unique contextual factors ensured that tax bargaining was limited, and that that any governance dividend from the tax reforms under observation was minimal. The contextual factors found from the research to be shaping the potential for tax bargaining in Rwanda are summarised in Table 9. The process of undertaking in-depth research for this thesis revealed that many of the original assumptions made in relation to contextual factors (see section 3.2.2) were erroneous, and the true extent of state repression in Rwanda overrides any prospect for tax bargaining.

The Rwandan government does face immense revenue pressure (see Chapter 5), and is not endowed with sufficient natural resource rents to forego taxation.[262] In common with many SSA LMICs (see section 2.2), structural economic constraints, low institutional capacity, a globalized economy, and the domestic political economy inhibit the government's ability to raise sufficient revenue from tax (see section 5.1). Rwanda's continued reliance on ODA, its small open economy, and climate change expose Rwanda to frequent exogenous shocks, which in turn result in fiscal crises and economic distress.

"Since state-, party-, and military-owned enterprises controlled a large share of the economy, the government also retained some control within the financial sector through operating as a large client for commercial banks".

[262] Although Rwanda is highly reliant on ODA and has a history of appropriating the natural resource wealth of neighbouring DRC, particularly at times of fiscal crisis, this thesis classified Rwanda as a non-rentier state in the classical sense.

TABLE 9: CONTEXTUAL FACTORS SHAPING THE POTENTIAL FOR TAX BARGAINING IN RWANDA

Structural Factor	Pathway of impact on tax bargaining	Relevant contextual variable
Revenue pressure facing government	Increases incentives for governments to bargain and compromise	• Frequent fiscal crises and vulnerability to external shocks • Continued reliance on foreign aid... but gradually being replaced by willingness to borrow • Little own natural resource wealth (but exploiting resources of DRC) • Ability to coercively extract resources from citizens through extra-judicial means
The potential and scope for tax bargaining	Shapes the fiscal power wielded by taxpayers, and their ability to create fiscal incentives for government concessions	• Government-owned or -controlled private sector. • Continued government reliance on direct taxes and VAT • Relatively effective tax administration by SSA standards, but lacks societal embeddedness • De facto politicization of tax policy and collection, undermining trust
Taxpayer capacity for collective action	Shapes the ability of taxpayers to become collectively mobilized and make effective demands on government	• High repression and low political openness or repression • Strong elite leadership, bound by existing privileges and collective sense of vulnerability shaped by historical legacies • Ineffective business associations, set up for symbolic purposes • Little unity of taxpayer interests beyond elite groups. Informality of MSMEs. • Top-down, paternalistic approach to state-building and development - low expectations of reciprocity
Institutions for bargaining	Shapes the feasibility of more direct forms of tax bargaining	• Parliamentary processes controlled by RPF and real political opposition non-existent • Forums for engaging with taxpayers largely symbolic • Muzzled media and supressed CSOs • Informal institutions undermining trust and bargaining (e.g. RPF membership, “clan” ties, and social/class networks) undermining trust
The political salience of taxation	Increases the likelihood that particular groups will engage in tax resistance or collective action	• Masses indifferent to taxation • Untransparent tax reform processes closed to all but selected elite groups • Limited role of the media and elites in publicizing tax issues • Historical legacies (authoritarianism, genocide)

Source: Author (Based on Pritchard, 2015)

Yet, the reality of RPF rule is that institutions for bargaining have been emasculated and taxpayer capacity for collective action is severely constrained, which drastically reduce the potential and scope for tax bargaining. The RPF has established a dominant authoritarian political system, where the state apparatus is overtly and covertly used to exert socioeconomic, political, legal, cultural, institutional, and extrajudicial repression over citizens (see section 4.1.2). Power is centralized in the hands of President Kagame, and the slightest perceived threat to his absolute rule is quickly -and brutally- extinguished. Elites are bound to Kagame as much by virtue of mutual interest -as beneficiaries of patronage and protection to the perceived existential threat from the largely Hutu masses- as by their fear of the consequences of falling from grace, including social ostracism, expropriation, imprisonment, exile, and even assassination (see section 4.2.1).

As part of its broader legitimization strategy for foreign and domestic audiences, the RPF has established nominally democratic institutions and processes. Yet, in de facto terms, these institutions and processes actually reinforce the dominant authoritarian regime and obstruct democratization (see section 4.2). Rwandan elections are carefully orchestrated events that serve to denigrate political opposition and reaffirm RPF omnipotence –as reflected in stark terms by the 99% vote share obtained by Kagame in the 2024 Presidential election. Rwanda's legislature is dominated by the RPF, and other political parties are either coopted or coerced to tow the RPF line, ensuring that -aside from topics that unify elite interests such as opposition to property or capital gains taxes- there is little challenge to executive power (see section 7.1.1). Rwanda's ostensibly "home grown" structures for public consultation are choreographed spectacles to demonstrate citizens' unwavering support for the RPF and its discourses, and neither offer the prospect of critical discussion nor explicit or implicit tax bargaining opportunities (see section 7.1.2). Such events reinforce the nature of expectation in Rwanda that citizens surrender their personal liberty and rights to political expression in exchange for the promise of prosperity, stability and security provided by the RPF.

Taxpayer capacity for collective action is extremely low. Rwanda's media is largely owned by the RPF, and an elaborate legal framework further curbs media independence and freedom of expression, which is reinforced through extrajudicial intimidation (see section 7.2.1). Most CSOs function as an extension of the state -implementing government policy at the grassroots level- and few engage in advocacy (see section 7.2.2). At the time of writing, there were no CSOs advocating for tax justice in Rwanda. The ubiquity of Rwanda's security apparatus is an effective deterrent to spontaneous opposition to tax reform from "the street" through public protest and demonstrations.

Rwanda's private sector is also largely controlled by the RPF through a web of party-statal and military-owned enterprises, which concentrate economic power and opportunity in the hands of loyalists. The remainder of Rwanda's private sector are largely informal MSMEs primarily concerned with day-to-day survival (see section 5.1). Rwanda's business association, the PSF, merely exists for its symbolic value to government and possesses neither the capacity nor inclination to advocate on behalf of its members, particularly on issues perceived to conflict with government priorities (see section 7.2.2.1). While platforms for public-private dialogue exist, which nominally provide space to discuss tax matters, these are tokenistic and provide only limited opportunity for unstructured and ad-hoc discourse (see section 7.1.3).

Rwanda's public administration, including RRA, although portrayed by the government itself and by many development partners as relatively competent by SSA standards, fall victim to political manipulation, strict hierarchies, and institutional dysfunctions, leaving officials ill-equipped and disinclined to listen to, and systematically act on, issues raised by citizens (see section 6.3). This chimes with the conclusions of Chemouni (2020), in which he summarised the performance of RRA as follows:

> "The organisation performed well in the unambiguous task of extracting revenue, which arguably requires some autonomy from particularistic interests, but much less so when its tasks, such as contributing to policy formulation required some embeddedness with key segments of society" (Chemouni, 2020, p. 31)

This thesis examined the final set of contextual factors -the political salience of taxation- by applying the theoretic model to two major tax reforms in Rwanda, documented in the in-case studies in Chapters 8 and 9. In doing so, new evidence is presented on how specific events, the incidence and visibility of different taxes, and the visibility and openness of the reform process, among other factors, influence the behaviour of taxpayer groups by incentivising or disincentivizing them to engage in tax resistance or collective action in response to tax reforms. The findings are outlined in the following sections.

10.3. RQ3: How did local actors cooperate, coordinate and conflict with regards to the formulation of tax policy in Rwanda?

Little or no evidence was found of direct and meaningful tax bargaining during through dialogue, coordination, or conflict for the tax reforms under examination. Yet, evidence was found of indirect and uncoordinated mutual adjustment behaviour.

When government eventually decided to reform its tax policy framework, the approach taken was in accordance which what Pritchard calls the coercive expansion of taxation. Legislation on both income taxes and EBMs was formulated with minimal consultation, which invariably took place behind closed doors. Some of those invited to engage, including PSF, were unable or unwilling to provide critical input (see section 8.3.2). No real pre-emptive reciprocal concessions were made to taxpayer groups (see section 8.2). Some modifications to draft legal texts -which at first glance appear like concessions- were also in line with the government's overarching policy goals. Parliament's ability to remove clauses on capital gains taxes from the draft income tax law, for example, certainly reflected elite interests (see section 8.4.1), but also aligned to the government's pro-investment outlook. At the technical level, tax professionals influenced the margins of the income tax law (see section 8.3.2).

The *de facto* delegation of the tax policy function to the tax administrator, due to lack of capacity in the parent ministry (see Chapter 6), resulted in a major structural flaw in tax policy formulation. For the income tax law revision, RRA was able to both shape the draft legislation in its own interest and adopt a path of least resistance. Because of its lack of embeddedness in society, RRA was ignorant of the broader implications of its proposals on taxpayer groups. RRA consulted only stakeholders of its own choosing, and cherrypicked stakeholder comments that validated its proposals, while concealing critical comments from those higher in the approval chain (admittedly, such dynamics are not unique to the Rwandan context), a task made easier by information asymmetry and a lack of transparency of process. RRA could draw on its practical experience to make compelling arguments for reform, which MINECOFIN officials could not challenge.

In the Rwanda in-case studies, there was a clear preference among policymakers for closed often informal consultations with small and insular ingroups, many of which have been established and are firmly controlled, by the RPF. Paternalism and hubris among senior officials under acute pressure to "get things done" (see section 6.3.3), combined with insufficient scrutiny of RRA's proposals, contributed to several instances of policy overreach and policy failure. The income tax reforms on capital gains and CSOs (see sections 8.4.1 and 8.4.4) demonstrate that RRA possessed insufficient institutional knowledge and expertise on these topics, and without meaningful external stakeholder dialogue could not appreciate the impracticality of their proposals. Similarly, there is evidence of over-optimism and groupthink on EBMs. Officials in both RRA and MINECOFIN convinced themselves that the devices would be the proverbial stone that would allow them to kill two elusive tax policy birds: to raise more revenue through administrative efficiency, and to forego more deep-rooted tax policy reforms that they believed would deter investment. These assumptions could have been tested had government persisted piloting the EBM or had better engaged the private sector prior to and during roll-out.

There are commonalities and differences in the way in which taxpayers responded in the two case studies. In neither case were mass protests observed. This is unsurprising since public demonstrations against government are simply not feasible in Rwanda. Crucially, however, the masses had no reason to protest, as income tax reform was not a salient issue. Most Rwandans pay no tax on their income due to their low-income status (see section 5.2). Two taxpayer groups affected by the revised income tax law, namely liberal professionals and senior civil servants, did not vocally object to the closure of legal loopholes from which they had previously benefitted (see sections 8.4.2 & 8.4.3). As firmly part of "haves" in Rwandan society, to protest could have further endangered their remaining privileges.

Most businesses and CSOs only became aware of the income tax reforms after the law was enacted (see section 8.4.4). Businesses were neither informed of the revision, nor properly represented by PSF during the formulation process, even though the latter participated in consultations (see section 8.3.2). Some appealed to the government after the event, which was too little, too late (see section 8.5). It was not possible to establish the extent to which businesses evaded the new regulations, through relocation to other jurisdictions or more aggressive tax planning, but the logical conclusion is that most had no alternative but to comply.

It is here that the in-case studies differ. Although the literature indicates that income tax reforms are more conducive to taxpayer responsiveness, the introduction of VAT EBMs (see Chapter 9) proved more visible and salient in Rwanda. The EBMs performed far below expectation (see section 9.3.1), and there is evidence of widespread non-compliance. Crucially, however, non-compliance was neither organized nor spontaneous. It did not take the form of conscious political resistance, whether overt or tacit, to changes in a fiscal-social contract that the model predicts (see section 9.3.2). More plausible explanations are mundane and may simply reflect the mutual adjustment behaviour predicted by Moore (2003). Some businesses did not comply in the belief that RRA's enforcement capacity was limited. Other businesses were influenced by social norms. With most of Rwanda's impoverished citizens prepared to shop around for the cheapest goods, businesses who wanted custom chose to forego the use of EBM and evade VAT to keep their prices low. It is also likely that unintentional non-compliance was a significant factor, given the low quality of the devices, infrastructure weaknesses, lack of taxpayer education and other factors that meant that the machines could not be used as foreseen.

The rushed roll-out of EBMs, and the perceived unfairness of RRA's harsh enforcement, created discontent in the business community, which in turn prompted some collective action (see section 9.4). The devices were expensive, unwieldy, and prone to malfunction, and their usage was further inhibited by the lack of aftercare services (see section 9.2.1). Harsh penalties for non-compliance, and a lack of flexibility by RRA to device fallibility and operator error exacerbated matters. Tangible evidence of problems emboldened the business community to voice their grievances to RRA. Even the normally pliant PSF and media felt able to highlight problems with the EBMs. The critical discussion around VAT EBMs also provided a platform for the private sector, often through PSF and the media, to draw attention to another more pressing concern relating to VAT administration, namely lengthy delays in VAT refunds.

The government's first response to poor EBM results was dogmatism and stronger enforcement. Legislation was adopted that reinforced RRA's ability to apply punitive penalties for non-compliance (see section 9.2). Eventually, government acknowledged problems with the EBMs and indicated a willingness to adapt policy (see section 9.5). These pledged concessions included the gradual replacement of EBM devices with software-based solutions with improved functionality, EBM aftercare services, making better use of data analytics to uncover non-compliant taxpayers, and -under the slogan "EBM for all"- by expanding the coverage of EBM and eliminating unfair competition between VAT-registered and non-VAT-registered taxpayers. The government also pledged to streamline VAT administration and VAT refund processes. Whether the decision came primarily in response to concerns articulated by taxpayers, or from a pressing need to solve practical problems that hindered the effectiveness of the EBMs is debatable. Reform outcomes suggest that the latter was the real driving force. In practice, the government did not -or could not- honour most of its pledges to address taxpayer concerns, focusing instead on implementing those reforms that clearly benefitted RRA the most.

In terms of outcomes, the research found no evidence of increased government responsiveness and accountability by the Rwandan government as a direct result of taxpayer resistance and collective action (see section **Error! Reference source not found.**). There was no meaningful resistance nor collective action to the enactment of the income tax law during the period examined. The rapid, problematic, and highly coercive rollout of VAT EMBs, facilitated by punitive legislation, proved more tangible and impactful for a larger number of taxpayers, and therefore a more salient issue. Here, evidence was found of taxpayer non-compliance -although not the type of politically motivated resistance envisaged in the model- and of limited collective action by businesses, indicating that even in the most authoritarian of contexts, opportunities still exist and the proposition that taxation can lead to governance dividends remains plausible. Yet, neither led to a change in government nor to policy reversal. While the government eventually acknowledged taxpayers' valid criticisms of EBMs and their administration by RRA, and pledged to change tack, subsequent reforms turned out not to be the concessions demanded by taxpayers. This leaves the impression that those responsible for tax policy and administration in Rwanda were more responsive to the problems they faced as organizations, and more accountable to the President for solving them.

There is no evidence that the reforms contributed to the strengthening of civil society, at least in the short run. The PSF remained as the government intended, a toothless institution that contributes to the façade of democratization. iCPAR's involvement in the income tax law reform was ad-hoc and driven by personalities and individual initiatives. No concerted effort was made to formalize iCPAR's role in the tax policy formulation processes, and iCPAR's management neglected to exploit the existing expertise among iCPAR membership to advocate more systematically on tax policy reforms. Yet, spaces were being created for more technical level dialogue between RRA and iCPAR members on the implementation of tax policy,[263] which could potentially evolve into more structured dialogue on tax policy reform in future. Ironically, by revising the income tax law, and making CSOs liable for taxes on their "surplus" income, the authorities may have inadvertently strengthened civil society in Rwanda, by turning tax justice into a more salient issue. Here, however, it is too soon to tell whether governance dividends will emerge in future.

10.4. RQ4: What does the Rwandan experience tell us about development partners' role in the fostering governance dividends in low-income dominant authoritarian countries?

The research indicates that governance dividends are unlikely to arise when donors continue to provide political legitimacy and substantial financial support to hybrid or dominant authoritarian regimes (see section 7.3). The horror of the 1994 genocide arguably makes Rwanda a relatively unique case, with the international community's collective guilt over its inaction during the slaughter making it keen to participate in the country's reconstruction and reluctant to criticize the RPF (see section 4.1.2). Yet, even thirty years after the genocide, and despite clear evidence of RPF accumulation of power through the erosion of democratic institutions, its repression of citizens at home and abroad, and its destabilizing foreign policy in the highly combustible Great Lakes region, the international community continues to turn a blind eye and is willingly seduced by carefully crafted RPF political discourses that present Rwandan as a post-genocide development miracle and a beacon of good governance in Africa (Beswick, 2007; Hayman, 2009; Zorbas, 2011).

Substantial development assistance continues to flow to Rwanda on the RPF's own terms. Donor support has provided RPF with fiscal space to implement its legitimization strategy, and by applauding the establishment of nominally democratic institutions and

[263] As noted above, those events witnessed by the author were primarily designed for the sensitization of iCPAR members on enacted tax policy, rather than allow for broad-based dialogue during tax policy formulation processes. The meetings did provide room for dialogue between RRA officials and tax professionals on challenges in the implementation of the existing policy, meaning that the discussions could indirectly contribute to the design of future policy provided that such knowledge is absorbed by the relevant RRA officials.

political processes that provide only a façade of democratization, donors have also emboldened the RPF to suppress critical voices and eliminate any counterweight to its authority (Hayman, 2010; McDoom, 2013; Hasselskog, 2015; Mann & Berry, 2016). This case study demonstrates the extent to which, under a regime as acutely authoritarian as the RPF, institutions for bargaining and taxpayer capacity for collective action have been eroded to the point that there are few credible formal and open spaces for tax bargaining. To paraphrase Osborne et al. (2023, p. 226), the best defence against authoritarian assaults on democracy is to ensure that democratic institutions and processes are supported to withstand such threats in the first place.

Until the aid crisis, Rwanda was a poster child for tax reform in Africa, willingly adopting the prescribed solutions of the global tax reform agenda, chief among which was the establishment of the RRA as a semi-autonomous revenue agency. This research highlights many unintended consequences of this approach, particularly in terms of tax policy formulation (see section 6.3). The establishment of RRA contributed to a hollowing out of MINECOFIN on tax matters, and this imbalance was exacerbated by donors channelling a disproportionate amount of resources to support tax administration at RRA, while neglecting the tax policy function at MINECOFIN. The research also highlights the importance of channelling more development partner support towards establishing a strong and autonomous tax policy function that has the tools and information to better evaluate the implementation of past policy, assess the implication of new policy options, proactively seek alternative points of view through broad-based consultation, and understand the political economy of tax reform, and present evidence to decision-makers in an objective and understandable manner.

A final lesson for development partners from the research is that focussing exclusively on strengthening tax policy and administration in dominant authoritarian countries will not mitigate other contextual variables that inhibit tax bargaining, and therefore a more holistic approach is necessary. The government's reluctance to consult partly reflects historical legacies and perceived threats to the RPF (see section 4.1), but it also partly reflects the lack of capacity more broadly among stakeholders to engage. In Rwanda's case the revision of the income tax law may provide CSOs with the motivation to engage on tax policy in future, but they will continue to lack the means to do so. The challenge in Rwanda is that there are few alternatives to working within the established umbrella organisations, who -the PSF being a particular case in point- are purposefully designed to moderate rather than accentuate the collective voice of its members. The research indicates that in the short-term, an imperfect solution lies in working in a more formal, transparent, and structured manner with professional associations, such as iCPAR, who possess the motivation and technical capacity to engage in improving tax policy, who can convincingly communicate the interests of its members and clients of tax professionals (both businesses and now CSOs), and who are perceived to be a partner of the authorities in sensitizing its members on tax compliance and fostering conformity. Similarly, with the government increasingly freezing out donors in the wake of the aid crisis, boosting the capacity of policy units, domestic academia and trusted CSOs, through collaboration with international academics on tax research and experimental policy design, may be a more productive way of supporting domestic capacity and more inclusive engagement on reform (see for example, Hickey et al. 2009).

10.5. What are the implications for the model?

The theoretic model (see section 3.1.1) provided a useful framework to identify contextual factors and causal processes through which tax bargaining is facilitated or inhibited. The model itself presents an end-to-end process initiated when a fiscal crisis prompts the government to introduce tax reforms. Subsequently, taxpayers and government face binary choices, and respond to each other in a direct and rational manner, concluding with taxpayer acquiescence to comply with the terms of that particular reform, with or without concessions having been made by government (see Figure 1 in section 3.1.1.). Yet, Pritchard (2015, p. 59), who designed the model, concedes that linear processes and straightforward outcomes through cause and effect are “likely to be infrequent”, and so it proved in Rwanda.

At face value, the income tax law reform (see Chapter 8), appears to be a neat, closed loop, whereby formulation and negotiation of the legislation took place largely behind closed doors, and was presented to most taxpayers as fait accompli, with which they had no choice but to comply. Yet, such conclusions are likely to reflect the reference period for the research, and a more dynamic and longer-term perspective is necessary. Several questions remained open at the end of the research project. Although no overt resistance had taken place, would taxpayers engage in tacit resistance, by relocating or otherwise evading taxes through more aggressive tax planning or informality? Would some of the more controversial reforms prove unimplementable and need to be rethought, as advocated by those affected? How would stakeholders’ experience of the process itself alter the contextual variables? Will Rwandan CSOs be more willing to engage on tax matters following their experiences of tax administration and the challenges of compliance. Would the experience reinforce MINECOFIN’s determination to enhance its tax policy function and acquire counterbalancing information to that presented to it by RRA? It is only by examining the direct and indirect impact of the 2018 reform on tax policy and administration over time that the picture becomes clearer.

The EBM in-case study encompassed the design, approval and implementation of primary and secondary legislation that mandated the use of new technology by taxpayers. As such, it allowed for scrutiny of the causal processes foreseen in the model over a longer period, and over a broader range of interlinked reforms. There was an initial decision to coercively enforce the adoption of EBMs by business (abandoning a more incremental and phased approach). There was widespread non-compliance, although not the collective action and resistance foreseen in the model. Faced with disappointing results, the government’s first response was more apply more coercion and to ignore the valid issues raised by taxpayers (see section 9.2.1). Tangible problems with the EBMs enabled large taxpayers to draw attention -apologetically- to deficiencies in the broader administration of VAT by RRA and to highlight a more pressing problem for business, namely the lengthy delays in VAT refunds and the aggressive use of putative fines and penalties. Eventually, the RRA acknowledged that there were problems, and laid out a new EBM policy which included ostensible concessions alongside additional coercive measures (see section 9.5). The new policy also launched a spin-off tax policy reform, namely the revision of the tax procedures law (section 9.5.5). Yet, implementation of the strategy was inconsistent. Pledged concessions did not materialize, and where they did - as in the case of “EBM for all” (see section 9.5.4)- they were more responsive to the needs of large taxpayers. Most, if not all the implemented actions were targeted to make tax administration easier for the RRA ahead of the concerns of taxpayers.

The EBM case study illustrates how messy and non-linear processes were. Policymakers and stakeholders involved in tax reform process in Rwanda were inhibited by incomplete information, short time horizons, perverse incentives, a flawed assessment of the prevailing situation, and by biased preferences, consistent with similar findings by Witt (2003), Freytag and Reynal (2007) and others. The government's EBM policy was not a standalone reform, but involved multiple changes to interconnected policies, regulations, and practices over time, with each of the reforms creating their own ripple effects that spread outwards in multiple directions. Rather than making well-informed, sequential, binary choices, policymakers and taxpayers often chose multiple paths at any given time, often driven by immediate needs and prevailing contextual factors. The authorities' whack-a-mole response to the immediate challenges and pressures they faced, where they address one problem only for another to surface elsewhere, led to contradictory and often counterproductive decisions. This is not uncommon in LMIC contexts. Taxpayers did not behave as a homogenous block. There was indeed widespread non-compliance by taxpayers following EBM rollout, but such resistance was almost inadvertent or driven by short-term individual self-interest, which emphasises the collective action challenge in Rwanda. There were no conscious, informed and collective decisions by taxpayer groups to resist the new revenue demands of the state because of perceived changes to the fiscal-social contract.

The evidence gathered as part of the thesis indicates that governance dividends from taxation in dominant authoritarian contexts like Rwanda are unlikely to be observed in one-off end-to-end tax policy reforms that fit neatly within the theoretical model. Yet, it is plausible that governance dividends can emerge as part of a continuous and dynamic evolution of tax policy and administration, where governance gains are more indirect and incremental than radical, and where organizations and stakeholders learn and adapt from previous experience. In this respect the theoretical model is a useful tool to examine any one of a series of interlinked, parallel, and overlapping tax policy and administration processes occurring sequentially or simultaneously at macro, meso, and micro levels, which contribute to a bigger picture.

10.6. Areas of future research

This research supplements the small body of research testing the assertion that greater reliance on taxation can create "governance dividends" in present day LMICs in SSA. The findings of this original research on Rwanda complement Pritchard's (2015) earlier work in Ethiopia, where little evidence was found of taxation playing a direct and pivotal a role in political reform or enhanced governance (see section **Error! Reference source not found.**). In both cases, the highly authoritarian nature of the state was the main factor in producing such underwhelming outcomes. In Ethiopia Pritchard found evidence that tax resistance had indirectly contributed to political change, citing the creation of new platforms for citizen-government consultation on regional taxes, through which business associations played an increasingly important role, as evidence of the role taxation played in catalysing political engagement in a repressive political system. In Rwanda, however, taxation's indirect contribution to improved governance was less evident. Acknowledging the exceptionally authoritarian nature of the Rwandan state, further analysis across space is needed -by charting the tax reform experiences of other contemporary LMICs with hybrid regimes and examining the impact on governance- to determine whether the Rwandan case is an outlier, or symptomatic of the prospects of governance dividends emerging in other hybrid regimes.

Further analysis in Rwanda of the central question of this thesis over time is also needed. The RPF argue that Rwanda's distinct recent history and development trajectory (see Chapter 4), continue to justify tight control by government. Yet, changes in Rwanda's society and economy, particularly in the wake of the COVID-19 pandemic, may render the current approach difficult to sustain in the long-run without prompting popular discontent.

A key finding is that Rwanda's tax policymaking function was deeply flawed. At the time of writing, the government had acknowledged the problem and were working -with donor support- to strengthen MINECOFIN's Tax Policy Unit and the Tax Policy Committee, making both fit for purpose. Future research should examine the extent to which such organizational improvements, and potentially more transparent and inclusive processes, contribute to more government responsiveness over tax policy. The impact of the government's decision to tax the "surplus" incomes of CSOs in Rwanda in the revised income tax law (see Chapter 8), in terms of the willingness of CSOs to engage on tax matters should also be further analysed. Prior to the enactment of the 2018 Income Tax Law, taxation was not a salient issue for most CSOs, and unlike in neighbouring countries, no Rwandan CSOs were advocating for tax justice. Yet, by providing CSOs with direct experience of being taxed and having to navigate the harsh reality of tax administration in Rwanda, the authorities may have inadvertently provided CSOs with the motivation to engage on tax policy and administration. Some promising developments were indeed observed in terms of CSO mobilization and coordination in the wake of the 2018 law revision (see section 8.5), but by the end of the fieldwork phase it remained too soon to tell if the reform had permanently and/or substantially changed the outlook of CSOs.

Research is also needed, in Rwanda and more broadly, on the impact on governance of digitalization in tax administrations (including digital solutions such as EBMs), and the use of data analytics. According to OECD (2016), Big Data technology offers revenue authorities the prospect of extracting more useful information from existing tax data for policymakers, and using it to enhance business processes, provide more responsive taxpayer services, and better address tax risks. Insights from data analysis can also potentially support more responsive whole-of-government policy solutions. Yet, increased adoption of tax data analytics raises ethical questions about data protection and privacy, including how data is collected and stored, what the data is used for, and who the data is shared with (Joy et al. 2020). In a dominant authoritarian country such as Rwanda, with a long track record of state surveillance and repression (see Chapter 7), there is considerable scope for misuse. In the EBM case study, the RRA put too much faith in technology, and couldn't countenance its fallibility when issues were raised by taxpayers. There is also the prospect that the authorities rely more on data analytics to circumvent their lack of embeddedness in society, making government less directly responsive and accountable.

Finally, evidence from other SSA LMICs suggests a positive correlation between locally collected revenue and local government responsiveness and improved service delivery, by bringing government closer to citizens and making public service delivery more responsive to local preferences (see section **Error! Reference source not found.**). Rwanda adopted a policy of fiscal decentralization in 2000, which Chemouni (2016b, p. 773) claims had a "positive impact on development through the significant transfers of resource and skills to the local level, the coordination mechanisms it created, and the result-oriented norms it promoted in the local bureaucracy", albeit with an entrenched top-down power structure and limited popular participation. In 2014, the RRA was made responsible for the collection of local taxes -chief among which is property tax- and fees following the disappointing performance of local governments, a move that potentially reduces local government empowerment and sensitivity to local needs. In the short term, further research is merited on the impact of this decision on local level fiscal-social contracts, while in the medium term it will be interesting to see how Rwanda's fiscal decentralisation evolves in the face of evolving citizen expectations.

End Pages

Appendix

Statistical data

TABLE 10: SOURCES OF RWANDAN STATE REVENUE (2011/12 - 2019/2020) IN NOMINAL TERMS (RWF)

		2011/12		2012/13		2013/14		2014/15		2015/16	
		original	revised	original	revised	original	revised	original	revised	original	revised
Domestic Revenue		**1,116,851,388,145**	**1,194,160,793,802**	**1,385,285,035,860**	**1,549,859,475,474**	**1,653,467,462,173**	**1,677,693,583,398**	**1,753,256,377,958**	**1,762,418,647,531**	**1,768,183,628,463**	**1,808,812,969,8**
Tax Revenue	**Tax Revenue**	**501,402,914,868**	**519,702,914,868**	**641,232,520,014**	**641,232,520,014**	**775,429,119,902**	**782,400,000,000**	**906,752,100,972**	**894,552,100,941**	**894,811,757,240**	**949,160,000,0**
	Income Taxes	207,598,282,020	220,598,282,020	253,199,367,148	253,199,367,148	317,542,372,790	324,513,252,888	379,179,791,429	363,979,791,393	344,106,597,086	384,417,620,3
	Tax on Property Income	1,155,761,786	1,155,761,786	2,387,361,995	2,387,361,995	3,484,597,088	3,484,597,088	0	0	2,848,667,134	3,182,379,6
	Taxes on goods and services	136,001,964,670	141,301,964,670	193,760,231,260	193,760,231,260	240,062,760,884	240,062,760,884	461,487,443,346	461,487,443,346	474,070,757,865	486,350,000,0
	Taxes on internatonal trade	156,646,906,392	156,646,906,392	191,885,559,611	191,885,559,611	214,339,389,140	214,339,389,140	66,084,866,197	69,084,866,202	73,785,735,155	75,210,000,0
Grants	**Grants**	**444,628,753,442**	**463,438,159,099**	**496,056,100,556**	**441,599,477,870**	**470,634,888,411**	**463,015,009,882**	**544,848,992,104**	**417,193,278,067**	**358,354,989,280**	**374,651,083,5**
	Project support	184,313,234,990	184,313,234,990	243,934,489,210	243,934,489,210	299,969,274,411	261,815,009,882	216,443,088,983	241,111,533,306	168,410,835,078	168,851,083,5
	Budget support	260,315,518,452	279,124,924,109	252,121,611,346	197,664,988,660	170,665,614,000	201,200,000,000	328,405,903,121	176,081,744,761	189,944,154,202	205,800,000,0
Other revenue	**Other revenue**	**27,850,686,305**	**26,250,686,305**	**83,262,358,798**	**66,523,421,098**	**68,032,912,632**	**123,788,042,104**	**79,275,734,153**	**102,861,345,649**	**151,344,978,156**	**99,480,000,0**
	Property income	9,330,195,741	9,330,195,741	1,612,599,029	1,612,599,029	4,205,778,370	37,617,778,370	20,813,491,479	32,649,192,390	20,278,915,767	13,329,458,0
	Sales of goods and services*	15,181,284,554	15,181,284,554	20,925,147,243	18,336,569,615	16,848,181,764	16,848,181,764	3,462,242,674	5,431,065,099	20,278,909,178	13,329,453,7
	Fines, penaltes, and forfeits	1,738,773,536	1,738,773,536	612,252,454	612,252,454	578,758,797	2,921,888,269	0	0	35,672,334,790	23,447,648,5
	Misc.	1,600,432,474	432,474	1,350,000,000	1,350,000,000	2,000,193,701	2,500,193,701	1,600,000,000	2,509,848,378	4,334,818,421	2,849,303,2
	PKO	0	0	58,762,360,072	44,612,000,000	44,400,000,000	63,900,000,000	53,400,000,000	62,271,239,782	70,780,000,000	46,524,136,3
Sale of Asset	**Sale of Assets**	**26,800,699,142**	**47,200,699,142**	**12,230,000,000**	**5,100,000,000**	**0**	**0**	**4,000,000,000**	**4,000,000,000**	**68,000,000,000**	**66,851,022,7**
Proceeds from Borrowing	**Proceeds from Borrowing**	**116,168,334,388**	**137,568,334,388**	**152,504,056,492**	**395,404,056,492**	**339,370,541,228**	**308,490,531,412**	**218,379,550,729**	**343,811,922,874**	**295,671,903,787**	**318,670,863,6**
	Domestic Loans	20,000,000,000	10,000,000,000	8,701,272,000	24,701,272,000	151,468,729,997	185,340,867,149	95,604,427,205	131,181,256,647	60,000,000,000	60,000,000,0
	Foreign Borrowing	96,168,334,388	127,568,334,388	143,802,784,492	370,702,784,492	187,901,811,231	123,149,664,263	122,775,123,524	212,630,666,227	235,671,903,787	258,670,863,6

		2016/17		2017/18		2018/19		2019/20	
		original	revised	original	revised	original	revised	original	revised
Domestic Revenue		**1,949,397,927,743**	**1,954,247,251,046**	**2,094,910,480,545**	**2,115,391,665,081**	**2,443,535,804,386**	**2,585,150,586,717**	**2,876,916,340,789**	**2,040,821,224,223**
Tax Revenue	**Tax Revenue**	**1,071,615,154,226**	**1,081,452,824,034**	**1,200,325,541,994**	**1,200,325,541,994**	**1,351,695,629,951**	**1,373,062,856,611**	**1,535,759,819,680**	**1,569,040,079,068**
	Income Taxes	445,630,598,807	424,381,785,706	485,945,092,954	485,945,092,954	552,385,534,852	573,683,826,756	647,952,094,851	667,798,261,089
	Tax on Property Income	4,416,248,583	4,248,217,395	3,133,550,792	3,133,550,792	3,182,933,704	2,550,211,833	3,868,322,295	2,764,791,806
	Taxes on goods and services	541,953,152,610	560,307,896,098	602,882,715,337	602,882,715,337	679,391,454,323	684,889,352,248	761,412,210,601	776,316,557,790
	Taxes on internatonal trade	79,615,154,226	92,514,924,835	108,364,182,911	108,364,182,911	116,735,707,072	111,939,465,774	122,527,191,933	122,160,468,383
Grants	**Grants**	**365,318,408,283**	**326,559,349,380**	**356,728,069,166**	**352,860,243,280**	**396,250,570,891**	**425,397,401,671**	**409,782,360,989**	**402,991,665,143**
	Project support	146,000,000,000	146,000,000,000	175,801,234,568	168,624,471,543	233,151,006,903	233,066,491,117	259,810,079,418	259,810,079,418
	Budget support	219,318,408,283	180,559,349,380	180,926,834,598	184,235,771,738	163,099,563,988	192,330,910,554	149,972,281,571	143,181,585,725
Other revenue	**Other revenue**	**110,800,000,000**	**104,861,664,535**	**139,040,746,655**	**138,154,166,210**	**155,665,259,845**	**198,361,353,854**	**190,434,978,647**	**232,881,758,889**
	Property income	10,739,046,921	3,181,467,284	7,611,411,839	7,611,411,838	8,704,610,132	6,196,437,769	7,450,950,389	14,844,349,651
	Sales of goods and services*	9,152,892,268	8,662,342,226	7,177,458,144	7,177,458,145	18,135,869,477	20,644,041,841	15,348,190,955	22,188,474,144
	Fines, penaltes, and forfeits	13,753,677,617	7,304,935,228	6,624,518,918	6,624,518,918	10,940,904,093	10,940,404,494	6,977,700,490	4,516,472,200
	Misc.	1,150,616,771	862,098,969	1,248,031,099	1,248,031,099	0	0	22,035,120,499	22,035,120,499
	PKO	76,003,766,423	84,850,820,828	116,379,326,655	115,492,746,210	117,883,876,143	160,580,469,750	138,623,016,314	169,297,342,395
Sale of Assets	**Sale of Assets**	**0**	**32,300,000,000**	**0**	**12,944,720,574**	**8,566,507,407**	**8,566,507,407**	**23,300,000,000**	**23,300,000,000**
Proceeds from Borrowing	**Proceeds from Borrowing**	**401,664,365,234**	**409,073,413,097**	**398,816,122,730**	**411,106,993,023**	**531,357,836,292**	**579,762,467,174**	**717,639,181,473**	**788,837,001,473**
	Domestic Loans	34,000,000,000	34,000,000,000	36,000,000,000	61,437,938,607	129,147,465,047	115,486,388,385	220,683,854,683	215,599,386,266
	Foreign Borrowing	367,664,365,234	375,073,413,097	362,816,122,730	349,669,054,416	402,210,371,245	464,276,078,789	496,955,326,790	573,237,615,207

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

TABLE 11: REVENUE TYPE AS A PERCENTAGE OF PROJECTED TOTAL REVENUE (2011/12 – 2019/20)

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
Tax Revenue	**44.9**	**43.5**	**46.3**	**41.4**	**46.9**	**46.6**	**51.7**	**50.8**	**50.6**	**52.5**	**55.0**	**55.3**	**57.3**	**56.7**	**55.3**	**53.1**	**53.4**	**52.0**
o/w Income Taxes	18.6	18.5	18.3	16.3	19.2	19.3	21.6	20.7	19.5	21.3	22.9	21.7	23.2	23.0	22.6	22.2	22.5	22.1
o/w Tax on Property Income	0.1	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
o/w Taxes on goods and services	12.2	11.8	14.0	12.5	14.5	14.3	26.3	26.2	26.8	26.9	27.8	28.7	28.8	28.5	27.8	26.5	26.5	25.7
o/w Taxes on internatonal trade	14.0	13.1	13.9	12.4	13.0	12.8	3.8	3.9	4.2	4.2	4.1	4.7	5.2	5.1	4.8	4.3	4.3	4.0
Grants	**39.8**	**38.8**	**35.8**	**28.5**	**28.5**	**27.6**	**31.1**	**23.7**	**20.3**	**20.7**	**18.7**	**16.7**	**17.0**	**16.7**	**16.2**	**16.5**	**14.2**	**13.4**
o/w Project support	16.5	15.4	17.6	15.7	18.1	15.6	12.3	13.7	9.5	9.3	7.5	7.5	8.4	8.7	9.5	9.0	9.0	8.6
o/w Budget support	23.3	23.4	18.2	12.8	10.3	12.0	18.7	10.0	10.7	11.4	11.3	9.2	8.6	8.7	6.7	7.4	5.2	4.7
Other revenue	**2.5**	**2.2**	**6.0**	**4.3**	**4.1**	**7.4**	**4.5**	**5.8**	**8.6**	**5.5**	**5.7**	**5.4**	**6.6**	**6.5**	**6.4**	**7.7**	**6.6**	**7.7**
o/w Property income	0.8	0.8	0.1	0.1	0.3	2.2	1.2	1.9	1.1	0.7	0.6	0.2	0.4	0.4	0.4	0.2	0.3	0.5
o/w Sales of goods and services	1.4	1.3	1.5	1.2	1.0	1.0	0.2	0.3	1.1	0.7	0.5	0.4	0.3	0.3	0.7	0.8	0.5	0.7
o/w Fines, penaltes, and forfeits	0.2	0.1	0.0	0.0	0.0	0.2	0.0	0.0	2.0	1.3	0.7	0.4	0.3	0.3	0.4	0.4	0.2	0.1
o/w Misc.	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.0	0.1	0.1	0.0	0.0	0.8	0.7
o/w PKO	0.0	0.0	4.2	2.9	2.7	3.8	3.0	3.5	4.0	2.6	3.9	4.3	5.6	5.5	4.8	6.2	4.8	5.6
Sale of Assets	**2.4**	**4.0**	**0.9**	**0.3**	**0.0**	**0.0**	**0.2**	**0.2**	**3.8**	**3.7**	**0.0**	**1.7**	**0.0**	**0.6**	**0.4**	**0.3**	**0.8**	**0.8**
Proceeds from Borrowing	**10.4**	**11.5**	**11.0**	**25.5**	**20.5**	**18.4**	**12.5**	**19.5**	**16.7**	**17.6**	**20.6**	**20.9**	**19.0**	**19.4**	**21.7**	**22.4**	**24.9**	**26.1**
o/w Domestic Loans	1.8	0.8	0.6	1.6	9.2	11.0	5.5	7.4	3.4	3.3	1.7	1.7	1.7	2.9	5.3	4.5	7.7	7.1
o/w Foreign Borrowing	8.6	10.7	10.4	23.9	11.4	7.3	7.0	12.1	13.3	14.3	18.9	19.2	17.3	16.5	16.5	18.0	17.3	19.0

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/2020

TABLE 12: TAX TYPE AS A PERCENTAGE OF PROJECTED TAX REVENUE (2011/12 – 2019/20)

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Income Taxes	41.4	42.4	39.5	39.5	41.0	41.5	41.8	40.7	38.5	40.5	41.6	39.2	40.5	40.5	40.9	41.8	42.2	42.6
Tax on Property Income	0.2	0.2	0.4	0.4	0.4	0.4	0.0	0.0	0.3	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.2
Taxes on goods and services	27.1	27.2	30.2	30.2	31.0	30.7	50.9	51.6	53.0	51.2	50.6	51.8	50.2	50.2	50.3	49.9	49.6	49.5
Taxes on internatonal trade	31.2	30.1	29.9	29.9	27.6	27.4	7.3	7.7	8.2	7.9	7.4	8.6	9.0	9.0	8.6	8.2	8.0	7.8

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2012/2020

TABLE 13: EVOLUTION OF PROJECTED DIRECT TAXES IN RWANDA (2011/12-2019/20) IN NOMINAL TERMS (RWF BILLION)

		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
		Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.
1	**Domestic Revenue**	**1,116.85**	**1,194.16**	**1,385.29**	**1,549.86**	**1,653.47**	**1,677.69**	**1,753.26**	**1,762.42**	**1,768.18**	**1,808.81**	**1,949.40**	**1,954.25**	**2,094.91**	**2,115.39**	**2,443.54**	**2,585.15**	**2,876.92**	**3,017.05**
11	Tax Revenue	501.40	519.70	641.23	641.23	775.43	782.40	906.75	894.55	894.81	949.16	1,071.62	1,081.45	1,200.33	1,200.33	1,351.70	1,373.06	1,535.76	1,569.04
111	**Taxes on Income, Profts or Capital Gains**	**207.60**	**220.60**	**253.20**	**253.20**	**317.54**	**324.51**	**379.18**	**363.98**	**344.11**	**384.42**	**445.63**	**424.38**	**485.95**	**485.95**	**552.39**	**573.68**	**647.95**	**667.80**
1111	**taxes on individuals**	**131.28**	**131.28**	**167.05**	**167.05**	**208.71**	**208.71**	**243.87**	**234.09**	**237.80**	**265.66**	**302.58**	**281.13**	**319.37**	**319.37**	**426.11**	**429.72**	**508.45**	**494.48**
111101	Personal income tax (PAYE)	129.69	129.69	159.67	159.67	201.82	201.82	235.81	226.36	215.77	241.05	273.62	251.65	283.20	283.20	306.54	310.15	358.80	352.98
111102	Interest on PAYE	0.09	0.09	0.96	0.96	0.32	0.32	0.37	0.35	-	-	-	-	-	-	-	-	-	-
111103	Interest on Personal Income Tax	0.00	0.00	0.20	0.20	0.23	0.23	0.26	0.25	-	-	-	-	-	-	-	-	-	-
111104	Tax on Rental Income	0.13	0.13	-	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
111106	Default interest	0.62	0.62	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111107	Capital Gains Tax	-	-	0.15	0.15	0.02	0.02	0.03	0.03	0.00	0.00	0.01	0.00	0.00	0.00	0.01	0.01	0.01	0.03
111108	Withholding Tax on Interest	0.16	0.16	5.39	5.39	5.96	5.96	6.97	6.69	10.85	12.12	13.77	7.75	17.67	17.67	85.00	85.00	101.93	102.58
111109	Withholding Tax on Royaltes	0.37	0.37	0.21	0.21	0.15	0.15	0.17	0.17	0.21	0.24	0.27	0.26	0.25	0.25	2.38	2.38	2.44	3.44
111110	Other Taxes on (other) Income - Individuals	0.22	0.22	0.45	0.45	0.22	0.22	0.25	0.24	2.61	2.92	3.32	3.19	6.24	6.24	8.03	8.03	9.62	19.63
111111	Tax on Incomes - Liberal Professions	-	-	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.28	1.28	2.38	3.77
111112	Personal Income tax (PIT)	-	-	-	-	-	-	-	-	8.35	9.33	11.60	18.26	12.00	12.00	22.86	22.86	33.26	12.03
1112	**Taxes on Corporations & Enterprises**	**76.32**	**89.32**	**86.15**	**86.15**	**108.83**	**115.80**	**135.31**	**129.89**	**106.31**	**118.76**	**143.05**	**143.26**	**166.57**	**166.57**	**126.28**	**143.96**	**139.51**	**173.32**
111201	Building Tax	0.00	0.00	-	-	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-
111202	Corporaton Income Tax (CIT)	31.45	40.45	37.98	37.98	48.66	55.63	65.00	62.39	42.92	47.94	59.78	66.71	65.62	65.62	93.42	88.34	104.41	104.41
111203	Tax on Movable Property	6.29	6.29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111204	Tax on Profts/Private enterprises (PIT)	7.61	11.61	9.04	9.04	9.24	9.24	10.79	10.36	-	-	-	-	-	-	-	-	-	-
111205	PIT Truck customs	-	-	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111206	Penality on Income Tax	-	-	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-
111207	Trading License	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111209	Arrears Recovery	0.00	0.00	2.49	2.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.36	2.36	2.63	4.63
111210	Unclassified Revenue	-	-	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111211	Revenues/Penaltes	0.22	0.22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111212	3% Withholding Tax	1.85	1.85	2.21	2.21	0.28	0.28	0.32	0.31	0.00	0.00	0.10	0.10	21.79	21.79	22.63	45.39	24.02	25.26
111213	Penalty on Withholding Tax on Public Supplies	2.36	2.36	10.35	10.35	10.16	10.16	11.87	11.39	-	-	-	-	-	-	-	-	-	-
111214	Capital Gains Tax	0.29	0.29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111215	Withholding Tax - Interests	5.18	5.18	0.43	0.43	0.46	0.46	0.53	0.51	-	-	-	-	-	-	-	-	-	-
111216	Withholding Tax - Dividends	4.45	4.45	1.71	1.71	0.69	0.69	0.80	0.77	4.12	4.60	5.23	5.03	5.74	5.74	3.26	3.26	3.49	13.69
111217	Withholding Tax - Service Fees	5.51	5.51	9.30	9.30	26.92	26.92	31.46	30.20	45.92	51.29	58.99	52.49	55.75	55.75	1.46	1.46	1.56	2.56
111218	Withholding Tax - Royaltes	0.81	0.81	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
111219	Penaltes on PAYE	0.25	0.25	1.16	1.16	0.76	0.76	0.89	0.85	-	-	-	-	-	-	-	-	-	-
111220	Penaltes on Corporaton Income Tax	1.44	1.44	1.74	1.74	1.26	1.26	1.47	1.41	-	-	-	-	-	-	-	-	-	-
111221	Penaltes - Personal Income Tax	0.05	0.05	0.50	0.50	0.60	0.60	0.71	0.68	-	-	-	-	-	-	-	-	-	-
111222	Penaltes - Withholding Taxes	7.20	7.20	0.89	0.89	0.57	0.57	0.67	0.64	-	-	-	-	-	-	-	-	-	-
111224	Withholding Tax - Performance Payments	0.45	0.45	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-	-	-	1.05	1.05	1.13	4.51
111225	Interest on corporaton tax	0.92	0.92	1.14	1.14	0.78	0.78	0.91	0.88	0.00	0.00	0.01	0.01	0.01	0.01	-	-	-	-
111226	Withholding Tax on Public Supplies	-	-	7.18	7.18	8.45	8.45	9.88	9.48	13.35	14.92	18.95	18.92	17.67	17.67	2.11	2.11	2.26	18.26
	Other Fines on Taxes on Enterprises	-	-	-	-	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-
111228	Interest on late tax payments by corporations	-	-	0.03	0.03	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

TABLE 14: EVOLUTION OF PROJECTED PROPERTY TAXES IN RWANDA (2011/12-2019/20) IN NOMINAL TERMS (RWF BILLION)

		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
		Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.
1	**Domestic Revenue**	**1,116.85**	**1,194.16**	**1,385.29**	**1,549.86**	**1,653.47**	**1,677.69**	**1,753.26**	**1,762.42**	**1,768.18**	**1,808.81**	**1,949.40**	**1,954.25**	**2,094.91**	**2,115.39**	**2,443.54**	**2,585.15**	**2,876.92**	**3,017.05**
11	Tax Revenue	501.40	519.70	641.23	641.23	775.43	782.40	906.75	894.55	894.81	949.16	1,071.62	1,081.45	1,200.33	1,200.33	1,351.70	1,373.06	1,535.76	1,569.04
113	**Tax on Property Income**	**1.16**	**1.16**	**2.39**	**2.39**	**3.48**	**3.48**	**-**	**-**	**2.85**	**3.18**	**4.42**	**4.25**	**3.13**	**3.13**	**3.18**	**2.55**	**3.87**	**2.76**
1131	**Taxes on Immovable Property**	**0.00**	**0.00**	**2.39**	**2.39**	**3.48**	**3.48**	**-**	**-**	**0.82**	**0.92**	**1.84**	**1.77**	**1.31**	**1.31**	**0.75**	**-**	**1.08**	**0.01**
113104	Tax on Property - plots and land	-	-	-	-	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-
113106	Tax on Mining	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
113107	Penalty on Property Taxes	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
113108	Registraton Plate tax	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
113109	Property tax on vehicles	-	-	2.26	2.26	3.45	3.45	-	-	0.82	0.92	1.84	1.77	1.31	1.31	0.74	-	1.08	0.01
113110	Penality on property tax on vehicles	-	-	0.11	0.11	0.03	0.03	-	-	-	-	-	-	-	-	-	-	-	-
113111	Late payment interest of property tax (vehicles)	-	-	0.01	0.01	0.01	0.01	-	-	-	-	-	-	-	-	-	-	-	-
	Building Tax and Fixed asset Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00	-	0.00	-
113112	Penality on number plate registration fees	-	-	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1135	**Other non-recurrent taxes on property**	**1.15**	**1.15**	**-**	**-**	**-**	**-**	**-**	**-**	**2.03**	**2.27**	**2.58**	**2.48**	**1.83**	**1.83**	**2.44**	**2.55**	**2.79**	**2.76**
113502	Taxes on boats	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
113503	Taxes on vehicle registraton plate (customs)	1.15	1.15	-	-	-	-	-	-	2.03	2.27	2.58	2.48	1.83	1.83	2.44	2.55	2.79	2.76

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

TABLE 15: EVOLUTION OF PROJECTED INDIRECT TAXES IN RWANDA (2011/12-2019/20) IN NOMINAL TERMS (RWF BILLION)

		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
		Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.
114	**Taxes on goods and services**	**136.00**	**141.30**	**193.76**	**193.76**	**240.06**	**240.06**	**461.49**	**461.49**	**474.07**	**486.35**	**541.95**	**560.31**	**602.88**	**602.88**	**679.39**	**684.89**	**761.41**	**776.32**
1141	**General taxes on goods and services**	**76.47**	**81.77**	**126.53**	**126.53**	**156.54**	**156.54**	**300.93**	**300.93**	**303.12**	**310.97**	**340.64**	**410.65**	**438.97**	**438.97**	**448.47**	**453.36**	**520.16**	**463.79**
114101	VAT Principle	74.13	79.43	114.91	114.91	138.52	138.52	266.29	266.29	152.56	156.51	163.30	235.05	183.58	183.58	293.97	298.46	343.17	267.83
114102	VAT - Late Payment Charge	0.95	0.95	1.17	1.17	1.71	1.71	3.29	3.29	-	-	-	-	-	-	-	-	-	-
114103	VAT - Penalty	1.39	1.39	1.88	1.88	1.57	1.57	3.01	3.01	-	-	-	-	-	-	-	-	-	-
114104	VAT - Arrears	-	-	0.02	0.02	0.91	0.91	1.76	1.76	0.00	0.00	0.00	0.00	5.00	5.00	4.68	4.68	6.86	6.86
114105	VAT - Miscellaneous	-	-	-	-	1.72	1.72	3.30	3.30	0.01	0.01	0.02	0.02	4.01	4.01	3.45	3.45	4.55	8.38
114106	Other general taxes on goods and services	-	-	-	-	-	-	-	-	-	-	-	-	29.76	29.76	-	-	-	-
114107	VAT on offset refund	-	-	8.55	8.55	12.11	12.11	23.27	23.27	-	-	-	-	-	-	-	-	-	-
114111	VAT Collection On Imports	-	-	-	-	-	-	-	-	100.98	103.60	118.94	123.44	132.40	132.40	145.17	146.43	161.04	167.18
114112	VAT Withholding tax	-	-	-	-	-	-	-	-	49.56	50.85	58.38	52.13	84.21	84.21	1.21	0.34	4.54	13.54
1142	**Excises**	**45.21**	**45.21**	**51.43**	**51.43**	**58.64**	**58.64**	**112.72**	**112.72**	**166.07**	**170.37**	**196.56**	**146.87**	**161.17**	**161.17**	**222.49**	**223.88**	**227.33**	**302.00**
114201	Excise duty local Wines and Liquor	0.02	0.02	0.00	0.00	0.23	0.23	0.45	0.45	0.97	1.00	1.15	0.86	1.33	1.33	31.59	2.77	34.95	34.95
114203	Excise duty Local Cigaretes	1.19	1.19	1.09	1.09	0.79	0.79	1.53	1.53	1.18	1.21	1.39	1.04	1.17	1.17	6.82	9.83	9.01	12.12
114204	Excise duty Local Mineral water	2.75	2.75	0.48	0.48	0.63	0.63	1.22	1.22	0.66	0.68	0.78	0.58	1.01	1.01	9.63	12.69	10.65	10.65
114205	Excise duty on local Juice - other	-	-	-	-	0.00	0.00	0.00	0.00	0.08	0.09	0.10	0.07	0.43	0.43	1.14	0.14	1.26	1.26
114206	Excise duty on local Airtme	5.25	5.25	6.21	6.21	9.35	9.35	17.98	17.98	12.37	12.70	16.25	12.18	7.04	7.04	10.66	12.48	11.79	13.66
114207	Excise duty on local Fruit Juice	0.11	0.11	0.17	0.17	0.21	0.21	0.41	0.41	0.25	0.25	0.29	0.22	0.24	0.24	1.10	0.10	1.21	1.21
114208	Interest on local Consumpton Tax	0.03	0.03	0.03	0.03	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-
114209	Penaltes on Consumpton Tax	0.01	0.01	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114210	Excise duty local Beer	28.24	28.24	35.45	35.45	0.00	0.00	73.35	73.35	40.09	41.13	40.22	27.10	13.78	13.78	2.67	29.85	2.96	64.68
114211	Excise duty local Soft Drink	7.61	7.61	7.99	7.99	9.25	9.25	17.79	17.79	11.98	12.29	11.11	8.30	9.33	9.33	9.53	14.44	10.54	15.38
114212	Excise Duty On Beer - Imports	-	-	-	-	-	-	-	-	1.74	1.78	2.05	1.53	2.80	2.80	2.77	2.76	3.07	3.07
114213	Excise Duty On Soft Drinks - Imports	-	-	-	-	-	-	-	-	0.30	0.31	0.35	0.26	0.30	0.30	1.14	1.74	1.26	1.26
114214	Excise Duty On Wines And Liquors - Imports	-	-	-	-	-	-	-	-	3.17	3.25	3.74	2.79	4.50	4.50	7.15	5.71	7.71	7.71
114215	Excise Duty On Petroleum Products - Imports	-	-	-	-	-	-	-	-	59.75	61.30	62.13	40.42	48.80	48.80	49.16	56.08	38.34	62.53
114216	Excise Duty On Cigarettes - Imports	-	-	-	-	-	-	-	-	5.38	5.52	6.33	4.73	5.32	5.32	8.25	9.83	8.91	8.91
114217	Excise Duty On Mineral Water - Imports	-	-	-	-	-	-	-	-	1.80	1.85	2.12	1.58	2.15	2.15	4.72	0.72	5.09	5.09
114218	Excise Duty On Vehicles - Imports	-	-	-	-	-	-	-	-	2.94	3.01	3.46	2.58	2.90	2.90	3.39	4.61	3.65	4.69
114219	Excise Duty On Milk - Imports	-	-	-	-	-	-	-	-	0.16	0.17	0.19	0.14	0.16	0.16	5.59	0.09	8.34	0.08
114220	Road Fund Fuel and gasoil levy	-	-	-	-	-	-	-	-	23.25	23.85	44.90	42.48	48.60	48.60	56.14	49.50	57.20	43.36
114221	Strategic Petroleum Reserve levy	-	-	-	-	-	-	-	-	-	-	-	-	11.31	11.31	11.03	10.54	11.38	11.38
1145	**Taxes on Use of Goods & Services**	**14.32**	**14.32**	**15.81**	**15.81**	**24.89**	**24.89**	**47.84**	**47.84**	**0.00**	**0.00**	**0.00**	**0.00**	**-**	**-**	**2.14**	**2.14**	**5.52**	**5.52**
114501	Axle Tax	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	2.14	2.14	5.52	5.52
114502	Axle Tax - Penaltes	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114503	Axle Tax - Interest	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114505	Road Fund - Roadtoll (FER)	-	-	-	-	8.85	8.85	17.02	17.02	-	-	-	-	-	-	-	-	-	-
114506	Road Fund Fuel and gasoil levy	14.31	14.31	15.81	15.81	16.03	16.03	30.82	30.82	-	-	-	-	-	-	-	-	-	-
1146	**Other taxes on goods and services**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4.88**	**5.00**	**4.76**	**2.78**	**2.74**	**2.74**	**6.29**	**5.52**	**8.40**	**5.00**
114604	Royalty Tax on Mining	-	-	-	-	-	-	-	-	4.88	5.00	4.76	2.78	2.74	2.74	6.29	5.52	8.40	5.00
115	**Taxes on internatonal trade**	**156.65**	**156.65**	**191.89**	**191.89**	**214.34**	**214.34**	**66.08**	**69.08**	**73.79**	**75.21**	**79.62**	**92.51**	**108.36**	**108.36**	**116.74**	**111.94**	**122.53**	**122.16**
1151	**Customs and other import dutes**	**156.65**	**156.65**	**191.89**	**191.89**	**214.34**	**214.34**	**66.08**	**69.08**	**73.79**	**75.21**	**79.62**	**92.51**	**108.36**	**108.36**	**116.74**	**111.94**	**122.53**	**122.16**
115101	VAT on Imports	77.41	77.41	73.55	73.55	92.66	92.66	28.57	29.87	-	-	-	-	-	-	-	-	-	-
115102	Excise Duty on Beer - imports	0.54	0.54	0.71	0.71	1.93	1.93	0.59	0.62	-	-	-	-	-	-	-	-	-	-
115103	Excise Duty on Soft Drinks - imports	0.11	0.11	0.12	0.12	0.31	0.31	0.10	0.10	-	-	-	-	-	-	-	-	-	-
115104	Excise Duty on Wines and Liquors - imports	0.92	0.92	1.49	1.49	3.29	3.29	1.02	1.06	-	-	-	-	-	-	-	-	-	-
115105	Excise Duty on Petroleum Products	31.74	31.74	67.96	67.96	44.93	44.93	13.85	14.48	-	-	-	-	-	-	-	-	-	-
115106	Excise Duty on Cigaretes - imports	3.84	3.84	4.34	4.34	4.92	4.92	1.52	1.59	-	-	-	-	-	-	-	-	-	-
115107	Excise Duty on Mineral Water - imports	0.12	0.12	0.28	0.28	0.55	0.55	0.17	0.18	-	-	-	-	-	-	-	-	-	-
115108	Excise Duty on Vehicles - imports	1.95	1.95	2.14	2.14	3.32	3.32	1.02	1.07	-	-	-	-	-	-	-	-	-	-
115109	Excise Duty on Milk - imports	0.07	0.07	0.09	0.09	0.06	0.06	0.02	0.02	-	-	-	-	-	-	-	-	-	-
115110	Import Duty on Petroleum Products - imports	0.27	0.27	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	8.37	1.70	9.71	9.71
115111	Import Duty on other Goods	35.86	35.86	36.65	36.65	59.37	59.37	18.31	19.14	70.91	72.28	76.51	78.13	74.60	74.60	81.82	89.96	79.58	79.06
115112	Surcharges	0.04	0.04	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115114	Tax on Export of Tea	0.05	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115115	Other Customs Revenues	1.27	1.27	1.40	1.40	1.26	1.26	0.39	0.41	2.07	2.11	2.24	3.68	22.47	22.47	6.68	4.88	6.88	6.87
115116	Magerwa Warehousing	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115117	Other Warehousing Fees	1.12	1.12	0.95	0.95	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115118	Handling Charges	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115119	Revenues on Statement of Offence	0.14	0.14	0.04	0.04	0.01	0.01	0.00	0.00	-	-	-	-	-	-	-	-	-	-
115120	Quality Inspecton Fees	0.68	0.68	1.61	1.61	1.33	1.33	0.41	0.43	-	-	-	-	-	-	-	-	-	-
115125	African Union Import Levy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.99	10.21
115121	Revenues on Entry & Exit (Vehicles)	0.52	0.52	0.46	0.46	0.40	0.40	0.12	0.13	0.80	0.82	0.86	10.71	-	-	7.36	2.55	10.21	14.33
115123	Infrastructure Development Levy	-	-	-	-	-	-	-	-	-	-	-	-	11.29	11.29	12.51	12.85	14.16	1.99

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

TABLE 16: RECLASSIFICATION OF PROJECTED INDIRECT TAXES IN RWANDA (2011/12-2019/20) IN NOMINAL TERMS (RWF BILLION)

Code	Item	2011/12 Orig.	2011/12 Rev.	2012/13 Orig.	2012/13 Rev.	2013/14 Orig.	2013/14 Rev.	2014/15 Orig.	2014/15 Rev.	2015/16 Orig.	2015/16 Rev.	2016/17 Orig.	2016/17 Rev.	2017/18 Orig.	2017/18 Rev.	2018/19 Orig.	2018/19 Rev.	2019/20 Orig.	2019/20 Rev.
114	**Taxes on goods and services**	136.00	141.30	193.76	193.76	240.06	240.06	461.49	461.49	474.07	486.35	541.95	560.31	602.88	602.88	679.39	684.89	761.41	776.32
1141	**General taxes on goods and services**	76.47	81.77	126.53	126.53	156.54	156.54	[illegible]	[illegible]	305.12	310.97	340.64	410.65	438.97	438.97	448.47	453.36	520.16	465.79
114101	VAT Principle	74.13	79.43	114.91	114.91	136.52	[illegible]	266.29	266.29	152.56	156.51	163.30	235.05	183.58	183.58	293.97	298.46	343.17	287.83
114102	VAT - Late Payment Charge	0.95	0.95	1.17	1.17	1.71	1.71	3.29	[illegible]	-	-	-	-	-	-	-	-	-	-
114103	VAT - Penalty	1.39	1.39	1.88	1.88	1.57	1.57	3.01	3.01	-	-	-	-	-	-	-	-	-	-
114104	VAT - Arrears	-	-	0.02	0.02	0.91	0.91	1.76	1.76	0.00	0.00	0.00	0.00	5.00	5.00	4.68	4.68	6.86	6.86
114105	VAT - Miscellaneous	-	-	-	-	1.72	1.72	3.30	3.30	0.01	0.01	0.02	0.02	4.01	4.01	3.45	3.45	4.55	8.38
114106	Other general taxes on goods and services	-	-	-	-	-	-	-	-	-	-	-	-	29.76	29.76	-	-	-	-
114107	VAT on offset refund	-	-	8.55	8.55	12.11	12.11	23.27	23.27	-	-	-	-	-	-	-	-	-	-
114111	VAT Collection On Imports	-	-	-	-	-	-	-	-	100.98	103.60	118.94	123.44	132.40	132.40	145.17	146.43	161.04	167.18
114112	VAT Withholding tax	-	-	-	-	-	-	-	-	49.56	50.85	58.38	52.13	84.21	84.21	1.21	0.34	4.54	13.54
1142	**Excises**	45.21	45.21	51.43	51.43	58.64	58.64	112.72	112.72	166.07	170.37	196.56	146.87	161.17	161.17	222.49	223.88	227.33	302.00
114201	Excise duty local Wines and Liquor	0.02	0.02	0.00	0.00	0.23	0.23	0.45	0.45	0.97	1.00	1.15	0.86	1.33	1.33	31.59	2.77	34.95	34.95
114203	Excise duty Local Cigarettes	1.19	1.19	1.09	1.09	0.79	0.79	1.53	1.53	1.18	1.21	1.39	1.04	1.17	1.17	6.82	9.83	9.01	12.12
114204	Excise duty Local Mineral water	2.75	2.75	0.48	0.48	0.63	0.63	1.22	1.22	0.66	0.68	0.78	0.58	1.01	1.01	9.83	12.69	10.65	10.65
114205	Excise duty on local Juice - other	-	-	-	-	0.00	0.00	0.00	0.00	0.08	0.09	0.10	0.07	0.43	0.43	1.14	0.14	1.26	1.26
114206	Excise duty on local Airtime	5.25	5.25	6.21	6.21	9.35	9.35	17.98	17.98	12.37	12.70	18.25	12.18	7.04	7.04	10.66	12.48	11.79	13.66
114207	Excise duty on local Fruit Juice	0.11	0.11	0.17	0.17	0.21	0.21	0.41	0.41	0.25	0.25	0.29	0.22	0.24	0.24	1.10	0.10	1.21	1.21
114208	Interest on local Consumption Tax	0.03	0.03	0.03	0.03	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-
114209	Penalties on Consumption Tax	0.01	0.01	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114210	Excise duty local Beer	28.24	28.24	35.45	35.45	[illegible]	[illegible]	73.35	73.35	40.09	41.13	40.22	27.10	13.78	13.78	2.67	29.85	2.96	64.68
114211	Excise duty local Soft Drink	7.61	7.61	7.99	7.99	[illegible]	9.25	17.79	[illegible]	11.98	12.29	11.11	8.30	9.33	9.33	9.53	14.44	10.54	15.38
114212	Excise Duty On Beer - Imports	-	-	-	-	-	-	-	-	1.74	1.78	2.05	1.53	2.80	2.80	2.77	2.76	3.07	3.07
114213	Excise Duty On Soft Drinks - Imports	-	-	-	-	-	-	-	-	0.30	0.31	0.35	0.26	0.30	0.30	1.54	1.74	1.26	1.26
114214	Excise Duty On Wines And Liquors - Imports	-	-	-	-	-	-	-	-	3.17	3.25	3.74	2.79	4.50	4.50	7.15	5.71	7.71	7.71
114215	Excise Duty On Petroleum Products - Imports	-	-	-	-	-	-	-	-	59.75	61.30	62.13	40.42	48.80	48.80	49.16	56.08	58.34	62.53
114216	Excise Duty On Cigarettes - Imports	-	-	-	-	-	-	-	-	5.38	5.52	6.33	4.73	5.32	5.32	8.25	9.83	8.91	8.91
114217	Excise Duty On Mineral Water - Imports	-	-	-	-	-	-	-	-	1.80	1.85	2.12	1.58	2.15	2.15	4.72	0.72	5.09	5.09
114218	Excise Duty On Vehicles - Imports	-	-	-	-	-	-	-	-	2.94	3.01	3.46	2.58	2.90	2.90	3.39	4.61	3.65	4.89
114219	Excise Duty On Milk - Imports	-	-	-	-	-	-	-	-	0.16	0.17	0.19	0.14	0.16	0.16	5.59	0.09	8.34	0.08
114220	Road Fund Fuel and gasoil levy	-	-	-	-	-	-	-	-	23.25	23.85	44.90	42.46	48.60	48.60	56.14	49.50	57.20	45.36
114221	Strategic Petroleum Reserve levy	-	-	-	-	-	-	-	-	-	-	-	-	11.31	11.31	11.03	10.54	11.38	11.38
1145	**Taxes on Use of Goods & Services**	14.32	14.32	15.81	15.81	24.89	24.89	47.84	47.84	0.00	0.00	0.00	0.00	-	-	2.14	2.14	5.52	5.52
114501	Axle Tax	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	2.14	2.14	5.52	5.52
114502	Axle Tax - Penalties	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114503	Axle Tax - Interest	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
114505	Road Fund - Roadtoll (FER)	-	-	-	-	8.85	8.85	17.02	[illegible]	-	-	-	-	-	-	-	-	-	-
114506	Road Fund Fuel and gasoil levy	14.31	14.31	15.81	15.81	16.03	16.03	30.82	[illegible]	-	-	-	-	-	-	-	-	-	-
1146	**Other taxes on goods and services**	-	-	-	-	-	-	-	-	4.88	5.00	4.76	2.78	2.74	2.74	6.29	5.52	8.40	5.00
114604	Royalty Tax on Mining	-	-	-	-	-	-	-	-	4.88	5.00	4.76	2.78	2.74	2.74	6.29	5.52	8.40	5.00
115	**Taxes on international trade**	156.65	156.65	191.89	191.89	214.34	214.34	66.08	66.08	75.79	75.21	79.62	92.51	108.36	108.36	116.74	111.94	122.53	122.16
1151	**Customs and other import duties**	156.65	156.65	191.89	191.89	214.34	214.34	66.08	66.08	75.79	75.21	79.62	92.51	108.36	108.36	116.74	111.94	122.53	122.16
115101	VAT on Imports	77.41	77.41	73.55	73.55	92.66	92.66	28.57	29.87							-	-	-	-
115102	Excise Duty on Beer - Imports	0.54	0.54	0.71	0.71	1.38	[illegible]	0.59	0.62							-	-	-	-
115103	Excise Duty on Soft Drinks - Imports	0.11	0.11	0.12	0.12	0.31	0.31	0.10	0.10							-	-	-	-
115104	Excise Duty on Wines and Liquors - Imports	0.92	0.92	1.49	1.49	3.29	3.29	1.02	1.06							-	-	-	-
115105	Excise Duty on Petroleum Products	31.74	31.74	67.98	67.98	44.33	44.33	13.85	14.48							-	-	-	-
115106	Excise Duty on Cigarettes - Imports	3.84	3.84	4.34	4.34	4.82	4.82	1.52	1.59	-	-	-	-	-	-	-	-	-	-
115107	Excise Duty on Mineral Water - Imports	0.12	0.12	0.28	0.28	0.55	0.55	0.17	0.18	-	-	-	-	-	-	-	-	-	-
115108	Excise Duty on Vehicles - Imports	1.95	1.95	2.14	2.14	3.32	3.32	1.02	1.07	-	-	-	-	-	-	-	-	-	-
115109	Excise Duty on Milk - Imports	0.07	0.07	0.09	0.09	0.06	0.06	0.02	0.02	-	-	-	-	-	-	-	-	-	-
115110	Import Duty on Petroleum Products - Imports	0.27	0.27	0.10	0.10	0.00	0.00	0.00	[illegible]	0.00	0.00	0.00	0.00	-	-	8.37	1.70	9.71	9.71
115111	Import Duty on other Goods	35.86	35.86	36.65	36.65	59.37	[illegible]	18.31	19.14	70.91	72.28	76.51	78.13	74.60	74.60	81.82	89.96	79.58	79.06
115112	Surcharges	0.04	0.04	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115114	Tax on Export of Tea	0.05	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115115	Other Customs Revenues	1.27	1.27	1.40	1.40	1.26	1.26	0.59	0.41	2.07	2.11	2.24	3.68	22.47	22.47	6.68	4.88	6.88	6.87
115116	Magerwa Warehousing	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115117	Other Warehousing Fees	1.12	1.12	0.05	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115118	Handling Charges	0.00	0.00	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115119	Revenues on Statement of Offence	0.14	0.14	0.04	0.04	0.01	0.01	0.00	0.00	-	-	-	-	-	-	-	-	-	-
115120	Quality Inspection Fees	0.68	0.68	1.61	1.61	1.33	1.33	0.41	0.43	-	-	-	-	-	-	-	-	-	-
115125	African Union Import Levy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.99	10.21
115121	Revenues on Entry & Exit (Vehicles)	0.52	0.52	0.46	0.46	0.40	0.40	0.12	0.13	0.80	0.82	0.86	10.71	-	-	7.36	2.55	10.21	14.33
115123	Infrastructure Development Levy	-	-	-	-	-	-	-	-	-	-	-	-	11.29	11.29	12.51	12.85	14.16	1.99

Outliers

Reclassification of Trade taxes

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

TABLE 17: BUDGET ALLOCATIONS TO CENTRAL LEVEL MINISTRIES (2011/12-2019/20) IN NOMINAL TERMS

	2011/12		2012/13		2013/14		2014/15		2015/16	
	original	revised	original	revised	original	revised	original	revised	original	revised
PRESIREP	60,016,406,332	65,516,406,332	64,188,772,180	55,519,319,159	65,547,585,783	68,986,600,092	70,258,286,588	62,782,082,883	64,132,814,790	62,129,342,183
Senate	2,462,446,552	2,462,446,552	2,853,576,523	3,108,883,587	2,908,490,646	3,598,689,944	2,852,614,537	2,778,551,467	2,774,918,588	2,792,000,773
Chamber of Deputies	6,923,771,634	6,723,771,634	6,925,008,944	7,199,790,384	10,590,050,421	11,517,323,645	10,462,886,970	10,767,694,916	10,542,403,069	10,917,921,418
PRIMATURE	9,063,121,446	9,013,121,446	5,565,369,019	4,534,442,966	3,323,745,501	3,344,765,588	3,283,629,615	3,443,102,483	3,007,728,568	3,090,115,300
Supreme Court	7,359,989,684	7,359,989,684	8,222,808,391	7,755,799,032	10,799,482,128	10,968,023,931	12,097,097,992	11,703,826,111	13,690,678,514	12,375,994,578
MINADEF	50,158,066,055	50,158,066,055	53,511,884,359	54,135,431,359	55,135,431,359	56,638,283,946	65,904,398,592	69,077,056,439	71,970,791,881	80,549,503,499
ex-MININTER	28,545,129,857	29,213,842,835	34,310,074,346	31,913,464,492	37,242,978,122	36,509,582,860	39,759,177,537	39,120,188,611	50,277,805,099	50,954,858,087
MINAFFET	15,806,482,193	15,806,482,193	15,893,626,778	15,933,486,964	16,702,883,325	21,713,250,316	32,907,875,194	26,150,927,143	29,922,009,546	35,240,431,166
MINAGRI	67,621,050,663	69,813,833,297	79,093,702,469	78,377,122,018	82,978,644,319	62,021,292,575	90,298,698,305	93,403,135,374	102,870,277,395	103,398,250,512
MINICOM / MINEACOM	19,493,649,732	19,451,041,732	18,007,707,612	14,834,497,758	21,858,822,395	23,142,615,160	21,578,373,940	21,637,988,187	25,581,105,984	27,675,995,900
ex-MINICT / MYICT	909,803,534	877,803,534	2,940,746,180	2,385,286,571	3,962,590,719	4,364,332,073	6,412,613,805	5,573,960,032	5,668,667,418	4,633,029,089
MINECOFIN	171,120,243,750	208,520,827,176	209,059,668,883	431,936,053,724	320,619,884,964	370,435,094,876	351,369,520,012	390,146,508,708	415,742,503,025	410,327,644,745
MINIJUST	6,969,967,635	8,232,625,835	6,086,075,633	5,700,364,690	4,890,406,623	5,838,755,304	5,917,192,528	7,157,760,336	7,513,402,036	7,342,734,990
MINEDUC	95,900,040,555	103,130,026,955	119,278,289,580	108,699,017,993	149,239,144,076	130,947,428,708	132,407,870,771	113,546,198,534	99,955,859,733	102,595,876,647
MIJESPOC / MINISPOC	10,164,896,086	10,188,036,826	8,023,019,953	7,750,574,366	7,376,606,236	12,364,802,084	10,026,820,756	9,277,784,747	10,677,365,671	12,733,760,550
MINISANTE	109,523,533,680	106,923,533,680	142,493,692,738	140,150,512,572	127,642,972,458	119,665,581,299	157,695,650,826	167,644,935,806	141,104,753,590	168,768,280,192
NPPA	3,537,097,948	3,537,097,948	3,909,100,010	3,887,694,945	3,983,860,799	3,980,165,931	4,097,952,716	4,208,012,200	4,960,184,701	4,900,389,453
MININFRA	210,793,411,342	221,543,411,342	288,062,146,599	273,441,729,791	402,159,134,318	386,964,859,741	365,051,567,768	278,611,558,567	303,706,050,855	303,803,706,272
MIFOTRA	3,952,408,212	3,952,408,212	2,838,192,276	2,425,950,850	2,557,522,553	2,434,084,807	2,979,911,805	5,568,166,591	5,625,254,707	1,925,254,707
ex-MINEAC	1,803,948,098	1,426,020,752	1,239,589,740	1,002,094,919	989,494,132	969,516,797	969,516,797	1,617,327,627	1,277,862,009	1,277,862,009
ex-MINIRENA	13,091,529,082	12,691,529,082	15,169,158,039	13,654,790,955	16,897,789,480	16,832,472,490	33,672,872,039	36,297,529,918	24,675,049,416	32,849,683,490
MINALOC	45,255,812,797	45,297,944,929	47,881,422,391	42,723,833,094	51,511,371,716	52,138,321,007	41,212,580,836	39,611,794,376	42,859,401,397	44,685,393,259
MIDIMAR	1,076,954,020	1,076,954,020	977,103,046	810,329,650	800,351,546	1,079,676,608	989,823,712	7,533,737,091	4,230,920,196	4,708,736,903
MIGEPROF	-	-	-	-	3,391,757,892	3,368,996,677	5,907,637,603	7,331,360,957	6,324,139,366	6,964,910,286
MINIYOUTH										
MITEC										
MOE										
MINILAF										
	941,549,760,887	1,002,917,222,051	1,136,530,735,689	1,307,880,471,839	1,403,111,001,511	1,409,824,516,459	1,468,114,571,244	1,414,991,189,104	1,449,091,947,554	1,496,641,676,008

	2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised
PRESIREP	76,075,580,964	78,281,833,450	70,698,642,245	73,666,812,358	91,646,536,086	98,648,878,534	90,946,702,923	100,234,174,303
Senate	2,823,699,294	2,821,281,786	2,873,699,294	2,944,503,602	3,035,160,562	3,274,886,199	5,475,406,052	5,840,183,176
Chamber of Deputies	11,749,022,920	12,161,848,480	12,810,947,066	12,858,654,038	12,955,928,769	15,393,181,707	15,200,671,040	15,231,719,349
PRIMATURE	3,532,489,194	3,586,479,708	3,834,238,906	3,912,143,109	3,892,139,992	3,984,048,136	4,487,301,978	4,702,545,541
Supreme Court	12,637,191,976	12,472,075,769	11,184,411,646	11,421,795,680	11,280,928,089	11,691,015,223	12,901,352,795	13,842,589,809
MINADEF	85,067,662,495	94,252,192,849	96,314,150,706	99,385,375,084	104,976,473,583	105,226,473,583	124,622,320,713	128,447,088,568
ex-MININTER	55,186,014,189	58,863,753,778	60,734,763,621	62,013,550,344	68,876,600,749	70,030,068,064	78,551,847,240	91,096,134,318
MINAFFET	36,932,420,156	36,926,579,412	39,734,906,598	39,681,498,330	40,728,679,431	44,355,153,179	47,937,915,066	48,965,910,617
MINAGRI	92,805,294,899	89,827,124,801	98,983,924,261	109,041,344,142	99,104,629,802	97,593,730,711	115,320,359,396	106,230,266,588
MINICOM / MINEACOM	29,549,353,543	31,806,451,893	30,920,736,933	32,297,353,662	36,469,522,833	40,985,959,395	43,253,480,438	40,183,539,973
ex-MINICT / MYICT	5,960,907,513	6,324,929,535	14,275,703,079	8,590,280,407	17,590,233,413	17,735,036,266	22,791,755,535	23,058,328,180
MINECOFIN	537,379,932,477	501,846,251,170	557,561,501,706	558,781,044,863	659,671,982,348	671,746,155,988	831,600,965,916	955,324,865,619
MINIJUST	9,017,869,391	8,762,397,977	10,411,047,863	10,573,609,257	20,042,253,687	20,547,843,038	23,743,240,925	22,973,641,240
MINEDUC	98,420,350,441	100,736,156,249	112,344,892,442	112,524,256,574	129,521,598,222	126,961,246,207	148,641,050,519	153,731,278,974
MIJESPOC / MINISPOC	10,218,061,673	10,730,425,374	12,542,005,042	12,713,965,242	15,040,445,508	15,141,284,788	14,879,737,272	14,537,704,949
MINISANTE	152,228,401,418	154,849,547,505	153,815,917,838	159,326,819,635	161,221,922,626	192,131,340,339	185,385,571,899	198,109,245,897
NPPA	5,840,354,133	5,927,389,071	6,144,755,680	6,244,755,680	6,381,261,170	6,507,888,347	6,786,938,892	6,985,489,387
MININFRA	283,157,927,504	294,589,480,604	312,478,397,022	317,794,326,793	420,245,074,846	487,226,961,166	493,299,507,001	482,902,400,891
MIFOTRA	2,238,587,051	2,346,179,351	2,646,221,194	2,590,113,947	2,229,311,259	2,399,819,217	2,586,803,902	2,502,795,993
ex-MINEAC	1,348,175,726	212,792,030	-	-	-	-	-	-
ex-MINIRENA	27,890,119,632	32,707,004,957	42,017,855,618	31,925,870,588	20,649,458,496	17,549,916,290	31,784,880,653	21,532,547,761
MINALOC	47,811,408,179	47,320,499,642	61,118,779,370	63,109,379,402	104,806,244,530	100,761,451,256	109,881,519,845	107,936,211,025
MIDIMAR	5,322,817,363	6,086,297,616	4,563,599,434	4,583,340,814	5,895,965,692	5,938,848,330	8,575,795,277	5,684,258,565
MIGEPROF	5,898,979,305	8,800,846,419	11,068,860,150	8,166,209,258	13,414,071,985	18,529,122,441	16,974,280,038	19,606,423,227
MINIYOUTH				748,596,144	1,285,490,617	1,701,319,769	1,928,520,249	2,419,255,286
MITEC				1,160,072,422	1,285,627,696	2,490,316,598	3,664,870,165	3,369,815,310
MOE				5,598,234,075	12,390,932,822	12,859,633,640	14,803,580,309	23,552,269,170
MINILAF				403,539,656	876,215,224	275,848,881	-	
	1,599,092,621,436	1,602,239,819,426	1,729,079,957,714	1,752,057,445,106	2,065,514,690,037	2,191,687,427,292	2,456,026,376,038	2,599,000,683,716

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: Budget allocations to central level agencies include allocations to subordinate Executive Agencies.
PRESIREP = Office of the President; PRIMATURE = Office of the Prime Minister; MINAFEF= Ministry of Defence; MININTER = Ministry of the Interior (Disbanded in 2017); MINAFFET = Ministry of Foreign Affairs and International Cooperation; MINAGRI = Ministry of Agriculture and Animal Resources; MINICOM/MINEACOM = Ministry of Tade and Industry; MINICT/MYICT = Ministry of ICT & Innovation, MINECOFIN = Ministry of Economy and Finance; MINIJUST = Ministry of Justice; MINEDUC = Ministry of Education; MIJESPOC/MINISPOC = Ministry of Sports; MINISANTE = Ministry of Health; NPPA = National Public Prosecution Agency; MININFRA = Ministry of Infrastructure; MIFOTRA = Ministry of Public Service and Labour; MINEAC = Ministry of East African Community; MINIRENA = Ministry of National Resources; MINALOC = Ministry of Local Government; MIDIMAR = Ministry of Disaster Relief and Refugee Affairs; MIGEPROF = Ministry of Gender and Family Promotion; MINIYOUTH = Ministry of Youth; MITEC = Ministry of Information Technology and Communications; MOE = Ministry of Environment; MINILAF = Ministry of Lands and Forestry

TABLE 18: FUNCTIONAL ALLOCATION OF THE BUDGET (2011/12-2019/20) IN NOMINAL TERMS (RWF BILLION)

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
General public services	198.96	226.62	203.45	437.84	429.02	487.42	488.41	517.36	550.02	554.29	687.34	652.71	709.58	714.01	824.66	848.91	**1021.27**	**1147.91**
Defence	78.24	85.73	105.27	97.59	55.14	56.64	65.90	69.08	71.97	80.55	85.10	94.29	96.39	99.46	105.05	105.3	124.64	128.46
Public order and safety	56.40	58.37	63.29	61.45	67.54	70.50	75.97	76.79	90.66	90.85	100.18	105.00	109.80	111.88	129.27	131.51	147.59	160.45
Economic affairs	376.58	396.46	492.16	459.91	550.66	515.00	526.22	515.12	482.67	478.77	494.90	501.59	521.26	531.84	618.14	659.76	706.13	709.33
Environmental protection	26.78	25.61	42.10	39.43	15.64	18.53	31.23	32.33	25.69	33.28	28.22	32.56	38.75	34.36	33.52	30.59	43.54	42.10
Housing and community amenities	42.49	43.36	27.68	23.36	46.31	54.29	54.37	46.10	60.81	55.79	50.37	60.20	73.54	78.77	98.83	135.78	121.53	100.40
Health	129.60	128.08	170.66	167.35	157.51	154.02	189.54	200.26	180.40	204.02	188.56	189.28	193.63	197.35	200.84	232.42	230.83	245.40
Recreation, culture and religion	7.04	8.80	10.66	9.35	8.71	13.82	13.20	12.68	13.51	15.87	15.38	15.62	16.76	16.16	21.87	21.58	23.71	23.08
Education	170.46	191.02	224.72	207.66	251.82	234.30	235.35	214.40	216.90	220.65	219.99	221.26	240.85	240.49	273.00	278.21	310.23	313.34
Social protection	30.35	30.11	45.30	45.91	71.14	73.18	73.06	78.32	75.55	74.73	79.36	81.74	94.34	91.08	138.34	141.08	147.44	146.53
TOTAL	**1,116.90**	**1,194.16**	**1,385.29**	**1,549.85**	**1,653.49**	**1,677.70**	**1,753.25**	**1,762.44**	**1,768.18**	**1,808.80**	**1,949.40**	**1,954.25**	**2,094.90**	**2115.40**	**2,443.52**	**2,585.15**	**2,876.91**	**3,017.05**

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: Calculations include allocation to central level Ministries and Executive Agencies, as well as to sub-national entities.

TABLE 19: FUNCTIONAL ALLOCATION OF THE BUDGET (2011/12-2019/20) IN REAL TERMS (RWF BILLION, BASE YEAR = 2017)

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
General public services	255.76	278.18	249.74	523.37	512.83	556.31	557.44	587.63	624.72	599.43	743.31	652.71	709.58	718.60	829.96	833.98	1,003.31	1,056.68
Defence	100.58	105.23	129.22	116.65	65.91	64.65	75.21	78.46	81.74	87.11	92.03	94.29	96.39	100.10	105.73	103.45	122.45	118.25
Public order and safety	72.50	71.65	77.69	73.45	80.73	80.46	86.71	87.22	102.97	98.25	108.34	105.00	109.80	112.60	130.10	129.20	145.00	147.70
Economic affairs	484.09	486.66	604.13	549.75	658.23	587.79	600.60	585.08	548.22	517.76	535.20	501.59	521.26	535.26	622.12	648.16	693.71	652.95
Environmental protection	34.43	31.44	51.68	47.13	18.70	21.15	35.64	36.72	29.18	35.99	30.52	32.56	38.75	34.58	33.74	30.05	42.77	38.75
Housing and community amenities	54.62	53.22	33.98	27.92	55.36	61.96	62.05	52.36	69.07	60.33	54.47	60.20	73.54	79.28	99.47	133.39	119.39	92.42
Health	166.60	157.22	209.49	200.04	188.28	175.79	216.33	227.46	204.90	220.63	203.91	189.28	193.63	198.62	202.13	228.33	226.77	225.90
Recreation, culture and religion	9.05	10.80	13.09	11.18	10.41	15.77	15.07	14.40	15.34	17.16	16.63	15.62	16.76	16.26	22.01	21.20	23.29	21.25
Education	219.12	234.48	275.85	248.23	301.01	267.42	268.61	243.52	246.36	238.62	237.90	221.26	240.85	242.04	274.76	273.32	304.78	288.44
Social protection	39.01	36.96	55.61	54.88	85.04	83.52	83.39	88.96	85.81	80.82	85.82	81.74	94.34	91.67	139.23	138.60	144.85	134.88
TOTAL	**1,435.76**	**1,465.85**	**1,700.46**	**1,852.61**	**1,976.50**	**1,914.83**	**2,001.06**	**2,001.81**	**2,008.33**	**1,956.09**	**2,108.14**	**1,954.25**	**2,094.90**	**2129.01**	**2,459.24**	**2,585.15**	**2,826.33**	**3,017.05**

WB GDP deflator (RW)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base year 2017	77.7913	81.4656	83.6575	87.6163	88.0423	92.4703	100.0000	99.3609	101.7897	108.6339
Price index	0.7779	0.8147	0.8366	0.8762	0.8804	0.9247	1.0000	0.9936	1.0179	1.0863

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: GDP Deflator from data.worldbank.org (accessed 30/11/2023)

TABLE 20: FUNCTIONAL ALLOCATION OF THE BUDGET (2011/12-2019/20) AS PERCENTAGE OF TOTAL EXPENDITURE

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
General public services	17.81	18.98	14.69	28.25	25.95	29.05	27.86	29.35	31.11	30.64	35.26	33.40	33.87	33.75	33.75	32.84	35.50	38.05
Defence	7.01	7.18	7.60	6.30	3.33	3.38	3.76	3.92	4.07	4.45	4.37	4.82	4.60	4.70	4.30	4.07	4.33	4.26
Public order and safety	5.05	4.89	4.57	3.96	4.08	4.20	4.33	4.36	5.13	5.02	5.14	5.37	5.24	5.29	5.29	5.09	5.13	5.32
Economic affairs	33.72	33.20	35.53	29.67	33.30	30.70	30.01	29.23	27.30	26.47	25.39	25.67	24.88	25.14	25.30	25.52	24.54	23.51
Environmental protection	2.40	2.14	3.04	2.54	0.95	1.10	1.78	1.83	1.45	1.84	1.45	1.67	1.85	1.62	1.37	1.18	1.51	1.40
Housing and community amenities	3.80	3.63	2.00	1.51	2.80	3.24	3.10	2.62	3.44	3.08	2.58	3.08	3.51	3.72	4.04	5.25	4.22	3.33
Health	11.60	10.73	12.32	10.80	9.53	9.18	10.81	11.36	10.20	11.28	9.67	9.69	9.24	9.33	8.22	8.99	8.02	8.13
Recreation, culture and religion	0.63	0.74	0.77	0.60	0.53	0.82	0.75	0.72	0.76	0.88	0.79	0.80	0.80	0.76	0.90	0.83	0.82	0.76
Education	15.26	16.00	16.22	13.40	15.23	13.97	13.42	12.16	12.27	12.20	11.29	11.32	11.50	11.37	11.17	10.76	10.78	10.39
Social protection	2.72	2.52	3.27	2.96	4.30	4.36	4.17	4.44	4.27	4.13	4.07	4.18	4.50	4.31	5.66	5.46	5.12	4.86
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: Calculations include allocation to central level Ministries and Executive Agencies, as well as to sub-national entities.

TABLE 21: AVERAGE ANNUAL GROWTH RATE (AGGR) FOR FUNCTIONAL ALLOCATIONS OF THE BUDGET (2011/12-2019/20) (REAL TERMS, 2017 BASE YEAR)

	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17	2016/17-2017/18	2017/18-2018/19	2018/19-2019/20	AAGR (mean)
General public services	104.63	105.35	8.70	12.07	18.98	-4.54	16.97	20.89	35.38
Defence	15.99	-48.99	14.11	8.68	12.58	4.74	9.69	15.82	4.08
Public order and safety	1.31	3.92	7.40	18.76	5.21	1.35	18.49	11.45	8.49
Economic affairs	13.56	8.95	-8.76	-8.72	-2.38	-2.60	19.35	11.51	3.87
Environmental protection	36.91	-63.82	90.66	-18.14	4.59	26.96	-12.93	26.79	11.38
Housing and community amenities	-48.88	62.92	12.10	11.30	-21.13	35.01	35.25	20.03	13.33
Health	20.07	-10.12	14.90	-5.28	-0.48	-5.04	4.39	12.19	3.83
Recreation, culture and religion	23.50	-20.43	44.70	1.85	8.39	0.77	31.33	5.83	11.99
Education	13.28	9.12	-10.76	-8.29	-3.43	1.24	14.08	10.93	3.27
Social protection	40.66	52.93	-1.94	2.91	0.01	9.92	47.58	4.03	19.51
TOTAL	29.03	16.23	1.24	0.36	4.97	-0.63	17.39	14.93	10.44

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: The average annual growth rate (AAGR) measures the mean increase in planned expenditures according to functional classification.

TABLE 22: PROJECTED EXPENDITURES OF MINECOFIN (2011/12-2019/20) IN NOMINAL TERMS

	2011/12		2012/13		2013/14		2014/15		2015/16	
	original	revised	original	revised	original	revised	original	revised	original	revised
Repayment of borrowing	20,840,565,742.00	48,840,565,742.00	27,488,797,158.00	27,388,797,158.00	40,979,524,507.00	37,187,052,489.00	41,184,691,249.00	48,172,439,624.00	48,035,367,598.00	46,535,367,598.00
Interest on domestic debt	16,026,391,639.00	16,026,391,639.00	18,200,656,820.00	28,400,656,820.00	40,447,682,416.00	37,488,976,739.00	41,415,308,751.00	42,946,862,707.00	54,272,421,076.00	58,537,602,278.00
Subsidies	19,724,064,829.00	21,824,064,829.00	1,700,000,000.00	1,740,000,000.00	3,100,000,000.00	3,579,533,731.00	4,000,000,000.00	4,000,000,000.00	5,050,000,000.00	5,050,000,000.00
Peacekeeping operations / "security & social order"	29,204,037,105.00	36,696,037,105.00	52,881,984,000.00	44,581,984,000.00	41,970,554,023.00	82,294,808,715.00	53,400,000,000.00	62,259,649,243.00	67,604,657,962.00	65,142,864,634.00
Miscellaneous transfers and expenditures										
Acquisition of fixed assets (including "other assets")	4,590,383,680.00	4,590,383,680.00	30,226,783,893.00	257,286,783,893.00	114,793,766,181.00	119,269,426,278.00	116,605,464,361.00	125,527,271,262.00	140,419,555,136.00	121,758,412,707.00
Acquisition of fixed assets (excluding "other assets")	4,590,383,680.00	4,590,383,680.00	2,227,001,181.00	86,587,001,181.00	86,093,766,181.00	82,969,426,278.00	2,957,144,840.00	2,957,144,840.00	8,093,766,280.00	7,071,743,119.00
Other assets	-	-	27,999,782,712.00	170,699,782,712.00	28,700,000,000.00	36,300,000,000.00	113,648,319,521.00	122,570,126,422.00	132,325,788,856.00	114,686,669,588.00
	90,385,442,995.00	127,977,442,995.00	130,498,221,871.00	359,398,221,871.00	241,291,527,127.00	279,819,797,952.00	256,605,464,361.00	282,906,222,836.00	315,382,001,772.00	297,024,247,217.00
All other expenditures	80,734,800,755.00	80,543,384,181.00	78,561,447,012.00	72,537,831,853.00	79,328,357,837.00	55,917,810,064.00	57,321,203,958.00	68,950,471,420.00	63,414,338,656.00	76,353,708,085.00
total MINECOFIN expenditures	**171,120,243,750.00**	**208,520,827,176.00**	**209,059,668,883.00**	**431,936,053,724.00**	**320,619,884,964.00**	**335,737,608,016.00**	**313,926,668,319.00**	**351,856,694,256.00**	**378,796,340,428.00**	**373,377,955,302.00**

	2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised
Repayment of borrowing	56,309,560,376.00	57,038,333,634.00	61,902,040,340.00	61,093,957,284.00	78,300,044,141.00	78,359,599,576.00	90,257,106,799.00	113,747,581,664.00
Interest on domestic debt	65,135,840,500.00	68,258,961,129.00	92,995,972,432.00	94,159,443,586.00	94,720,978,610.00	103,061,954,085.00	128,500,000,000.00	155,560,583,209.00
Subsidies	110,262,714,160.00	21,200,000,000.00	18,007,229,758.00	4,271,629,720.00	5,171,629,720.00	5,021,629,721.00	22,286,162,713.00	28,688,458,004.00
Peacekeeping operations / "security & social order"	78,829,240,000.00	102,986,613,674.00	97,354,600,000.00	97,354,600,000.00	137,642,228,060.00	142,115,421,624.00	164,299,615,594.00	184,299,615,594.00
Miscellaneous transfers and expenditures	-	-	-	-	29,538,820,714.00	23,386,102,255.00	31,748,588,463.00	6,203,002,437.00
Acquisition of fixed assets (including "other assets")	126,739,381,151.00	145,653,694,342.00	167,769,563,428.00	185,892,616,411.00	201,319,175,364.00	201,819,175,364.00	251,864,954,528.00	276,623,040,485.00
Acquisition of fixed assets (excluding "other assets")	5,357,381,151.00	5,307,381,151.00	8,716,036,700.00	8,441,089,683.00	8,000,000,000.00	8,500,000,000.00	14,764,954,528.00	26,447,740,755.00
Other assets	121,382,000,000.00	140,346,313,191.00	159,053,526,728.00	177,451,526,728.00	193,319,175,364.00	193,319,175,364.00	237,100,000,000.00	250,175,299,730.00
	437,276,736,187.00	395,137,602,779.00	438,029,405,958.00	442,772,247,001.00	546,692,876,609.00	553,763,882,625.00	688,956,428,097.00	765,122,281,393.00
All other expenditures	55,229,159,790.00	58,517,329,721.00	66,277,436,456.00	63,965,324,096.00	61,119,568,635.00	60,383,338,701.00	72,595,157,725.00	117,484,775,575.00
total MINECOFIN expenditures	492,505,895,977.00	453,654,932,500.00	504,306,842,414.00	506,737,571,097.00	607,812,445,244.00	614,147,221,326.00	761,551,585,822.00	882,607,056,968.00

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20
Note: Total MINECOFIN budget excludes budget for subordinate Executive Agencies.

Table 23: Main MINECOFIN Budget Line Items (2011/12-2019/20) as a Percentage of MINECOFIN Projected Expenditure

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised	original	revised
Repayment of borrowing	12.18	23.42	13.15	6.34	12.78	11.08	13.12	13.69	12.68	12.46	11.43	12.57	12.27	12.06	12.88	12.76	11.85	12.89
Interest on domestic debt	9.37	7.69	8.71	6.58	12.62	11.17	13.19	12.21	14.33	15.68	13.23	15.05	18.44	18.58	15.58	16.78	16.87	17.63
total debt servicing	***21.54***	***31.11***	***21.85***	***12.92***	***25.40***	***22.24***	***26.31***	***25.90***	***27.01***	***28.14***	***24.66***	***27.62***	***30.72***	***30.64***	***28.47***	***29.54***	***28.73***	***30.51***
Subsidies	11.53	10.47	0.81	0.40	0.97	1.07	1.27	1.14	1.33	1.35	22.39	4.67	3.57	0.84	0.85	0.82	2.93	3.25
Peacekeeping operations	17.07	17.60	25.30	10.32	13.09	24.51	17.01	17.69	17.85	17.45	16.01	22.70	19.30	19.21	22.65	23.14	21.57	20.88
Acquisition of fixed assets (including "other assets")	2.68	2.20	14.46	59.57	35.80	35.52	37.14	35.68	37.07	32.61	25.73	32.11	33.27	36.68	33.12	32.86	33.07	31.34
All other expenditures	47.18	38.63	37.58	16.79	24.74	16.66	18.26	19.60	16.74	20.45	11.21	12.90	13.14	12.62	14.92	13.64	13.70	14.01
total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Own calculations based on State budget laws (original and revised) for the period 2011/2012 to 2019/20

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Project information sheet

Project title: Tax and the governance divided in sub-Saharan Africa

Researcher: Siôn Morton, University of Birmingham

Rationale

The role of domestic revenue in financing development is currently on the forefront of the international aid agenda. Recent statements and policies issued by the traditional development agencies (see for example "The Addis Tax Declaration") indicate widespread agreement that domestic revenues, particularly taxation, provide a more stable source of development financing as well as acknowledgement in the principle that broad-based taxation strengthens relationships between citizens and the state.

Within the academic literature, there is support for the theory that a governments' reliance on taxation may create a "governance dividend" in the form of increased state accountability and responsiveness to citizens. Broadly speaking, the academic literature suggests that tax systems may contribute to improved governance through three main channels.

- Firstly, where the health of state revenues is dependent on taxation, governments have an incentive to promote economic growth and thereby improve the prosperity of citizens-taxpayers.
- Secondly, reliance on tax revenues motivates governments to build a state bureaucracy and improve public administration to collect taxes effectively.
- Finally, the experience of being taxed has the potential to encourage citizens to become more collectively involved in politics and political bargaining. Citizens are likely to demand reciprocity for paying taxes either in terms of increased representation, involvement in decision-making processes, improved public services or indeed policy concessions.

According to the academic literature, a "fiscal-social contract" is thus created, with governments compelled to respond to the demands of citizens to enhance tax compliance and sustain tax revenues. This "fiscal-social contract" is understood to be mutually beneficial, since governments receive larger and more stable revenue flows, while citizens enjoy more accountable and responsive governance.

Surprisingly, however, very little is known about how "social-fiscal contracts" are formed in contemporary low-income countries. While the idea of a virtuous cycle created by taxation is certainly compelling, the theories supporting the "government divided" have been drawn from the historical experience of state formation in Europe and North America over the 16th to 19th centuries, under conditions very different from those faced by developing countries today. Another strand of the academic literature presents a counterfactual case that has been observed in resource-rich countries. In such countries, the existence of alternative sources of revenue (e.g. petroleum) is said to reduce the need for government to tax its citizens, which in turn contributes to low levels of public engagement with the state and to poor governance and weak state accountability. In practice, very little empirical evidence has been gathered with regards to the positive externalities that theoretically arise from citizen-government interactions over taxation in contemporary non-resource-rich developing countries.

Aims

The aim of this project is to examine - at the country level - the dynamics around taxation and to analyse the extent to which taxation may be able to elicit a “governance dividend” in contemporary Sub-Saharan African states. Taking Rwanda as one specific case study, this project aims to document the institutional and political mechanisms, practices and processes that enable citizen-government interaction over taxation and analyse the contingent factors that can contribute to positive governance outcomes.

The principal question that guides this research is as follows:

- To what extent can governance dividend theory be applied in Rwanda in terms of the link between increased taxation on the one hand, and more government accountability and responsiveness on the other?

Secondary questions include

- What are the political economy factors that shape tax policy in Rwanda?
- How do local actors cooperate, coordinate and conflict with regards to the formulation of tax policy?
- Is there evidence that the need to raise tax in Rwanda has created discernible pressure for increased public accountability? If so, which factors have been conducive to tax bargaining and contributed to a “governance dividend” in Rwanda?
- What lessons can be learned from the Rwandan experience for other contemporary sub-Saharan African states?
- What role can be played by international actors in facilitating tax bargaining and enhancing the prospects of a governance dividend from tax policy reform?

<u>Interview</u>

The interview is to be conducted orally by the researcher, Siôn Morton. The interview is expected to last approximately one hour. Prior consent will be requested for the interview to be recorded electronically and/or for notes of the meeting to be undertaken.

A list of initial interview questions will be provided in advance of the interview.

Consent form template

PARTICIPANT RESEARCH CONSENT FORM

Project title: **Tax and the governance divided in sub-Saharan Africa**

Researcher: Siôn Morton, University of Birmingham

- I understand that this research is being conducted by Siôn Morton in personal capacity and that his employer, the European Commission, has no influence over the aims and objectives of the research.

- I have read the Participant Information Sheet and the nature and purpose of the research project has been explained to me. I understand and agree to take part.

- I understand the purpose of the research project and my involvement in it.

- I understand that I may withdraw from the research project at any stage and that this will not affect my status now or in the future.

- I hereby agree for an audio recording to be made of the interview (Yes □ / No □)

- I hereby agree for notes to be taken of this interview (Yes □ / No □)

- I understand that primary data (interview notes, audio recording and transcripts) will be securely stored by the researcher (Siôn Morton) for the duration of the project (scheduled for completion July 2021), and thereafter will be fully destroyed 10 years after the last access request.

- I understand that the information gained during the study may be published. In any published material, all interviewees in the research project will be anonymised and may only be referred to by organisational affiliation (e.g. 'government official'; 'former government official;' 'foreign diplomat')

Signed ……………………………………………………………………… (Research participant)

Print name ………………………………………………………………… **Date** ………………………………

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