



Analysis

Developing capacity for tax administration

The Rwanda Revenue Authority

Anthony Land

A case study prepared for the project 'Capacity, Change and Performance'

Discussion Paper No 57D

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Study of Capacity, Change and Performance

Notes on the methodology

The lack of capacity in low-income countries is one of the main constraints to achieving the Millennium Development Goals. Even practitioners confess to having only a limited understanding of how capacity actually develops. In 2002, the chair of Govnet, the Network on Governance and Capacity Development of the OECD, asked the European Centre for Development Policy Management (ECDPM) in Maastricht, the Netherlands to undertake a study of how organisations and systems, mainly in developing countries, have succeeded in building their capacity and improving performance. The resulting study focuses on the endogenous process of capacity development - the process of change from the perspective of those undergoing the change. The study examines the factors that encourage it, how it differs from one context to another, and why efforts to develop capacity have been more successful in some contexts than in others.

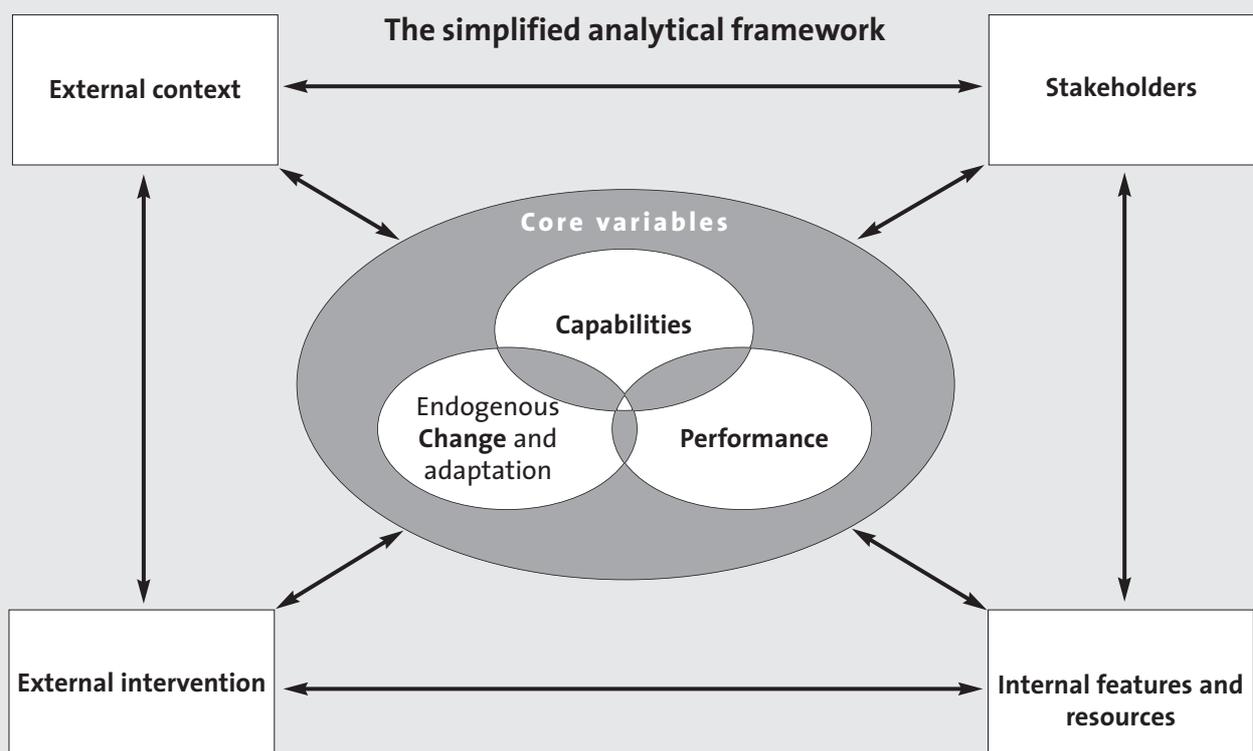
The study consists of about 20 field cases carried out according to a methodological framework with seven components, as follows:

- **Capabilities:** *How do the capabilities of a group, organisation or network feed into organisational capacity?*
- **Endogenous change and adaptation:** *How do processes of change take place within an organisation or system?*
- **Performance:** *What has the organisation or system accomplished or is it now able to deliver? The focus here is on assessing the effectiveness of the process of capacity development rather than on impact, which will be apparent only in the long term.*

- **External context:** *How has the external context - the historical, cultural, political and institutional environment, and the constraints and opportunities they create - influenced the capacity and performance of the organisation or system?*
- **Stakeholders:** *What has been the influence of stakeholders such as beneficiaries, suppliers and supporters, and their different interests, expectations, modes of behaviour, resources, interrelationships and intensity of involvement?*
- **External interventions:** *How have outsiders influenced the process of change?*
- **Internal features and key resources:** *What are the patterns of internal features such as formal and informal roles, structures, resources, culture, strategies and values, and what influence have they had at both the organisational and multi-organisational levels?*

The outputs of the study will include about 20 case study reports, an annotated review of the literature, a set of assessment tools, and various thematic papers to stimulate new thinking and practices about capacity development. The synthesis report summarising the results of the case studies will be published in 2005.

The results of the study, interim reports and an elaborated methodology can be consulted at www.capacity.org or www.ecdpm.org. For further information, please contact Ms Heather Baser (hb@ecdpm.org).



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Notwithstanding the above, the views and opinions expressed in this report are those of the author and do not necessarily reflect those of DfID, the Rwanda Revenue Authority or ECDPM. Whilst the draft final report was reviewed by a number of stakeholders, the author assumes full responsibility for any factual errors or omissions.

Acronyms

ASYCUDA++	Automated System for Customs Data
CG	Commissioner General
DAC	Development Assistance Committee
DfID	Department for International Development (UK)
ECDPM	European Centre for Development Policy Management
GDP	gross domestic product
GOVNET	Governance Network (OECD DAC)
IMF	International Monetary Fund
IT	information technology
OECD	Organisation for Economic Cooperation and Development
RRA	Rwanda Revenue Authority
SWOT	strengths, weaknesses, opportunities, threats
TA	technical assistance
TIN	taxpayer identification number
VAT	value added tax

Executive summary

The Rwanda Revenue Authority (RRA) was established in 1997, charged with administering the collection of taxes and customs and excise duties on behalf of the government. In just six years, it has become a performing and respected institution that has helped increase domestic revenue generation from 9.5% to 13% of GDP. This case study identifies a number of success factors that have contributed to this remarkable achievement.

A locally driven transformation process. This has been a locally driven transformation process, underwritten by strong ownership, and driven by a decisive leadership;

A clear mandate and expectations to perform. The RRA was granted a clear mandate and strategic role to play within government's wider development strategy. From the outset it enjoyed a high degree of support from official circles, and equally high expectations to perform.

An organisational status offering space but also protection. The RRA's agency status offered a degree of management autonomy that enabled it to take decisions and manage resources on business-like principles, and to pursue its mandate without interference or distraction.

Balancing 'hard' and 'soft' elements of capacity. Various capabilities have been developed that have contributed to the organisation's capacity to perform. At one level, this meant working on 'hard' elements of capacity that contribute to internal efficiency and effectiveness; getting structures, systems, procedures and technology right and developing appropriate staff competencies. At another level, it meant developing the 'soft' capabilities that seem to hold the key to translating capacity into organisational performance. These included attributes such as visionary leadership and committed management that have nurtured a distinct corporate identity and value system, including a thirst for learning and critical self-awareness.

Looking in but also out. Efforts have also been made to manage the RRA's external environment. Over time the organisation has recognised that its capacity to perform is in part conditioned by external factors over which it has some degree of influence.

A pragmatic and incremental change process. Large scale, comprehensive and predetermined reform processes have been avoided in favour of pragmatic and incremental approaches characterised by adaptation to emerging needs and priorities and progression over relatively short time frames. Working incrementally has not meant being un-strategic.

A mature partnership between the RRA and DfID. Over the years, the partners have developed a 'grown-up' relationship based on frank exchange, team spirit and shared accountability for results. This has allowed external technical and financial assistance to accompany the local change process, adapting to the local tempo of change and emerging priorities.

1 Introduction

In November 1997, the Rwandan transitional parliament passed a law (No. 15/97) establishing the Rwanda Revenue Authority (RRA) as a body corporate charged with administering the collection of taxes and customs and excise duties on behalf of the government. The establishment of the RRA marked the beginning of a remarkable process of organisational development, which has seen the transformation of the government's capacity to manage revenue collection. In just six years, the RRA has become a performing and respected institution that has helped increase domestic revenue generation from 9.5% to 13% of GDP. This is in stark contrast to the situation prior to the creation of RRA. Revenue collection had been the responsibility of a department within the Ministry of Finance that was characterised as incompetent, inefficient and corrupt. Revenue collection was not taken seriously by either the government or the public at large.

This case study looks at the first six years of the RRA and identifies the factors that have contributed to its remarkable achievements. What has transformed it into a performing and respected institution? What have been the factors driving change? How important has capacity development been to this record of achievement? How has external assistance facilitated the process of transformation?

The wider study of Capacity, Change and Performance

This case study is a contribution to a wider study on Capacity, Change and Performance that is being coordinated by the European Centre for Development Policy Management (ECDPM) under the aegis of the Working Group on Governance and Capacity Development (Govnet) of the OECD's Development Assistance Committee (DAC). The wider study, which is grounded in some 18 case studies across the globe, aims to understand what capacity is and how it is developed, and to provide insights into how external organisations can best support endogenous capacity development processes. Through experiences drawn

from the individual case studies, the wider study seeks a better understanding of the meaning of capacity, of the complex relationship between capacity and performance improvement, and on the processes through which capacity is developed.

The analytical framework developed to guide the conduct of these case studies (see inside front cover) adopts a systems perspective and identifies seven interdependent dimensions: the external context, stakeholders, internal features and resources, external intervention, capacity, endogenous change and adaptation, and performance.

This case study is therefore a learning initiative that seeks to draw lessons from the experiences in Rwanda that can inform the wider study on capacity, change and performance.¹ It is important to note that the case study is not an evaluation and does not seek to pass judgement on any of the individuals, organisations or assistance programmes described.

Study methodology

On the basis of a selected literature review, fieldwork was conducted over a ten-day period in May 2004 in Kigali, Rwanda. The fieldwork consisted of a set of in-depth interviews with members of staff of the RRA, its board as well as selected stakeholders including the UK Department for International Development (DfID), the main external partner of the RRA. Based on semi-structured questionnaires, and guided by the wider study's conceptual framework, the interviews focused on obtaining mainly qualitative information about the process of capacity development, the understanding of what capacity is, and how these relate to performance improvement. A list of individuals consulted can be found in the annex to this report.

In reading this report, it should be recognised that the findings and conclusions drawn are based largely on qualitative information obtained from key informants, and relied on the ability of interviewees to recall events over a six-year period. It was not possible in the time available to undertake a more in-depth analysis of business processes or of organisational behaviour either on the basis of more formal measurement techniques or through direct observation.²

Notes

- 1 The term 'capacity' is used here to refer to the ability of an organisation or system *as a whole* to perform. As such, it is not equated with any subsidiary element such as a particular 'capability'. Capability refers to a specific ability of the organisation to do something in particular, such as to facilitate or to learn or to manage projects. Finally, 'performance' is used to mean accomplishment or execution or delivery.
- 2 For instance, it was not possible to go beyond the information provided by interviewees to ascertain and verify informal and intangible aspects that are often unwritten or unspoken, yet can have a significant bearing on organisational behaviour.

Structure of this report

Following this introduction, section 2 outlines some of the pertinent characteristics of the context within which the RRA has evolved. It begins by highlighting aspects of the country's recent history, notably its emergence from civil strife and genocide, notes the formal legitimacy bestowed on the organisation by political authority, and identifies specific challenges and opportunities that the RRA had to face at the time of its establishment in 1997. The section ends with an overview of the external stakeholders with which the RRA interacts.

Section 3 describes the process through which the RRA transformed itself from a legal text into a performing and respected organisation. Section 4 then examines the factors that have enabled the RRA to transform itself into a performing organisation. Section 4.1 discusses the key 'enablers' that laid the foundation for performance improvement and capacity development. Section 4.2 considers how RRA leadership and management took the initiative to transform the culture of the organisation, to one

focused on performance and integrity. Section 4.3 identifies the elements of a performance management capability that has been created within the organisation, and section 4.4 looks at how the organisation sought to shape its external environment. Section 4.5 considers how the RRA's operational capabilities were developed. Finally, section 4.6 looks at the contributions of DfID, the RRA's principal external partner, to this transformation process.

Section 5 gives an overview of the RRA's performance record, and highlights lessons pertaining to the interplay between capacity, change and performance. It summarises the factors that have contributed to the RRA's achievements and, in so doing, tries to identify those factors that really made a difference and that help explain the organisation's remarkable successes in the midst of otherwise adverse conditions. The section ends by speculating on the outlook for sustaining the gains made in the future.

2 The Rwanda Revenue Authority in context

The development of the Rwanda Revenue Authority needs to be put in context. This section outlines some of the pertinent characteristics of that context. It begins by highlighting the country's recent history, the formal legitimacy bestowed on the organisation by political authority, and identifies the constraints and challenges the RRA faced at the time of its establishment in 1997. The section ends with an overview of the external stakeholders with which the Authority interacts.

2.1 Rwanda in transition: the aftermath of national collapse and genocide

The organisation's spectacular achievements have taken place against the background of a country emerging from trauma. After more than 30 years of state division, ethnic conflict and growing economic malaise, the RRA was born in 1997 into an environment that could best be described as hostile. The civil war and genocide had left one million people dead and nearly three million refugees in exile, the fabric of society had been torn apart, the state and economy had collapsed and infrastructure destroyed. In 1997, the Rwandan state was still in a process of reconstruction but had begun to move to the point where longer-term development issues could begin to be contemplated alongside the ongoing need to deal with issues of regional insecurity as well as social and political fragility within its borders.

Today, it is clear that the government has succeeded in galvanising a societal drive to pick itself up and to work towards becoming a prosperous, secure and confident society. There seems to be a strong desire to succeed and to prove that the country can re-emerge from the depths of crisis. The drive to perform and the eagerness to succeed are all-pervasive and go a long way to compensate for the shortages in capacity that the country faces. The emergence of the RRA as a performing organisation is in many respects symbolic of this wider drive for national reconciliation and reconstruction. The Rwandan government had also been able to mobilise the sup-

port of sections of the international community that had pledged support to rebuild the country. Together with its external partners, it has set out an agenda to create a united Rwandan people sharing common identity and goals. At the heart of this agenda is the fight against poverty and the creation of a democratic and inclusive political dispensation.

The Rwandan Poverty Reduction Strategy Paper adopted in 2002 provides the overall policy framework for steering the country forward. Yet the challenges are formidable. Today, some 60% of Rwandans remain below the national poverty line, with 40% living in extreme poverty. The UNDP's *Human Development Report 2003* ranked Rwanda 158th out of 175 countries. Yet the economy has recorded an average growth rate of 8% per year since 1998 and the incidence of poverty is reportedly declining. The process of national transformation has been unrolling at what has been described as 'an extraordinary pace'.³

2.2 Formal legitimacy: the strategic role of the RRA

The Rwanda Revenue Authority plays an integral role in government's broader political vision and development strategy. It is seen as playing a strategic role in:

- increasing the country's domestic revenue generation capability, which is critical to enabling the country to finance its development objectives and poverty reduction strategy, and to reduce its dependence on outside assistance;⁴
- creating an enabling environment for private sector development and attracting inward investment;
- contributing to developing a culture of participation and citizenship as part of a wider process of establishing the norms and practices of democratic governance,⁵ and of bringing government closer to the people; and
- encouraging public confidence in government as an institution able and willing to lead the Rwandan people from misery and strife towards self-esteem and prosperity.

For these reasons, the RRA has from the outset been able to count on a substantial degree of political support and backing. It has in particular enjoyed the personal support of the President, who has gone on to play a major part in the campaign to change public attitudes towards paying taxes and corruption. The RRA, therefore, started life with all the legitimacy it

Notes

³ See DfID, *Rwanda - Country Assistance Plan 2003-2006*.

⁴ Revenue collection has grown from 9 to 13% of GDP, yet government expenditure accounts for approximately 25% of GDP. In view of this significant gap, efforts to improve domestic resource mobilisation capabilities are critical.

⁵ In return for paying taxes, citizens should have the right to hold their government to account and to expect efficient and affordable delivery of services.

could ask for, including the political backing and goodwill that have helped it to succeed in an otherwise difficult environment.

In this regard, the importance attached to promoting integrity and curbing corruption is fundamental. The government has committed itself to an unambiguous and no-nonsense drive to clean up government. The President has been very visible in driving this point home. Rwanda observers argue that this commitment is much stronger, and that corruption is far less of a systemic problem than elsewhere in the region.

2.3 Constraints and challenges

Despite enjoying formal support from the highest levels of government, the RRA had to contend with a number of constraints and challenges that would directly impinge on its efforts to emerge as a strong, legitimate and performing organisation.

Limited opportunities for revenue generation

A major challenge facing the new RRA was the country's limited tax base.⁶ For the vast majority of Rwandans (over 90%) who live and work in the rural areas, the rural economy had been devastated and was, in any case, largely non-monetised. Moreover, most rural Rwandans were experiencing acute poverty, exacerbated by social dislocation and trauma.

The urban economy, although better off, also offered limited opportunities for revenue generation. The formal economy, comprising mainly small, micro- and medium enterprises, had been devastated and was only beginning to re-emerge. The much larger and burgeoning informal sector was by its nature beyond the reach of the tax authorities. The generally low level of economic activity and dilapidated infrastructure also meant that the level of trade was limited. Meanwhile, there were few individuals earning sufficiently high salaries to be eligible for personal income tax. The civil service, which offered the main source of formal employment, was barely able to offer a living wage.

A sceptical and uncooperative taxpaying public

A second challenge was the fact that few Rwandans believed that they should pay taxes. As in any country, there are few citizens who will voluntarily pay their taxes. Even those able and required by law to pay tax had not been used to declaring their earnings, whilst customs and excise regulations were regularly

flouted. Taxation was perceived as a punitive measure, or simply as a means by which tax inspectors could supplement their own meagre salaries.

The country's political history meant that the association between paying tax and receiving services from government was missing. The quality of service delivery was poor, there was no tradition of political accountability, whilst the tragedy of genocide and civil strife had made the public services largely dysfunctional. Not only did it lack the basic human capacity to manage core services, but much of the country's social and economic infrastructure had been destroyed.

Previous leadership had not placed domestic revenue mobilisation as a core element of economic policy, and the country had come to depend on international aid. Self-serving government behaviour, corruption within the revenue collection services and generally inefficient service provision meant that for most Rwandans paying tax was viewed not as a civic responsibility, but as something to be avoided. The public was understandably sceptical and wary about the government's intentions and motives in setting up the RRA. Changing public perceptions was to be one of the key challenges that the organisation would face.

Poor reputation of the Rwanda revenue service

A third and related challenge concerned the reputation and capacity of the former revenue service that the RRA was to replace. Like the rest of the public services, the revenue service had been affected by the crisis and was just beginning to function again. Yet many of the department's skilled and experienced staff had been killed or had fled the country. Equipment and file data had been destroyed or were missing. Most crucially, there seemed to be little incentive to perform and little understanding of the purpose and functions of a revenue service. There was no policy or strategy to guide the department, the legal and policy framework was out of date, systems and procedures were antiquated, and staff had received almost no training. There was little discipline, with staff coming and going as they pleased. Corruption and bribery, including political interference, were rife and tax collectors had the reputation of being high-handed in their dealings with the public.⁷ According to former staff members, the service was largely dysfunctional; as one stake-

Notes

6 In 1995-1997 Rwandan tax revenues averaged 8.7% of GDP, compared with an average of 17.7% of GDP for sub-Saharan Africa as a whole.

7 Tax collectors had a reputation for closing down businesses that failed to pay.

holder put it, 'we were in a deep hole'. With little pressure to perform either from within government itself or from society at large, the revenue service had become a neglected sector.

Fragile human resource base

The country's human resource base was particularly fragile. Not only had one million people been killed and three million forced into exile, denying the country many of its most capable and experienced, but the education system had been thrown into a state of collapse. A massive human capacity deficit had been created that was going to take at least a generation to overcome.⁸ Compounding the problem was the fact that since independence the country had not invested in the development of secondary and tertiary education institutions. This meant there was a substantial shortage of Rwandans with post-primary education. In 2002, 33% of the population aged 15 years and above had no education, 60% had only primary education, 7.1% had post-primary or secondary education, and only 0.4% had some tertiary education. Meanwhile, in the civil service, 79% of core civil servants had not completed secondary education in 1995, although this proportion fell to 51% by 1998.⁹ There was also a shortage of institutions - as well as trained staff to run them - to build up a new generation of professionals.¹⁰

The problem was especially acute with respect to professional areas relevant to the revenue service. The country had been producing virtually no professionals in the fields of accountancy, financial management and tax administration,¹¹ but also in areas such as statistics and information technology. Not only did this affect the government's own capacity to manage tax administration, it also meant that the private sector was inadequately served with tax and accountancy professionals. A glaring gap was the absence of professional organisations serving as intermediaries and providing accountancy, audit and tax consulting services. Also missing was a professional association able to regulate and set standards of practice in these areas.

To some extent this human capital deficit, brought about by years of neglect, and then by genocide and civil strife, has been mitigated by the return of an estimated 2 million Rwandans who had taken refuge outside the country during the 1960s, and who brought with them international experience, expertise and education. Besides their technical abilities, these returnees brought with them a high degree of motivation and commitment to rebuilding their country. A commitment to change and renewal, and identification with the vision of the new leadership, rather than the lure of attractive salaries, seem to have stimulated a process of return migration.

2.4 Stakeholders

The RRA interacts in different ways with several stakeholder groups: the government, taxpayers, and local and international partners.

The government of Rwanda

The RRA is a public sector agency, created by law and ultimately accountable to parliament. The government provides the legal and policy framework within which the RRA operates and provides the organisation political support and legitimacy. Spending ministries are the net beneficiaries of the RRA, in so far as the organisation collects domestic revenues that are distributed through the Treasury to these departments. In this respect, the government can be considered the RRA's prime 'customer'. Within the machinery of government, the following are of special significance:

- *The President* has from the outset played a significant role in promoting the RRA, in encouraging Rwandans to pay their taxes and in insisting on public service integrity, transparency and accountability. The president has also led a campaign of zero tolerance towards corruption.
- *The Ministry of Finance and Economic Planning* is the RRA's parent ministry and is therefore directly responsible as board member for monitoring the policy framework and operations of the organisation. It also provides the policy links between domestic revenue mobilisation and broader strategies of macroeconomic management, public sector reform and poverty reduction.
- *The Ministry of Commerce* (including the Investment Authority) is a board member and a critical stakeholder from the point of view of managing the relationship between the collection of revenues and creating an enabling environment for private sector investment and development.

Notes

- 8 The crisis had also exacerbated the already poor health status of Rwandans, with an upsurge in the rate of infant mortality, the incidence of HIV/AIDS and other communicable diseases, and a wide range of physical and mental injuries.
- 9 The rate of literacy in 2002 was estimated to be 47.8% for women and 58.1% for men.
- 10 Between 1994 and 2000, the country apparently produced more graduates than the entire period 1964-1994!
- 11 Up to 2000, there was no faculty of commerce or business administration at Rwanda's National University.

- *The National Bank of Rwanda* is a board member and a critical stakeholder in terms of monitoring the link between domestic revenue generation and the management of fiscal and monetary policy.
- *The Ministry of Public Service* has a special interest to see how the agency model on which the RRA is based works in the Rwandan context, and to draw lessons for the wider process of public service reform (capacity building, performance improvement and service delivery).¹²

Taxpayers

Taxpayers interact with the RRA as enterprises, individuals, traders and travellers, and contribute revenues through the payment of various taxes and customs and excise duties. They constitute the RRA's other 'customers' whose interests must be counter-balanced with those of the government, to whom the authority is ultimately accountable. Almost 90% of taxpayers are based in the capital, Kigali. This is the group that the RRA interacts with on a daily basis and on whom it ultimately depends for its performance and support. Three categories of taxpayer can be distinguished:

- *Large taxpayers* comprise local and international companies operating in Rwanda. This is a new and growing category of taxpayer. Although relatively few in number, they account for almost 80% of collected revenues. Such companies usually have sophisticated financial management systems and can be expected to be knowledgeable about their tax obligations. The compliance rate among this category is now very high (company tax 95% and VAT 87%).
- *Small taxpayers* comprise local small and medium enterprises as well as individuals. Although significant in number, this group accounts for less than 20% of revenues collected due to low incomes, poor accounting practices (don't keep books of account), lack of knowledge of the law, lower compliance rates and more general difficulties associated with their identification and registration (no fixed addresses). This category also includes the large but unregulated informal sector.
- *Local and international traders, investors and visitors* involved in the import and export of goods and services, which interact with the Customs and Excise Department.

Taxpayers are also consumers of government services and as such may also be regarded as indi-

rect stakeholders. In this respect, public support for paying taxes depends in large part on the level of satisfaction with the quality of services delivered by the government. This is because the main justification for paying taxes is that it enables the government to deliver basic services. If there is dissatisfaction, then the level of compliance and cooperation risks falling.

Local and international partners

The RRA relies on a number of local and international partners to assist it in implementing its mandate. These include:

- *The Rwanda Private Sector Federation* serves as an interlocutor with and a focal point for the RRA in seeking compliance and understanding on revenue issues among large, medium and small enterprises.
- *Police, army, local authorities and counterparts in neighbouring countries* are important partners in jointly tackling smuggling and tax evasion.
- *Tax and financial consultants* play a critical role as intermediaries in facilitating the preparation of tax returns and company financial reports, in auditing books of account, and in providing related services to the taxpaying community.
- *Revenue authorities in the East African region* have been an important source of knowledge, expertise and peer support and have helped the RRA to avoid the mistakes made by others.
- *Cooperation partners* such as DfID (the RRA's principal external partner) and the International Monetary Fund (IMF), which provided targeted assistance on tax policy matters, have been major sources of financial and technical assistance in the process of organisational capacity development, serving as facilitators of change and mentors to the RRA leadership.

Notes

- 12 The President uses the RRA as an example of good practice, and the press has often cited the RRA as an example of what public service should be.

3 Capacity development and the process of change

This section describes the process through which the Rwanda Revenue Authority transformed itself into a performing and respected organisation.

3.1 Overview of the process

Whilst enjoying the full support of the Rwandan government and the donor community, the management and board of the newly established RRA faced significant challenges in developing an effective and respected system of revenue administration. *Internally*, there was a need to shed the legacy of the past and to create an entirely new organisation capable of performing, guided by clear goals and objectives, driven by new management and governance principles, and supported by professional staff and modern business processes. *Externally*, there was a need to transform the image and standing of the revenue service and to establish a new relationship with its stakeholders based on trust and cooperation. A major effort would be needed to change the attitude of the public towards the very idea of paying taxes. It would also be important to secure the support of other parts of the government bureaucracy.

How did the RRA rise to the challenge? As this and the next section demonstrate, capacity development and change have been part and parcel of the RRA's experience since its establishment. There are two distinct but interrelated dimensions to this process, which have allowed the RRA to evolve in just a few years into a dynamic and performing organisation.

First, there has been what may be termed an *endogenous process* of organisational learning and adaptation that has seen key stakeholders progressively master the management of the RRA and its external environment through a process of learning by doing and continuous monitoring. This process may be characterised as more intuitive than planned, more organic than

technocratic, and influenced by more intangible factors that include aspects of culture, values and attitudes. Through this process, various organisation-wide capabilities have emerged, such as for strategic planning, organisational learning and self-awareness, as well as the management of change, that have contributed to the RRA's overall capacity to perform.

Second, a series of more tangible capacity development interventions comprising various forms of organisational strengthening and human resources development support have accompanied this endogenous process. Reliant to a large extent on external assistance provided through DfID, this support, which by its nature has been more technocratic and supply oriented (dealing with structures, systems, technology, training), has helped the RRA develop a set of key management and technical capabilities that are essential to the delivery of its core mandate.

With the benefit of hindsight, the RRA's capacity development and change process may be divided into three approximate phases. It is important to note, however, that these phases were not part of any preconceived plan.¹³ It is also worth remembering that by any standards, the RRA remains a young organisation that is still in the throes of rapid growth and learning.¹⁴ The three phases are: agency creation and consolidation (1997-2000); expansion and performance improvement (2001-2002); and modernisation and transformation (2003-present).

3.2 Agency creation and consolidation (1997-2000)

This first phase saw the legal establishment of the RRA in 1997 and its hiving off from the Ministry of Finance, followed by a period during which the basic elements of the new organisation were put in place and where immediate remedial measures were tackled. This enabled the RRA to become functional in key operational areas, capable of maintaining an inflow of revenues.

With a board of governors appointed, the focus of attention in the first years was on setting up the organisation as a going concern. In this regard it was important to ensure that the authority could immediately begin functioning and that there would not be a break in revenue flows. With assistance from DfID, various proposals were developed to help the Rwandan authorities decide how best to set up the new organisation.¹⁵ In so doing, Rwanda was also

Notes

- ¹³ These phases are only illustrative and are not formal phases. They should not be confused with the phases associated with DfID support of which there have to date been five.
- ¹⁴ See Taylor, J., 2003. *Organisations and Development* (CRDA).
- ¹⁵ Meanwhile, the IMF, which had been party to the discussions leading to the establishment of the RRA, agreed to focus on support to tax policy reform within the Ministry, leaving tax administration reform to DfID. In practice, the DfID project manager at the RRA and other advisers have supported the reform of tax legislation and advised the Ministry accordingly.

able to benefit from the experiences of other revenue authorities that had been established earlier in the region. Attention focused on deciding on an organisational structure, roles and responsibilities, formulating a personnel policy and recruiting staff. Investigations into the feasibility and modalities of introducing VAT in Rwanda were also carried out at this time.

It was decided to recruit an expatriate Commissioner General (CG) who had regional experience¹⁶ to head the organisation, in large part to help avoid repeating mistakes of the past and to benefit from the lessons of experience elsewhere. It was also felt that having an expatriate CG at this initial stage could reduce any risk of patronage and corruption creeping in to the new organisation, thereby helping to make a break with past practices. It also gave the board time to find the right Rwandan eventually to take over the running of the organisation; indeed, ensuring effective Rwandan leadership was recognised to be crucial to the long-term success of the authority.

All of the staff of the former revenue department were required to undergo an examination of competency and integrity as part of a re-recruitment exercise. This process was administered by outsiders to ensure impartiality and to guard against possible political interference. It also provided an opportunity to weed out non-performing or untrustworthy employees, and to ensure that most of the staff of the new organisation were there for the right reason. They were rewarded with a generous remuneration package that was amongst the most attractive in the country.

Later in this period, consultants were hired to help set up an information technology department, which hitherto had not existed, and to identify IT areas requiring immediate attention. In other departments, attention was paid to consolidating and upgrading systems and procedures in order to improve the overall efficiency of operations.

Besides attending to these internal organisational matters, a start was made at improving the image of the organisation and in mounting a campaign aimed at encouraging the public to comply with their tax obligations. To assist management in this process, 'policy champions' were identified, including politicians, community leaders and representatives of the private sector. Together, the RRA and these policy

champions made significant efforts to 'spread the word', stressing the strategic importance of revenue collection for national reconstruction and development. It marked the beginning of a concerted effort to change the attitudes of Rwandan society to paying tax and towards a stance of zero tolerance of corruption, something that has continued over the years.

3.3 Expansion and performance improvement (2001-2002)

This second phase witnessed more profound changes, with an overhaul of senior management, expansion of operations, more intensive and hands-on technical assistance, and evidence of performance improvement in relation to amounts of revenue collected.

With the basic organisation in place, the RRA was able to begin a more involved process of developing core competencies and working towards improving overall performance. This period also saw the establishment of the VAT Department, which in a short space of time began to excel in terms of achieving revenue targets. Although the option of restructuring the RRA along functional lines was considered at this time, it was felt that the organisation was not yet ready for such a transformation.¹⁷ It was therefore decided to focus on developing core competencies within the existing framework.

A critical juncture occurred in 2001 when the board overhauled senior management. The expatriate CG who had successfully managed the transition from a government department to a semi-autonomous agency was replaced by a Rwandan. Many of the former directors and commissioners were also replaced with a new cadre of younger recruits, some of whom had worked their way through the organisation, although others were recruited from outside. The significance of this management transformation cannot be underestimated. It seems to have injected a new vitality and confidence into the organisation, and marked a final break with the old order. The new CG used this opportunity to nurture a new ethos and culture within the organisation, together with a new vision and management approaches. Crucially, the foundations of a culture of performance and integrity were laid down that continue to drive the organisation.

This change in senior management provided an opportunity for DfID to intensify its assistance to the

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¹⁶ The incumbent had headed the Uganda Revenue Authority.

¹⁷ Due to weaknesses in areas of core competence, e.g. auditing, and other logistical constraints.

RRA, particularly with respect to the provision of advisory support. Attention was given to human resources development including the introduction of the rudiments of a performance-based appraisal system, as well as a code of conduct and measures for assuring staff integrity. The period also saw the placement of technical assistance (TA) personnel in a number of line management positions, combining advisory and training functions with selected implementation responsibilities. Advisers were also posted to work alongside senior management to assist in developing stronger management systems and corporate planning and monitoring processes.

During this period, the RRA saw revenues increase from 9% to 12.5 % of GDP, while its standing among the public at large and the tax paying community in particular seemed to be improving. It also saw management emerge with a stronger sense of purpose and ownership of the organisation and a growing understanding of the relationship between change, capacity and performance. Although lacking formal expertise in tax administration and tax policy, management was emerging as a stronger partner to DfID, better able to set the pace of reform and to determine the content of the capacity development process. At the same time it was clear that more needed to be done to make the RRA efficient and capable of increasing the revenue take as well as becoming more responsive to customer needs.

3.4 Modernisation and transformation (2003-present)

This most recent period has seen the introduction of more transformative change with a refocusing of the organisation towards the customer, the modernisation of business processes including automation, and a greater focus on performance-based human resources management (see Box 1). Meanwhile the focus of TA has shifted from long-term to short-term support.

This third phase in the transformation of the RRA can be associated with the decision to rethink the way in which the organisation should approach its core business. Beginning with an internal process of reflection that started in 2002 but which took off in 2003, the RRA adopted a customer-oriented or service delivery approach, which meant fundamentally rethinking how the organisation should function.¹⁸

Box 1: Elements of the modernisation process

- Harmonisation of the legal system.
- Restructuring to address the new vision and strategy.
- Staff capacity building, based on a systematic needs analysis.
- Client capacity building: raising the awareness of customers about their rights and responsibilities, and developing the professionalism of intermediaries such as tax consultants and customs forwarding agents.
- Introducing new processes and procedures to facilitate implementation of work, and to ensure effective controls.
- Improving the quality of service, such as reducing the number of contact points to ensure integrity, transparency and cost effectiveness.
- Introducing IT systems across the board.
- Improving the infrastructure and work environment.
- Procurement of equipment, including vehicles.

The board approved a new structure in November 2003, and in early 2004 the RRA was restructured along functional lines (see Box 2), with the intention of working towards a one-stop shop¹⁹ concept. Such a shift involves more than just reshuffling departments; it carries implications for the way business is managed and, most important, introduces the ideas of service quality and customer satisfaction. The new orientation has prompted closer investigation of business processes, has given added impetus to efforts to strengthen the management of human resources,²⁰ has provided a more rational context for thinking about the role of computerisation, and has drawn attention to the importance of tailoring services to customer needs. It has also prompted a review of the legislative framework within which the

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¹⁸ A joint DfID/RRA assessment of the progress thus far suggested that while significant improvements had been made, some fundamental obstacles remained, which required a more substantial rethinking of how best to manage the RRA. It was also felt that the early momentum was being lost and that a new drive was needed to lift the organisation to a higher level.

¹⁹ A one-stop shop approach is efficient (reduces transaction costs) and enables better targeting of services according to needs of customers (taxpayer needs can be considered in totality)

²⁰ Setting in train a systematic review of all posts.

Box 2: The Rwanda Revenue Authority in 2004

The RRA (www.rra.gov.rw) is a semi-autonomous government agency accountable to the Ministry of Finance and parliament through its board. Fully funded through the state budget, the RRA enjoys discretionary powers (management autonomy) that are defined and circumscribed by law. The RRA is mandated to collect revenues from income tax, value-added tax, customs and excise duties, as well as various other taxes.

The composition of the board balances a concern for representativeness and competence. Chairmanship of the board rotates and is open to any of the eight members. The Authority's Commissioner General is supported by a management team comprising five commissioners and four directors. The RRA currently employs 644 staff, 90% of whom are under the age of 45. The RRA has three revenue collection departments:

- *The Large Taxpayers Department* collects revenues from large private sector enterprises, including foreign-owned businesses, which account for some 80% of tax revenues.
- *The Internal Revenue Department* collects revenues from small and medium enterprises as well as individuals. These are large in number, but contribute only a small proportion of total revenues. Typically these are simple organisations but lack effective financial management systems and expertise and many are unfamiliar with their legal tax obligations. Many are unregistered, particularly those in the informal sector, and therefore represent a potential for expanding the tax base.
- *The Customs and Excise Department* collects revenues emanating from import duties and taxes, including VAT. It is responsible for preventing restricted and prohibited goods from entering the country, processing of documentation on exports, facilitating transits, and controlling smuggling.

These three departments are supported by the Revenue Protection Department whose function is to minimise revenue losses by detecting and

preventing external tax evasion, i.e. smuggling, as well as other forms of evasion occurring across all other departments. The other support departments are:

- *The Planning and Research Department* coordinates all planning and monitoring activities across the organisation. It collects statistical information and issues a quarterly bulletin on revenues, analyses trends, reviews emerging policy issues, and advises the Ministry of Finance accordingly. It also acts as liaison with all external partners such as DfID and sister authorities in the region.
- *The Human Resources Department* implements the RRA's human resources policy. It manages all matters to do with the recruitment, development, promotion and retention of personnel, as well as personnel administration, including salaries and disciplinary matters. It supports the overall capacity development process by linking personnel and organisational development.
- *The Finance Department* is responsible for the accounting of all revenues and expenditures, and for preparing financial statements as required by law. Its main role is to assure financial accountability according to agreed rules and procedures.
- *The Information Technology Department* is responsible for the development and maintenance of IT across the organisation. The business development section looks at IT opportunities and quality assurance, whilst the technical support section looks after the databases for operational areas and provides network and hardware maintenance.
- *The Quality Assurance Department* is made up of three units: internal audit focuses on ways to improve the efficiency and effectiveness of business processes. Internal affairs investigates suspected corruption and malpractice, with the aim of improving staff integrity, and sensitises staff on the code of conduct, conditions of service, etc. The new quality assurance unit focuses on improving service delivery and customer satisfaction.

RRA functions, to identify gaps and inconsistencies that had been constraining the organisation in carrying out its mandate.²¹

Steered by the RRA management and board, the change process is closely supported by the DfID project manager (an expert in tax administration and reform), whilst the changes are being implemented by reform teams composed of RRA management and staff. Short-term TA continues to play a key support role in the design and introduction of new systems, procedures and work practices associated with the modernisation programme. The change process is helping the organisation to refine its thinking about performance and to recognise the need to take more account of the external environment within which it operates. Measures of performance have been expanded from an initial focus on revenue targets to include measures of cost efficiency and customer satisfaction.

4 The elements of a capable and performing organisation

This section examines the factors that have contributed to the transformation of the RRA into a performing organisation. Section 4.1 discusses the key 'enabling factors' that laid the foundation for performance improvement and capacity development. Section 4.2 considers how RRA leadership and management took the initiative to transform the culture of the organisation to one focused on performance and integrity. Section 4.3 identifies the main elements of the performance management capability that has been created within the organisation. Section 4.4 looks at how the organisation sought to shape its external environment. Section 4.5 considers how the RRA's operational capabilities were developed. Finally, section 4.6 looks at the contributions of the RRA's principal external partner, DfID, to this transformation process.

4.1 Protected space, political support and expectations to perform

Political ownership

From the outset the RRA has received visible and continuous support from the highest political levels, reflecting a high degree of ownership and commitment to the transformation of Rwanda's revenue service. Not only has this contributed to raising the credibility and standing of the organisation in the eyes of the public at large as well as its staff, it has also impressed on the organisation the strategic role it is expected to play in meeting government's wider development objectives.

Clear mandate and expectations to perform

In this regard the mandate of the RRA is clear and unequivocal. Its mission and core business have been defined in terms of the administration of revenue collection services. Performance is comparatively easy to measure since its achievement is measured primarily in terms of how much money it is able to collect.²² Having a single-issue responsibility has helped the RRA to organise itself around this task, and to avoid being distracted by other potentially competing objectives.²³ From the outset there has been pressure on the organisation to meet revenue collection targets that have

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21 Much legislation was outdated; the income tax law dated back to 1964 and customs law to 1968.

22 Although this basic indicator has been supplemented by other performance measures (see below).

23 Although it has been argued that revenue authorities may also perform the symbolic role of making the presence of the state felt within society (see Boesen and Therkildsen, 2004).

been negotiated with Rwanda's development partners. In this respect, the eyes of the donor community are also on the RRA to see it play its part in raising the portion of the budget financed through domestic revenues and, in so doing, in tackling poverty and contributing to national renewal. This has generated an external pressure on the organisation to perform.

Organisational autonomy

Although the RRA remains a public organisation created by an act of parliament, its agency status has enabled it to manage its own affairs at arms length from political authority. Free from the normal constraints imposed by public service rules and regulations, the leadership and senior management have been able to adopt a more business-like approach²⁴ (see Box 3). Its agency status has also enabled it to develop a distinct corporate identity, and has allowed management to imbue a culture of integrity and performance, which has also helped to create a sense of purpose and ownership among staff at management as well as at lower levels.

Box 3: Opportunities for managing human resources

The RRA's *agency status* gave it an immediate advantage in terms of managing its human resources:

- It could select the most competent and trustworthy employees from the old revenue service.
- It could develop its own *human resources policy* and accompanying systems and procedures. The management was able to take a much more proactive approach to human resources management, looking at it as a strategic resource in a way that would not be possible if it had been part of the civil service.
- It was able to set *conditions of service*, notably salaries, that were considerably better than those offered by either the civil service or the private sector at the time. In 1998 the RRA was regarded as the 'employer of choice', which certainly helped in the recruitment and retention of high-calibre personnel, especially in management positions.

The advantages of organisational autonomy combined with access to comparatively generous budget and personnel resource allocations²⁵ also created the opportunity to attract donor interest to invest in its

transformation process. Organisational autonomy also created a certain 'protected space' within which the RRA could grow, whilst helping to shield it against what was otherwise a harsh external environment. It certainly helped shield the RRA from political interference in management, personnel and resource allocation decisions, while helping to sever any pre-existing patronage relations. The RRA was also able to distance itself from the generally poor reputation of the public service.

The combination of political support and organisational autonomy cannot be underestimated, and together created favourable conditions for transformation. If the political support helped provide the RRA the needed legitimacy and standing to develop, then its agency status gave it the operating space it needed to discharge its functions in a more business-like and results-oriented manner. In this regard, the RRA began life in quite an advantageous position.

4.2 Leadership and management

Strong and visionary leadership supported by effective management were needed to take advantage of the opportunities offered by agency status to translate political aspirations into results on the ground. The RRA's board and senior management have been instrumental in steering the change process and in creating a performing organisation.

A capable board

The RRA board has played a critical role in facilitating the growth of the organisation and in managing the interface between internal management and external stakeholders. Boards can be the make or break of an organisation. A bad one can interfere excessively in management affairs, usurping the legitimate role of the chief executive. Equally, boards may fail to buffer the organisation from outside intervention and, in the context of quasi-governmental organisations, from political interference. Boards can also be inactive, serving merely to rubber-stamp decisions rather than taking a professional interest in the well-being of the organisation.

Experience suggests that the RRA board has had a largely positive influence on the organisational development process. Senior management has enjoyed the support of a competent and committed board that has sought to protect the autonomy of the organisa-

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²⁴ These seem to have embraced the principles of results-based management.

²⁵ Although in the early years budget predictability was apparently an issue.

tion, while assuring accountability to its stakeholders. It has also provided the necessary support to facilitate the internal process of capacity development while at the same time respecting managerial autonomy. The board has also ensured that its own position is not usurped by higher powers.

The board has helped set in train the development of a performance culture and is acutely aware of the expectations placed on the organisation to perform. Performance monitoring is viewed as one of its core responsibilities.²⁶ The board has made it its business to keep informed on issues and regularly seeks the views and opinions of both staff as well as external stakeholders. Informal networks have helped the board members keep their fingers on the pulse, ensuring that the organisation is aware of emerging trends and opinions. Their political access has also been important in gauging levels of support for the organisation among the country's leadership and in seeking assistance when necessary.

Trust and confidence in senior management to manage the day-to-day affairs of the organisation has contributed to these roles being respected. Equally, the Ministry of Finance's confidence in the board has meant that interference in organisational matters has been rare. This is significant given the mandate of the RRA to collect revenues on behalf of the Treasury.²⁷

It is interesting to note that the capacity of the board to understand and discharge its duties is not something that has had to be formally developed. In this regard there has been no specific capacity development support targeted to the board. Rather it seems that the capacity was assured by virtue of the criteria²⁸ and procedures in place to select members, and the good fortune in finding candidates of suitable calibre within the country. As noted by the CG, this is a very competent group of people who are experienced, take their responsibilities very seriously, and fully understand the needs of the business.

Board meetings are hotly debated events requiring meticulous preparation by management.

Having a competent and respected board has not only assured that management has the kind of backing it needs; it has also helped strengthen the standing of the organisation more widely. Moreover, the participation of private sector stakeholders has also assured broad-based support for the organisation beyond the confines of government.

Competent and motivated senior management

Acquiring and developing senior management capacity has been key to the success of the RRA in terms of both delivering results on the ground as well as in steering the organisational development process. The board used the advantages afforded by the RRA's agency status, in particular the opportunities for discretionary management authority, combined with attractive conditions of service, to appoint and retain a cadre of managers that has proven itself competent to manage the affairs of the organisation.

This competence was most apparent with the appointment in 2001 of a new Commissioner General and of a new management team. Their appointment marked a turning point in the life of the organisation. Not only did it mark a break with the past and with it the vestiges of what may be termed old-style bureaucratic management, it also set in motion a determined effort to transform the culture to one characterised by performance, integrity, adaptability and a desire to learn. This culture has provided a favourable framework within which to develop core competencies and organisation-wide capabilities and, in the process, to make effective use of external technical assistance. It has also helped ensure the confidence of the board and of stakeholders at large, safeguarding the organisation's autonomy and averting the risk of interference by the parent ministry in management matters.

4.3 Managing for results

Towards a culture of performance and integrity

The RRA's leadership and management have been instrumental in developing and imbuing a culture of performance and integrity within the organisation. This has provided the basis for nurturing a cadre of professional tax and customs officials and, in the process, creating a well-respected organisation. It has

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- 26 Three sub-committees on strategic planning, finance and human resources have been set up to enable the Board to support management decision making.
- 27 But, as happened in the early years, if there was dissatisfaction with the RRA's services, complainants would directly appeal to the Minister who might then feel entitled to intervene.
- 28 The composition of the Board balances a need for representation by key stakeholders and technical competency provided by persons of high standing. The eight Board members include the chairperson (appointed by the Prime Minister); the Secretaries General of the ministries of finance and industry (*ex-officio*); the governor of the National Bank of Rwanda; three distinguished members in their relevant fields appointed by the Prime Minister on the recommendation of the Cabinet; and the Commissioner General.

also given impetus for the development of what may be termed a performance management capability that has begun to permeate all levels of the organisation.

Leadership and management have set the tone for how staff members are expected to perform and conduct themselves. This has helped develop a certain *esprit de corps*, or corporate identity among the staff, around which there is a growing sense of 'ownership' of the organisation. Particular emphasis has been given to recognising performance and to encouraging staff to feel that they are part of a wider effort. Equally, the importance of upholding the highest standards of integrity has been impressed on staff at all levels, building on the wider efforts of the President to clean up government and promote zero tolerance of corruption. The staff clearly recognise that the biggest risk to the RRA is loss of integrity, and that any allegations of corruption could quickly undermine the confidence and support of the public.

Management style

These values are increasingly reflected in the organisation's style of management, which has, over time, become less bureaucratic, hierarchical and more participatory (team-based) and results-oriented. Department heads and middle-level management enjoy greater delegated authority while at the same time are held to account for results.²⁹ Managers are encouraged to make the most of the human resources at their disposal - by better deployment of staff, encouraging teamwork, setting performance targets for groups and individuals, and continuous supervision and monitoring - in order to help staff feel they are part of the life of the organisation. Many of the staff interviewed for this study identified the style of management as the most significant factor driving motivation and performance. They also welcomed the improved communications, with information now flowing in both directions, and the greater opportunities for a say in decisions affecting their day-to-day work.

At the same time, it was pointed out that senior management is sometimes unwilling to 'let go', and to delegate responsibilities to middle-level management and junior staff. As a result senior management is overworked while the full potential of more junior staff is under-utilized. This situation also carries longer-term consequences in terms of the need to groom a new generation of leaders and managers to succeed the current incumbents.

Another feature of the management style has been a thirst for learning and a preoccupation with monitoring performance. The drive to excel has encouraged the organisation continuously to monitor its performance at all levels and to compare results on the ground with organisational capacity. In so doing the RRA has developed a capability for continuous learning and, with it, a growing appreciation of how to manage the process of organisational change and development. Linked to this has been a growing awareness of how external factors impact on organisational capacity and performance, and of the consequent need to manage that environment (see below). Staff emphasise how they are encouraged to continuously look for ways to improve service, and to compare their achievements with those of their sister organisations in the region. At the same time, the leadership acknowledges its own weaknesses and remains open to suggestions on how things may be improved.³⁰ This has also set the tone for a learning organisation.

The relative youth of staff at all levels (90% are under 45) seems to have facilitated acceptance of this corporate culture and management style, bringing to the organisation a certain vitality and thirst for learning.

Performance management capabilities

Giving further substance to the commitment to performance and integrity are capabilities that have been developed across a number of functional areas - in particular planning and research, human resources, internal audit and information technology. In combination, they seem to have enabled the organisation to develop what may be termed capabilities for organisational learning, self-awareness, change management and performance monitoring.

The Planning and Research Department has been the focus of considerable attention, and substantial investments have been made to strengthen its capabilities. Its development from a comparatively lowly statistical office into what is today something of an information and knowledge hub reflects the strategic value of the department to the RRA's performance management capability. Today, the department's key functions include:

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- 29 All that the CG insists on is receiving from departmental heads weekly 'flash reports' outlining key achievements and challenges.
- 30 It was noted that even if management does not always initiate new ideas and concepts, it is quick to take on board new concepts and run with them. In this regard, there is a strong desire to acquire knowledge and a remarkable capacity to absorb.

- *Monitoring financial and economic trends* in the wider environment (national and regional) that may influence the business and performance of the RRA, and using this information to support management and board decision making.³¹
- *Providing the focal point for the organisation's strategic review and corporate planning process.* The department plays a key role in seeing how the different parts of the organisation contribute to the achievement of overall goals. It is also responsible for facilitating the development of a planning and monitoring capability within each department³² and for ensuring that performance targets are carried through from departmental level to individual staff members.
- *Facilitating the annual review process.* The department arranges a type of annual capacity self-assessment cum SWOT analysis that enables the organisation to identify factors constraining performance at all levels. Checklists are sent to each department to review selected aspects of their operations and to assess possible training needs. The department also facilitates biannual management retreats during which all levels of management can reflect on performance and assess the impact of external factors on the organisation.³³

The Human Resources management function has also been the focus of substantial capacity development and is one of the core areas of support under the modernisation programme. Management recognises the centrality of its human resources in organisational performance and has used the opportunities afforded by its agency status to work towards developing a team of tax and customs professionals. This in turn has meant ensuring that it has an effective human resource management capability.

The current modernisation initiative is providing further opportunities to upgrade this capability. The RRA has learned that offering attractive salaries alone cannot guarantee performing and motivated personnel, and that a more holistic approach to personnel management is required that integrates all aspects of recruitment, training, promotions, dismissals, etc.³⁴ The steps currently being taken to put in place an integrated and computerised human resources management system - including a comprehensive performance appraisal system that will eventually link pay to performance³⁵ - is a reflection of the strategic role of this function in the wider promotion of organisational performance and accountability. The recent reorganisation has provided a further opportunity to carry out job reviews, conduct needs assessments, identify skills gaps and in the process achieve a better match between personnel and organisational needs.

The Quality Assurance Department has the potential to make an important contribution to the organisation's performance management capability. The traditional function of monitoring business processes provides in itself a capability to analyse the efficiency and effectiveness of operations. With attention now shifting towards issues of cost containment and improved service delivery, the department has had to adapt its own capabilities. For instance, a new quality assurance unit has been created that will look beyond the conventional responsibilities of an internal audit department to focus on service standards at the point of delivery.

The department has also had to adapt its style of working particularly with respect to the way it interacts with other parts of the organisation. Previously, its working style could be characterised as top-down with a 'policing' approach, whereas today a more participatory learning approach is used that aims to engage its (internal) customers in addressing identified weaknesses. This seems to be paying off to the extent that the department is now looked upon as a 'resource' by operational departments that can help in improving operations.

Moreover, the department's internal affairs unit plays an important role in safeguarding the integrity and good name of the organisation. It is responsible for ensuring that staff are familiar with the code of conduct and for following up on allegations of fraud, bribery and related malpractice. Clear procedures have

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31 Note that there are no higher educational or policy institutes in Rwanda that can offer this service.

32 By strengthening their planning and reporting systems. Initially, there was resistance as the system seemed burdensome, but increasingly it is viewed as useful management tool.

33 This process is becoming more participatory. In 2003, for instance, the job analysis was done on a participatory self-

34 As noted elsewhere, this advantage has eroded over time as other employers in both the private and public sectors have raised levels of pay and other benefits.

35 Regular performance appraisals are now being carried out that systematically review the performance of staff, identify constraints, compare competencies against job descriptions and consider options for further training, redeployment, etc.

been put in place to enable it to do this and to take disciplinary action if necessary.³⁶ In order to act as a deterrent, the department emphasised the importance of enforcement and of having in place a system that is regarded as predictable, transparent, firm but, also, fair. Crucially, the system has to be seen to be used and, in this regard, management is emphatic on the need to come down with full force on individuals found guilty.

Information technology holds great potential to facilitate knowledge management across the organisation and has come to play a significant role in enhancing its capability to process information related to performance management. Although IT is especially important for supporting core business processes associated with tax collection and customs and excise (discussed elsewhere), it is also helping to improve the effectiveness of the various planning and research, human resources and internal audit functions discussed above. IT enables timely and accurate collection and dissemination of information from across these various functions that can aid overall decision making, and facilitate better integration of functions across the organisation. IT is also playing its part in curbing opportunities for corrupt practice by reducing the number of direct handling or contact points and enabling faster data processing and analysis.³⁷

Given the comparative weakness of IT support services in Rwanda in general, the RRA has invested in building a quite robust internal IT support capability that is responsible for identifying opportunities for IT applications within the organisation, providing technical backstopping to deal with problems as they arise (and reducing the need to rely on outside assistance), and training staff across the organisation to become IT literate.³⁸

4.4 Shaping the external environment

The RRA has also been quick to learn the importance of managing its external environment as part of the strategy to improve organisational performance. This has included managing stakeholders and public opinion, building strategic alliances with partner organisations and stakeholders, and monitoring changes in the policy environment.

Managing stakeholders and public opinion

From the start the RRA was faced with the need to transform its relationship and standing with external stakeholders. Although it enjoyed the formal support of the government, the political leadership, and the

donor community, the attitude among the public at large was at best cynical and at worst hostile. The organisation has worked progressively to improve this situation. A first challenge was to change the public's attitude to the very idea of paying tax and, in so doing, to promote a tax-paying citizen culture. From early on, with the direct support of the President, the management and board have launched various initiatives to inform the public that it is their duty and responsibility to pay taxes, including:

- holding an annual 'taxpayers' week', which includes street parades and the award of certificates and prizes;
- emphasising integrity and zero tolerance of corruption in public speeches, and the adoption of a policy of naming and shaming wrong-doers;
- sensitising opinion leaders and political figures to what they can do to encourage compliance among their constituents; and
- working with partner organisations to reinforce their own efforts to disseminate information about paying taxes. In this regard, the Rwanda Private Sector Federation has been an important ally.

A second and closely related challenge has been to promote the good standing of the organisation itself in order to overcome the negative perceptions associated with the old revenue service, which had been viewed as corrupt, inefficient and customer unfriendly. The strategy has been to emphasise the core values of the new organisation with respect to performance, accountability and, increasingly, responsiveness to the needs of its customers. The shift towards a customer service orientation reflects the growing awareness of the need to offer a quality service to the taxpaying public and to be responsive to public concerns. The shift has helped the organisation recognise the different publics with which it interacts and of the need to customise services according to their particular needs.

Operational departments (now organised around taxpayer groups) have more of an external focus and are better placed to understand the needs of their customers and to respond accordingly. In turn this has meant that they have become more sensitive to the

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36 The need to have in place a strong system to deal with integrity matters is also a recognition that good pay is not necessarily an assurance against corrupt behaviour. Whilst good pay can help to retain people with integrity, it does not necessarily stop temptation. In contrast, poor remuneration risks attracting poorer quality staff and can result in staff being tempted by bribes, etc.

37 It too can be misused, especially with regard to fraud, such as the falsification of documents.

38 IT technicians have been deployed across all departments, and 'business analysts' from within departments have been trained to act as an interface between IT professionals and users.

factors that contribute to effective service delivery and are beginning to monitor customer satisfaction.

A better appreciation of the capabilities required of different departments to attend to different publics is also emerging, resulting in more focused training on customer handling techniques. The recent creation of a quality assurance unit represents a shift in emphasis away from internal procedures to external services in a further effort to strengthen the overall capability to monitor the interface between itself and its customers (see below). As a result of these various efforts, the RRA is confident that the attitude of the public towards tax payment has changed and, with it, attitudes towards the RRA have changed for the better. An indicator of this is the growing level of compliance, but it has also been confirmed through surveys of the taxpaying public.³⁹

Public recognition not only gives legitimacy and respect, which are strong motivators for employees, but it also places pressure on the organisation to focus on retaining that respect. In this way, the organisation has begun to establish a relationship with its customer base and, with it, a type of downward accountability that reinforces its formal accountability to parliament.

Building strategic alliances with partner organisations

The RRA has established networks and built cooperative relationships with a wide range of organisations that help it to implement its mission. In this respect it has learned that its own capacity to perform depends in part on the cooperation of others. Some of these relationships may seem quite obvious. For instance, the Revenue Protection Department relies to a large extent on cooperation with the police and armed forces as well as on a developing network of informants. The Customs and Excise Department relies on cooperation with counterpart services in neighbouring countries to coordinate activities (including the effective sharing of information) aimed at thwarting smuggling rings and attempts at customs evasion. The organisation has worked closely with members of the Rwandan Private Sector Federation to carry out awareness campaigns regarding compliance, and has used the Federation as a platform for exchanges on tax-related matters with the business community.⁴⁰ As noted above, the

organisation has also worked with opinion leaders within that community to impress the importance of changing attitudes to tax payment in general.

Box 4: Measuring performance

The main performance measure is the amount of revenue collected by the RRA collects, which is presented in absolute terms and also as a percentage of GDP. Annual targets are set by the Ministry of Finance and form the basis for the organisation's workplan and results framework.

As the organisation has grown and priorities have changed, additional aspects of performance have been identified and integrated into the results framework. Besides revenue collection, important performance variables include cost effectiveness and customer satisfaction. Another important consideration is the organisation's reputation - in particular with respect to integrity and corruption, but also in terms of being seen to be fair in sharing the tax burden.

Organisational performance is today understood to consist of a combination of factors, including effectiveness in terms of revenue collection, cost effectiveness and service delivery. Organisation-wide performance indicators are translated into departmental targets and, in turn, divisional, group, team and individual performance targets. Thus performance targets are set for the collection of VAT, customs and excise duties, and income tax from large and small taxpayers.

For the Revenue Protection Department, annual targets linked to revenue retrieval are set for the intelligence division. For the surveillance division the targets are more difficult to quantify, but relate to reductions in smuggling. Various process indicators are also used, including targets for the number of audits performed in a given period, the number of smugglers apprehended, levels of registration, rates of compliance, or cases of corruption.

The RRA has also invested in the development of the institutional capacity of consultant accountants and auditors working in the private sector, in recognition of the strategic role of such intermediaries in the entire

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³⁹ Of course the point is made that no one really likes to pay taxes so it is difficult to expect the public to look too warmly upon an organisation whose job is to take money from them.

⁴⁰ The executive secretary of the Federation recently asked the RRA to appoint a contact person to facilitate communication and follow-up actions between its members and the RRA.

process of tax administration. Until now, the sector has been poorly organised with no formal professional body in place to set standards and regulate the performance and behaviour of members. By helping the sector to organise itself into a professional body, the RRA hopes to create a stronger and more trusted strategic partner that can support its own efforts to broaden the tax base and increase levels of compliance.

The organisation has also invested in maintaining a productive and open relationship with external partners - namely DfID and the IMF - through whom the RRA has accessed considerable financial and technical resources that have contributed to its development (see section 4.6).

Further afield, the RRA has been an active member of the Association of East African Revenue Authorities. Over the last decade, substantial experience has been gained in setting up and managing revenue authorities in East Africa as well as in parts of Southern Africa, from which Rwanda has been able to learn. Through this regional association the fledgling RRA has been able to access expertise and experiences, which have helped it avoid mistakes made by others and to capitalise on lessons of good practice. It has also been able to build strategic alliances around cross-border and regional issues.

Scanning changes in the policy environment

The organisation has recognised the need to monitor changes taking place in policy and legislation at the national, regional and global levels. It has therefore strengthened its research and policy analysis capacity within the Planning and Research Department, which is also mandated to serve as the contact point for its external partners. The board also plays an important role in bringing to the attention of management emerging policy issues with which its members are conversant. The organisation also recognises the need to be proactive in bringing to the attention of relevant authorities, laws and regulations that are constraining it in carrying out its mission. Whilst tax policy and the related enabling legislation are the proper responsibility of the Ministry of Finance, the RRA, with the support of the DfID project manager, has been reviewing the areas of law where changes are needed.

4.5 Developing technical capabilities

The performance management capabilities discussed earlier have provided the framework for developing

the 'technical' capabilities required to carry out the RRA's core business - revenue collection.

The progressive strengthening of such technical capabilities has remained a priority of the organisation and has received particular support from DfID. Initially, attention was given to ensuring that basic systems and procedures across operational departments were in place and that the staff are able to carry out basic tasks. Thereafter, attention shifted towards professionalising the entire service with a focus on improving overall efficiency and effectiveness. Recently it was decided to modernise the entire approach to tax administration in order to boost the organisation's revenue collection capability, while at the same time reducing costs and raising service standards. In developing the technical capabilities of the organisation, attention has been given to:

- ensuring that the maximum potential revenue is collected;
- minimising losses through error or fraud;
- minimising transaction costs;
- serving customers in a manner that is convenient and responsive to their needs; and
- carrying out tasks in a manner that is fair, impartial and transparent.

Building up the core technical capabilities has involved various aspects of organisational and staff development, most notably getting structures right, developing staff competency, and putting in place appropriate business processes (systems, procedures, information technology, etc.).

Getting structures right

As part of the modernisation programme, operational departments were regrouped around taxpayer categories to enable the organisation to become more responsive to client needs and as a basis for improving service delivery standards. The reorganisation has also created opportunities for greater cost effectiveness and efficiency in the management of business processes.

The new customer orientation encourages operational departments to adopt more of an external focus and to hone their services to the particular needs of their clients. In turn this has pushed departments to think more strategically about the kinds of competencies staff need to achieve their objectives (see below).

The reorganisation is at the same time creating opportunities for greater horizontal integration and better communications between the different operational and support departments. It also provides a basis on which to build integrated business processes supported by an IT platform that can facilitate the timely exchange of data across the organisation. The reorganisation is helping management and staff to gain a better sense of how the different departments contribute to the overall mission. So, while it has encouraged a degree of departmental specialisation linked to servicing the needs of particular customers, the restructuring has also meant that certain areas of technical expertise such as auditing can be shared across departments, thereby enabling a more interdisciplinary approach to the performance of tasks.

Developing staff competency

From the outset, the biggest challenge has been to develop a cadre of tax administration professionals - the organisation's performance ultimately relies on having in place adequate numbers of staff competent in the fields of tax administration, customs and excise, and revenue protection services. This task has been challenging for several reasons:

- most of the staff retained from the old organisation had received no formal training - in this regard, there were few tax administration professionals;
- many experienced administrators and tax collectors had perished during the genocide and civil war;
- there was no formal training policy or training capability within the organisation; and
- there were virtually no training institutions in Rwanda producing graduates with appropriate qualifications.

With the support of DfID, the organisation has taken upon itself the task of developing a cadre of tax professionals through a mix of on-the-job training, mentoring, short courses and selected longer courses. Provision is now being made to establish an in-house training facility that will provide the organisation with its own internal capability to further professionalise its staff.⁴¹ The focus on in-service training is important. At first the organisation thought it would be able to recruit people from the market with requisite qualifications and experience, but this has not proven to be the case, for the reasons cited earlier. It was therefore decided to recruit gener-

alists from the university (public administration, business and commerce, IT and lawyers) and to develop them internally into tax and customs professionals.

Staff development has focused on developing core skills and competencies related to the various specialisations associated with revenue collection (tax administration, customs and excise, VAT) and various functions (inspection, audit, etc.), including a sound knowledge of laws and regulations and accountancy principles and proficiency in implementing work routines. Equal attention has been given to instilling values of integrity and, most recently, to developing customer handling and interpersonal skills. Assuring staff integrity is important in any organisation, but is critical to the performance of a revenue authority. It is important in terms of helping to minimise losses or under-collection of revenues due to theft, fraud or bribery. It is also vital to establishing the credibility and reputation of the organisation and in sending a message to taxpayers that there is no tolerance of fraud, corruption or evasion.

Customer relations is an aspect that has grown in importance as the organisation has come to understand that its performance can be assessed not only in terms of how much revenue is collected, but also in terms of the quality of the services it provides to its customers. In considering customer relations, the RRA recognises that, first, although it does not provide a service in a traditional sense, it is a service provider and has the responsibility to serve the public in an appropriate manner. Second, customers are the partners of the RRA, and that treating them in an appropriate manner will help to maximise compliance and cooperation, resulting in higher collection levels.

The reorganisation of operational departments around taxpayer groups has helped reveal some of the different competencies that staff must have in order to carry out their duties. In other words, staff competencies need to be customised to take account of their clients.

- Being seen to be efficient and professional is especially important for the staff of the *Large Taxpayers Department*, which interacts with the larger taxpayers, including foreign multinationals that have invested in Rwanda. Officers emphasise the need to be IT proficient and conversant with the kinds of financial management systems that these customers use. They also note the importance of trying to keep one step ahead of their

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⁴¹ The RRA is currently investigating opportunities for twinning its new training institute with another organization (such as a training institute in a more developed revenue authority) as a way to fast track the development of the facility, train trainers and develop courses.

customers who enjoy the services of tax and financial professionals. This calls for continuous training and access to the latest information. Officers also recognise the need to create a good impression in terms of competence and in interpersonal skills, not only to ensure cooperation and compliance from their customers but also because they have a role to play in presenting Rwanda as having an investment-friendly environment.

- In contrast, the staff of the *Internal Revenue Department* deal with individuals and organisations that more often than not are unfamiliar with laws and procedures and who do not usually keep their accounts in order. These customers are more likely to be reluctant to pay and to have had bad experiences of dealing with tax officials in the past. Interpersonal skills associated with dealing with such customers are especially important - particularly for auditors who cannot rely on finding up-to-date and accurate data in financial management systems. Officers working for the Internal Revenue Department have therefore more of an 'outreach' role to play. This requires having sufficient staff so that they can spend more time with individual customers,⁴² and with appropriate customer handling skills. They have a particular responsibility to improve the overall image of the service, to engender trust and a sense of fairness.
- The demands facing officers of the *Customs and Excise Department* are different again. Unlike more established taxpayers, their customers are often transitory, require immediate service and interact on multiple occasions. There is an even greater premium on providing timely, efficient and friendly service. People management skills are essential. Yet at the same time, in the face of efforts to withhold information and the pressure to minimise inconvenience to travellers and traders, they need to be vigilant as well as able to think and act quickly and analyse situations on the spot on the basis of a sound knowledge of the law and instruments.
- The situation facing the *Revenue Protection Department* is significantly different. Unlike the other operational departments, the RPD does not really have 'customers'. Dealing with abnormal cases of fraud and smuggling needs specialised skills related to information and intelligence gathering. Issues of integrity are particularly significant as staff are faced with regular opportunities for engaging in bribery or corrupt practices. The

environment is also continuously changing, with the emergence of new forms of smuggling, new technologies and increasingly sophisticated practices. The staff therefore need to keep themselves informed of such new developments and be capable of handling new situations appropriately.

Developing appropriate business processes

Tax and customs administration is by its nature information and process dependent. The ongoing modernisation programme is anchored around an effort to improve the ways in which data are processed using internationally recognised good practice. The intention is to put in place robust systems that are easy to use (for both staff and customers), speed up operations, reduce transaction costs, facilitate communication between departments and minimise risks of error or abuse in data processing. Given the organisation's current stage of development it is expected that these improvements will yield significant increases in performance in the short to medium term.

Computerisation plays a key part in this upgrading process, offering a number of obvious but significant advantages over the former manual paper file system. Besides contributing to speed and accuracy, it also allows for a better deployment of staff - shifting personnel from routine administrative tasks to more specialised jobs such as auditing. It also allows a more strategic approach to the identification of potential areas of fraud or evasion through selective risk analysis.

Having in place state-of-the-art systems also gives the staff a sense of pride and confidence, and helps to project the image of an organisation that is modern and efficient.⁴³ For customers, increased automation combined with initiatives to simplify procedures and forms and to create a one-stop shop (a single tax payment point), is expected to result in greater levels of compliance as well as the recognition that it is less easy to 'cheat' the system.⁴⁴

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42 However, this results in a poor cost to revenue ratio and the RRA actively considering ways to improve it. Alternative methods of tax assessment and collection from taxpayers at the lower end of the scale include developing objective means of establishing presumptive income (e.g. mileage of taxis, number of restaurant customers, etc.), increasing business licensing fees as a substitute for taxes in some cases and ensuring that licences are not renewed if taxpayers are in default.

43 Although this is no substitute for basic staff competency.

44 This includes introducing a common tax identification number (TIN) for all registered customers that will facilitate the integration of tax and customs assessment processes.

- For the *Customs and Excise Department*, the introduction of ASYCUDA++,⁴⁵ which links up seven of the ten steps associated with the processing of customs clearances, is described as 'a miracle'. The system will enable them to reduce the time it takes to process documentation from an average of two days to just several minutes. It will also reduce the department's dependence on information provided by intermediaries (e.g. shipping agents), enable greater selectivity of inspections based on more sophisticated risk analyses, and reduce losses due to human error.
- For the *Revenue Protection Department*, automation can significantly enhance the speed with which intelligence work is undertaken. It is expected that information sharing between departments will be improved and this will facilitate inter-departmental cooperation.
- For the *Large Taxpayers and Internal Revenue Departments*, the process of tax administration will be fully integrated, linking up the various stages of the process: registrations, returns, assessment, collection, audit, enforcement and risk analysis.⁴⁶

The reorganisation of the authority, as well as plans for a purpose-built revenue collection office, is also facilitating this process.

4.6 External assistance as process facilitator

DfID has been and remains the RRA's principal partner. It has supported the RRA since its establishment in 1997 through the provision of financial and technical assistance amounting to close to £15 million (€22 million).⁴⁷ This is a substantial amount for a single programme, reflecting DfID's commitment to the development of revenue generation capacity in Rwanda as part of its wider country support strategy.

DfID support to the RRA has been implemented in five phases. The first two phases focused on the provision of advisory services relating to the establishment of the RRA, and the subsequent three have involved more substantial support to the strengthening of organisational and human capacities. There is no doubt that DfID support has made a major contribution to the organisational development process and the RRA is quick to point out that credit for the achievements must be shared with DfID.

Given the level of DfID's contribution to the capacity development process, and taking account of the comparative weakness of the RRA when it was first established, the risks of external assistance driving the process and of effectively disempowering local stakeholders were very real. Yet experience would suggest that this has not been the case. Ownership and vision has rested squarely with the Rwandan partner, with DfID assuming a role of process facilitator, providing strategic and technical advice, as well as the necessary financial resources. Over time a mature partnership between the DfID country office and the RRA has evolved based on frankness, openness and trust, a clear division of tasks and responsibilities and a shared responsibility for outcomes.⁴⁸

The following paragraphs attempt to summarise the key features of DfID support and of the relationship that has evolved between the two partners.

A flexible and pragmatic approach

The RRA has appreciated the flexible and pragmatic approach adopted by its external partner. DfID is praised for having remained responsive to emerging needs and for providing (with a few exceptions) appropriate technical support and financial resources, while at the same time leaving decision making firmly in the hands of RRA's senior management and board.⁴⁹

Since it would take a considerable number of years for the RRA to develop into a strong and mature organisation, DfID recognised the advantages of adopting a flexible and relatively short-term approach to project design. This perspective did not mean that it was not strategic nor did it signal a lack of commitment to long-term support. Rather, it reflected the belief that it would be inappropriate to design a comprehensive and longer-term programme in a situation of rapid change and relative uncertainty. Under these circumstances, and taking account of

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- 45 ASYCUDA++ (Automated System for Customs Data), developed by UNCTAD, is a computerised customs management system that covers most foreign trade procedures.
- 46 Automation has so far focused on improving back office processes, but will eventually contribute to providing faster and more efficient customer services at the front office through the one-stop shop concept and eventually e-government.
- 47 Up to the end of 2005.
- 48 This has been facilitated by the strong working relationship between DfID and the Rwandan government since DfID established its country programme in 1997.
- 49 DfID is considered to be far less bureaucratic than many other development partners, able to take decisions quickly and to disburse funds promptly. Being able to do so has enabled DfID to be responsive to the emerging needs of the organisation and to avoid delays that might otherwise occur and that can easily disrupt local processes.

the capacity of the organisation to absorb change, a more incremental and iterative approach seemed fitting that could be monitored and adapted as needed by the partners on an ongoing basis.

Teamwork and effective monitoring mechanisms

The spirit of partnership and shared responsibility for outcomes has been reinforced by a teamwork approach at all levels. TA and local partners have been encouraged to work side by side as team members and meet regularly to discuss strategic and policy matters as well as emerging operational issues. An illustration is the participation of TA in the various 'modernisation teams' that have been set up to support the restructuring and transformation process. Monitoring mechanisms have been set up to facilitate routine feedback between the partners and encourage open and frank dialogue. Key elements have included the project steering committee that meets quarterly, and sub-committees that meet weekly to deal with individual project components. Output-to-purpose reviews have also served as useful monitoring instruments and have indirectly contributed to the organisation's learning capability.

Project management support

A critical factor in making this process approach work has been the provision of a full-time project manager to function as a neutral interlocutor between DfID and RRA management. Core responsibilities have included administrative functions related to the deployment, supervision and monitoring of financial and technical resources (including supervision of TA), and advisory functions related to substantive matters to do with tax policy and administration as well as the management of the change process. Over time, and as the organisation has had to make more strategic choices about what and how it should be developing, the significance of these latter functions has become more pronounced. In this regard, the appointment of an experienced tax professional as project manager in 2002 has enabled both DfID and RRA management to take a more critical and strategic look at the organisation's development. In recent years the project manager has been instrumental in giving shape to the current phase of the capacity development process.⁵⁰

An important distinction can be drawn here between the role of RRA board and management in steering the transformation process and

championing change, and the role of the project manager (and technical advisers) in providing strategic guidance to management with respect to the rolling out and sequencing of reform activities. Over time the RRA management has been better able to absorb such technical advice and to reach its own decisions on how best to advance the reform process.

Equally important has been the nature of the working relationship between the project manager and the DfID office. Experience suggests that this relationship needs to be strong and there needs to be frequent communication and feedback between the DfID office (usually through the governance adviser and project officer) if the needed level of flexibility in project management (which is vital for success) is to be achieved.

Technical assistance (TA)

Technical assistance has been a core element of the support provided by DfID to the RRA. TA has performed a variety of functions, including providing advice and mentoring services, performing selected line management functions, supporting the design and implementation of new systems and procedures, and providing classroom and on-the-job training.⁵² Overall, TA is viewed as having made a significant contribution to the development of management and technical capabilities within the organisation. The TA input has been highly appreciated, although, as in any process, there have been instances where needs were inappropriately diagnosed or where experts have proven unsuited for the job.

There has been comparatively little guidance provided to advisers on 'how' they are expected to develop capacity. This seems to have been something largely taken for granted and has therefore been subject to individual interpretation. The advisers currently in post emphasise the need to combine substantive knowledge with an ability to communicate and work

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⁵⁰ In this respect, it is important to note that the RRA is still a young organisation that inherited limited professional expertise. Also, the DfID office has expertise on broad aspects of public sector management, governance and capacity development, but it did not have in-house expertise on tax administration and reform. The current project manager argues that tax administration projects are uniquely complex and need oversight by a tax professional on a full-time basis.

⁵¹ Some criticism was made to the effect that the initial training was too basic, and that there was a preference for masters-level training.

as team members with counterpart staff. Whilst acknowledging that some guidance on how to facilitate change and develop capacities could be helpful, the advisers cautioned against prescriptive approaches, emphasising the importance of adapting working methods to the situation on the ground. They also stressed the importance of teamwork, getting involved in day-to-day work routines and remembering that they do not have a premium on all knowledge.

Over time there has been a progressive shift from reliance on long-term resident advisers to the use of minimal long-term advisers combined with targeted short-term experts to tackle specific tasks. This shift reflects growing confidence in the ability of management to direct the affairs of the organisation and to drive the change process. TA was considered especially important in the early years in order to support the introduction of new systems and procedures, as well as to develop management skills and a sound understanding of tax administration.

Financial assistance

Without DfID support, it would not have been possible to finance a substantial part of the organisational development process that the RRA has undertaken. Whilst the organisation's running costs have been met from the state budget, it did not have adequate means to invest in its own organisational development, whether in terms of covering the costs of training, bursaries, hiring experts or purchasing equipment. By providing all of these inputs in a timely and flexible manner, DfID has considerably accelerated the pace of change within the RRA.

5 Capacity, change and performance: key lessons

Beginning with an overview of the RRA's performance record, this section highlights lessons pertaining to the interplay between capacity, change and performance, and summarises the key factors that have contributed to the RRA's achievements. In doing so, it tries to identify those factors that have really made a difference and that help to explain the organisation's remarkable successes in the midst of otherwise adverse conditions. The section ends by speculating on the outlook for sustaining the gains made in the future.

5.1 Performance record

In a short space of time the RRA has created a name for itself as a performing and credible organisation. Its short life has been characterised by a process of rapid transformation from a moribund government department into a functioning and performing organisation. Since its creation, there has been a steady increase in revenue collected - from 9% of GDP in 1998 to 13% of GDP in 2003. It is also noted that since 2001 the RRA has consistently exceeded the revenue targets set by the Ministry of Finance.⁵²

Through a continuous process of organisational capacity development, significant progress has been made in strengthening core management and technical capabilities. The RRA's standing in government circles remains positive and it is held out as a model of good practice. Public attitudes toward the payment of taxes have changed significantly, as have perceptions of the organisation itself. Today many key stakeholders have a positive attitude towards the RRA and give it their full support. The government and political leadership continue to extend goodwill to the organisation and to provide active support. Key international stakeholders including DfID and the IMF are more than satisfied with the progress that has been made not only in terms of the contribution the RRA has made to domestic revenue mobilisation, but also in terms of helping to create a culture of integrity, efficiency and transparency. Whilst not cleared completely, levels of corruption are lower than they were in 1998 and better than in

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⁵² VAT has performed especially well. In the first year the target was RWF 12 billion, which was adjusted to RWF 15 billion. In the end RWF 20 billion was received, and RWF 30 billion in the following year (RWF 1 billion = €1.4 million).

neighbouring countries. The performance of the RRA is looked at most favourably in comparison to experiences elsewhere in East Africa, and there is confidence that in the foreseeable future, with continued efforts, the organisation will be able to raise the level of revenue collected to 15% of GDP, which is the regional average.

5.2 Success factors

A locally driven transformation process

By all accounts the RRA's transformation has been a locally driven process, underwritten and sustained by strong ownership, and driven by decisive leadership. These have been present both at a political level, through the active support of the President and the government, and at the organisational level, through the efforts of Board members and the senior management team.

Ownership and leadership have not had to be looked for or in any way engineered by any external party. They have been omnipresent and have to a large extent made up for deficiencies in capacity. Might this be a reflection of a wider change in Rwandan attitudes toward development, arising from the traumas of genocide? The ending of the crisis seems to have led to a burst of idealism and selfless behaviour augmented by the return of skilled exiles who genuinely want to work on behalf of the country.

Clear mandate and expectations to perform

The RRA was granted a clear and unequivocal mandate and a strategic role to play within government's wider strategy of national reconstruction, poverty reduction and good governance. As the centrepiece of the country's domestic revenue generation effort, it has been expected to play a key role in meeting the aspirations of the Rwandan government and its international partners to reduce dependency on aid and to shift towards a country-driven transformation process. Accordingly, from the outset the RRA enjoyed a high degree of legitimacy and backing from official circles - there were equally high expectations placed on the nascent organisation to perform.

An organisational status offering space but also protection

Agency status offered the RRA a significant degree of management autonomy that enabled it to take decisions and manage resources on the basis of business-like principles (results-based management), and

to pursue its mandate without interference or distraction. This in particular allowed the organisation to offer conditions of service and to put in place a human resource management system that has attracted, developed and retained capable and committed personnel. Noteworthy has been the return of highly skilled and motivated exiles who have been able to take advantage of these opportunities and fill key management positions.

The RRA's agency status also allowed it a new lease of life, and offered the opportunity to make something of a clean break with the past, and to cultivate a new corporate culture based on values of integrity, accountability and performance. At the same time the organisation was assured adequate funding to meet operating costs, while its management autonomy was respected so long as it performed. It could, meanwhile, also count on political support and protection if needed.

Getting the organisation right - balancing 'hard' and 'soft' elements of capacity

Considerable attention has been given to developing various capabilities within the RRA, which have contributed to its overall capacity to perform. Performance improvement has been at the forefront of the capacity development process, which has been driven by a concern to improve the capacity to collect revenues. In so doing, the organisation has broadened its understanding of performance from an initial focus on revenue collection to include concerns for efficiency and customer satisfaction. It has also developed a better appreciation of what capacity is and how it can be developed, and is now better able to determine its capacity development needs. For instance, the operational departments have had to hone their capabilities to address the specific features of their operating environment. The Large Taxpayers Department needs to be knowledge-based so that it can keep up with its more sophisticated clientele. The Internal Revenue Department by contrast needs to perform more of an outreach role as it deals with a less well educated and sometimes less cooperative client base, while the Customs and Excise Department needs to exhibit a high level of responsiveness and vigilance in the face of pressures to process declarations as swiftly as possible. The Revenue Protection Department requires a capability for intelligence gathering and for maintaining the highest standards of integrity. At one level this has meant working on the 'hard' elements of capacity that contribute to internal efficiency and effectiveness - including getting the structures, sys-

tems, procedures and technology right and developing appropriate staff competencies - which have been more easily supported by external partners. This focus on the 'hard' elements of capacity has been important in terms of developing the capabilities of both the operational support departments. A combination of technical capabilities associated with the particular tasks that different departments, divisions and units are required to perform, and management capabilities have been addressed. In a certain sense it can be argued that these are all of equal importance contributing to a well-rounded and balanced organisation with an overall capacity to perform. Yet in other respects, it is clear that certain capabilities have emerged as being of critical importance - examples include audit as a key service delivery function and human resource management as a key support function.

These efforts at capability development have helped create what may be described as 'potential' or 'latent' capacity. But to ensure effective utilisation of this potential has meant developing another set of 'soft' capabilities that are less tangible yet seem to hold the key to translating capacity into organisational performance. These include a range of attributes such as visionary leadership and committed management that have nurtured a distinct corporate identity and value system. These attributes have helped define the informal 'rules of the game', offering a set of non-material incentives⁵³ that are the basis of motivation and commitment, and have also given the organisation a certain 'energy' and *esprit de corps*. These elements are not so easy to supply from outside, and have emerged very much from within the endogenous change process.

The RRA has also developed a 'learning' capability and a critical self-awareness that have played an instrumental part in its rapid development. This learning capability has enabled the RRA to think strategically about the relationship between capacity and performance, and to identify opportunities for continuous improvement across the organisation while at the same time carrying out its core mandate. This capability has also translated into an

emerging ability to manage internal change as well as the external environment.

Looking in but also out - managing the external environment

The efforts made to strengthen the internal side of the organisation have been complemented by efforts to manage the external environment. Over time the RRA has come to recognise that its capacity to perform is in part conditioned by external factors over which it has some degree of influence.⁵⁴

Managing the external environment has been especially important in terms of gaining the support of the public at large and in the process of raising levels of organisational legitimacy - notwithstanding the authority and legitimacy derived from the law and political backing. Gaining legitimacy from its partners and citizens has been a key part of the RRA's success. Initially this involved conducting public relations and mass sensitisation campaigns. More recently, it has involved the wholesale orientation of business processes towards the provision of services tailored to different customer groups and, in the process of increasing transparency and accountability, to end users. These actions have helped boost staff confidence and self-esteem, and have also enabled them to better adapt their services (and capabilities) to the needs of customers.

Meanwhile, the establishment of cooperative relationships with various external stakeholders has given access to needed resources (technology, information, support, etc.) and has been important in terms of extending the organisation's outreach and effectiveness. Such relationships have been particularly important for the Customs and Excise and Revenue Protection Departments. To perform effectively the RRA needs to have the capacity to influence other organisations in the network, and has gone so far as to invest in the development of its partners' capacities - helping to organise the nascent tax consultancy profession, on the one hand, and developing the revenue collection capability of local governments on the other.

Through these initiatives the RRA has contributed to the development of revenue collection capacity beyond the confines of the organisation. One could argue that the challenge of developing a revenue collection capacity within the country extends beyond organisational development to embrace change at a

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⁵³ The informal reward system refers to how staff members value (and respond emotionally to) successful accomplishment of work, and how much appreciation and support there is for their achievement. This raises issues such as personal growth and satisfaction in social relationships, prestige and recognition associated with working for an organisation, professional pride, and service for community or country. In government organisations these informal rewards are often of prime importance.

⁵⁴ Put another way, the RRA was able to create or at least help shape its own organisational 'ecosystem'; see Iansiti and Levien (2004).

systems level. Part of the key to the RRA's comparative success has been its ability to build these relationships in the form of a broader revenue collection system comprising its various stakeholders - other government departments, different kinds of taxpayers, organisational partners, and so on.

Equally, management has taken care to monitor the external environment in order to take account of new trends and challenges and to adapt internal strategies accordingly. Examples include the impact of regional trade legislation, the emergence of new technologies and new forms of fraud, and changes in the national and regional labour market that have impacted on the RRA's ability to attract and retain high calibre staff. In this regard, the organisation has become aware of the pace of change taking place in the external environment, the emergence of new demands and the importance of being able to adapt and respond.

A pragmatic and incremental change process

The RRA has avoided large-scale, comprehensive and predetermined reform processes, but has adopted a pragmatic and incremental approach characterised by adaptation to emerging needs and priorities and progression on the basis of short- to medium-term time frames. Working incrementally has not, however, meant being un-strategic. The process has also been driven by a thirst for learning and recognition of the need continuously to compare capacity and performance. This iterative process approach has enabled managers to learn from experience and to advance the capacity development process according to lessons learned and at a pace appropriate to the capacity of the organisation to absorb change. It has also helped ensure internal ownership and appreciation of the change process and has avoided the risk of proposals being introduced from the outside that are not relevant to local conditions. In so doing it has been possible to build an internal constituency for change (ownership) and an ability to identify capacity needs. Overall, management seems to have got the sequencing and evolution of capacity and performance issues right.

A mature partnership between the RRA and DfID

A programme of external support has accompanied the entire capacity development process. This support has been critical not only in terms of offering valuable technical knowledge and financial assistance, but also in providing moral support and confidence to local stakeholders.⁵⁵

Over the years, the RRA and DfID have developed a mature relationship based on frank exchange, team spirit and shared accountability for results. This has allowed external technical and financial assistance to accompany the local change process, adapting to the local tempo of change and emerging priorities. This was made possible on the one hand by the strong level of ownership and commitment of Rwandan stakeholders, and on the other, by DfID's willingness to work from the background offering strategic and policy guidance as well as technical and financial support to a range of organisational development and training initiatives. It has also been facilitated by the strong relationship between the UK and Rwanda and the emergence of DfID as Rwanda's most important bilateral partner. The nature of external assistance has adapted over time as the organisational capacity has grown and needs have changed. RRA management has become more confident, playing a more significant part in identifying needs and priority setting, and gradually its dependence on DfID has decreased.

5.3 The future: Can the RRA avoid the fate of other revenue authorities?

This report has presented a rather positive and optimistic account of the development of a performing organisation against all odds. The question is whether the good news can be sustained. Sceptics who have studied the experiences of other revenue authorities in the region might well argue that the good news will be short-lived. They will point to the experiences of the Uganda Revenue Authority, for example, where at first the experience was comparable to that of Rwanda. But a few years on many of the achievements were reversed with evidence of falling levels of revenue collection, increasing incidences of corruption and political interference and declining confidence amongst the tax-paying public. This situation has raised questions regarding the conditions under which an organisational model can be transferred from one country context to another.

Will the Rwandan experience be any different? Barely six years old, is the RRA's organisational culture and capacity sufficiently robust and rooted to withstand outside pressures that may divert it from its current mission? How vulnerable is the organisation to changing political visions and agendas? To what

Notes

55 At the same time, it has been noted that although DfID has supported many fledgling revenue authorities in Africa there is no easily available database of good practices or lessons learned from these experiences that the Rwandans could draw upon. This seems to have been a missed opportunity.

extent can the public at large hold the organisation to account and insist that standards of performance and integrity are maintained?

The lesson from this case is that the RRA's success must in large part be attributed to the level of political commitment and support it has enjoyed. This commitment provided the legitimacy and space for the organisation to invest in the development of its capacity and to translate those capacities into performance. But it also suggests that if the political goodwill were to disappear then the achievements gained may be at risk of being overturned. The political environment is something over which the organisation has no control, but for now, the prospects for democracy taking root in Rwanda remain promising. That being the case, it can be expected that the RRA will retain its strategic importance in the wider development process and can therefore count on continued political backing and growing parliamentary oversight.

Within the Authority, key safeguards will be needed to ensure that quality leadership is retained and that the organisation continues to invest in the professionalisation of its staff. The RRA also has to face a number of challenges that could undermine some of the gains made:

- The prospect of DfID ending its support has implications for morale, and the readiness of the organisation to stand on its own feet and to continue the change process unassisted. It must also urgently find ways to mobilise resources to cover the future costs associated with organisational development.
 - After several years of dynamic transformation and tangible improvements, the organisation is going to enter a period of less dynamic change, so that greater efforts will be required to generate further performance improvements. It will be critical to keep the dream and vision alive by continuously setting new targets and maintaining staff morale.
 - The RRA is no longer the employer of choice, and is finding it increasingly difficult to remain competitive in the labour market. Once the standard bearer for conditions of service, a growing number of private and quasi-public institutions as well as international agencies now offer more competitive remuneration packages. It is therefore becoming more difficult to attract and retain good personnel. Constrained by budget ceilings,
- the RRA will have to work at improving efficiency so that resources can be freed up to offer more attractive salaries linked to performance.
- The RRA will have to face up to the challenge of succession and building up the 'missing middle'. It is only a matter of time before the most capable managers that have been at the centre of the organisation's remarkable achievements move on. Already a number of key managers have been poached for top government positions, while key technical staff are being poached by other organisations that value the training and organisational experience that the RRA has provided. The organisation therefore has to begin to groom a new cadre of middle-level managers who can eventually take over. This will require investment in developing their capabilities, exposing them to greater responsibility as well as providing appropriate incentives for performance and accountability.

Annex: Individuals consulted

DfID

Mirtha Castellon	IT adviser, ASYCUDA++
Elisabeth Gresty	Audit adviser
Kieran Holmes	Project manager
Harriet Wanjohi	Governance adviser
Tesfaye Wondim	Income tax adviser

Board

Claver Gatete	Secretary General, Ministry of Finance and Economic Planning
Ephraim Turahirwa	Chairperson

RRA

Mary Baine	Commissioner, Customs and Excise
Immaculee Bamarange	Senior auditor, Internal Revenue Dept
Louis Benimana	Commissioner, Internal Revenue
Ben Kagarama	Director, Finance
Adrien Kinyunguti	Head, Service Delivery, Large Taxpayers Dept
Ndivito Makima Fidele	Director, Human Resources and Administration Division
J. Mbawishirana	Head, Revenue Audit, Internal Revenue Dept
Claver Kayumba	Director, Revenue Protection Dept
Zephania Muhigi	Senior manager, Customs and Excise Dept
Eugene Torero Mugenyi	Director, Planning and Research Dept
Fauzi Musheija	Senior business analyst, Large Taxpayers Dept
Henry Gaperi Kanyesiime	Commissioner, Large Taxpayers Dept
Monique Mukaruliza	Commissioner, Quality Assurance
James Musoni	Commissioner, General
Emmanuel Nsengimana	Head, Personnel Administration Division
Jackson Serudodo	Senior customs manager, Customs and Excise.
Sam Toyota	Director, Information Systems & Technology
Theodora Ujamuliza	Acting Head, Training and Development Division

Stakeholders and other individuals interviewed

Abdikarim Farah	Resident representative, IMF
Bart Gasana	Executive secretary, Rwanda Private Sector Federation
Barnabe Sebagabo	National coordinator, Renforcement des Capacites et Reforme de la Fonction Publique

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The results of the study, interim reports and an elaborated methodology can be consulted at www.capacity.org or www.ecdpm.org. For further information, please contact Ms Heather Baser (hb@ecdpm.org).

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