

**ADOPTION OF EFFECTIVE TAX  
ADMINISTRATION POLICIES AND SYSTEMS  
TO ENHANCE PUBLIC FINANCIAL  
MANAGEMENT (PFM) INITIATIVES**

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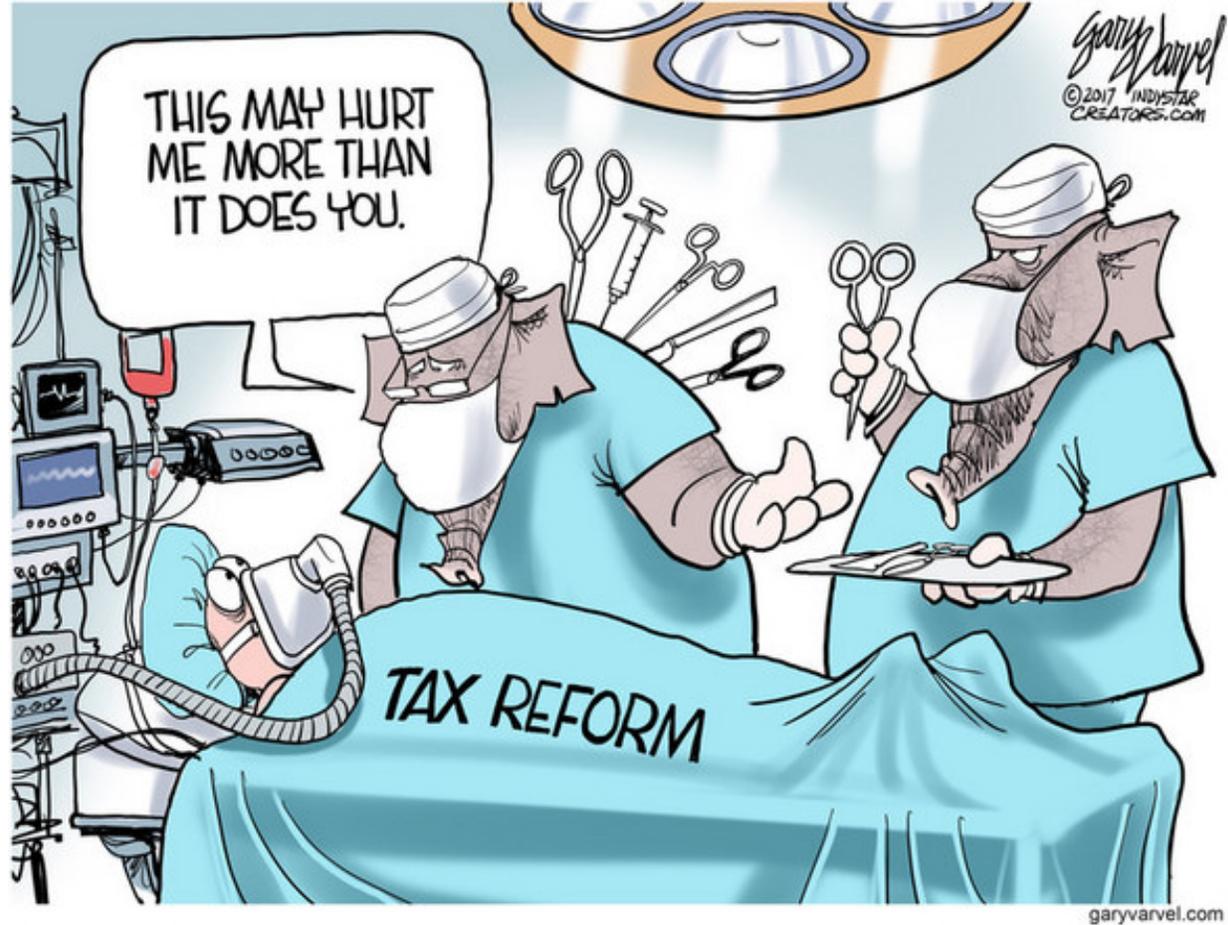
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# KEY HIGHLIGHTS OF THE PRESENTATION

- Prerequisites for effective PFM reforms - Process;
- Motivation for African governments to embrace PFM Reforms;
- Fundamental changes under the Fiscal framework that should ensure an effective PFM Reform;
- Taxation as a PFM Reform – required Tax reforms;
- Challenges that may hinder realization of the Target Reform Agenda;
- Rwanda as a Case study;
- Conclusion
- Questions and Answers

# INTRODUCTION

- Public Financial management (PFM) concerns about the effective management of public funds for efficient service delivery.
- Scarce resources require governments to implement strategies that can allow effective revenue generation and their efficient deployment.



# EFFECTIVE TAX ADMINISTRATION AND SYSTEM REFORMS PROCESS

For an effective PFM reform agenda, The Process must be given due consideration:

- Incorporate all stakeholders to lend the strategy credence;
- Gap analysis to indicate current state of the government;
- Genuine political commitment from senior politicians;
- Empowerment of key institutions – legal backing;
- Effective communication

# RWANDA TAX ADMINISTRATION AND SYSTEM REFORM PROCESS

- Before the establishment of RRA in 1998, the Central government through the Ministry of Finance was responsible for tax collection;

Since then, the tax reform Process considered the following among others:

In 2008, the Rwanda Government with support from the World Bank Group, embarked on tax reforms aimed at facilitating administrative VAT and income tax procedures;

This led to: Reduction in time to get a tax clearance, broad range of online services launched several tax filing innovations;

Global ranking Doing Business Report, 2010 ranked Rwanda as No. 67 from 143.

In October, 2013 tax compliance through a Mobile telephone solution dubbed M-declaration was launched; among others.

# MOTIVATION FOR AFRICAN GOVERNMENTS TO EMBRACE PFM REFORMS

PFM Reforms used to be driven by donor compliance requirements and DP's – Unustainable and hence a need to refocus:

- Automation of public accounting systems;
- Capacity building in Key institutions;
- Embracing good governance;
- Operational management;
- Fiduciary risk management;
- Aggregate fiscal management, etc.

# MOTIVATION FOR RWANDA

- In 2000 Rwanda announced its ambition of becoming a middle-income economy by 2020 and later upper middle income status by 2035.
- Rwanda aims at continuing to ease business, reduce poverty, enhance the living standards of its citizens but also reduce reliance on foreign aid.
- The 20 year Journey has been characterized by legal reforms, embracing modern technologies – Smart Africa Initiative, chaired by President Kagame, which aims at putting ICT as a cornerstone for Africa's socio-economic development agenda.
- Domestic taxes have increased 20 times while the national budget increased 14 times.
- From Financing its National budget at 36.3% in 1998 to the tune of 58.3 % in 2018.

# FUNDAMENTAL CHANGES UNDER THE FISCAL FRAMEWORK THAT SHOULD ENSURE AN EFFECTIVE PFM REFORM

- Improvement of Revenue Collections – empower the tax body to devise strategies that will improve revenue collections;
- Proper budgeting – through a transparent and inclusive budgeting exercise;
- Efficient debt and cash management – cash is well managed in case of a deficit, borrow but cheaply and easily;
- Effective monitoring and Oversight - Independent oversight bodies are in place and function in the public interest.

# FUNDAMENTAL CHANGES UNDER THE RWANDA FISCAL FRAMEWORK FOR EFFECTIVE REFORMS

- Improved revenue collections – RRA Surpassed its revenue target by 3% having collected rwf.1,252 billion from a target of rwf.1,215 billion in 2017/18 fiscal year.
- A clear and well respected budget calendar has been defined for all entities involved in the budget process from the start up to when the Budget is approved by the Parliament.
- Treasury Management department facilitates MINECOFIN in ensuring proper and accountable use of resources.
- OAG is in place to promote accountability, transparency and best practice in government operations.
- PAC established in 2011 and Office of the Ombudsman in 2003.

# TAXATION AS A PFM REFORM – REQUIRED TAX REFORMS

**Tax reforms are considered as the main ingredient in improving tax administration – Some of the reforms may include:**

- Tax administration capacity building;
- Political will;
- Embrace a voluntary compliance culture;
- Enhance the effectiveness of VAT;
- Broaden the tax base;
- Reinforcement to local government tax collections;
- Efficient revenue management – maintain tax payer ledger, pay tax refunds promptly, regular internal audits, timely feedback, provide input to government revenue forecasting and estimating processes.

# REFORMS UNDER THE RWANDA TAX ADMINISTRATION SYSTEM

- VAT was introduced in 2001;
- Formation of RRA modernization project in 2003 to steer the Reform process;
- ICT game changer with mobile penetration over 80%;
- Enhanced motivation by tax payers to voluntarily declare and pay tax – Tax education and awareness campaigns;
- Enhanced quality assurance mechanisms;
- Several innovations under tax filing;
- Use of EBM devices introduced in 2013;
- Deployment of an efficient online customs platform – adopting a single custom territory in 2014.

# CHALLENGES THAT MAY HINDER REALIZATION OF THE TARGET REFORM AGENDA

## ILLICIT FINANCIAL FLOWS

- illegal movement of money or capital from one country to another.
- It usually occurs when money is earned, transferred or spent illegally mainly through: Money laundering; tax evasion; and international bribery.
- For Africa alone, it is estimated that 50bn is lost annually due to such practices (OECD, 2014).

## Money laundering scheme



# POLICY AREAS TO COMBAT IFF'S

Requires governments to improve on the quality of their national regulations; adopt and implement international best practices

- For funds transferred and received via commercial banks and other financial centers, anti-money laundering tools and counter terrorism financing very effective - Financial Action Task Force recommendations;
- Tax evasion – improve systems and encourage automatic exchange of information – Joined ATAF;
- International bribery – Adequate and effective initiatives to discover bribes, whilst effectively protecting whistleblowers;
- Stolen asset recovery – repatriated to enhance justice.

# CONCLUSION

- Government of Rwanda's tax reforms have been mainly driven by ICT. And its ambitions of significantly reducing reliance on foreign aid are underway with current National budget financed from domestic taxes at 58.3%.
- Tax revenues as a % of GDP rose from 3.6% in 1994 to 15.6 in 2018;
- Rwanda registered an average GDP growth of around 8% between 2001 and 2015;
- Rwanda plans to finance its 2018/19 budget to the tune of 67%.

In Rwanda u can pay taxes with a Smile



THANK YOU FOR LISTENING TO ME!

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