

REPUBLIC OF RWANDA

RWANDA REVENUE AUTHORITY



ANNUAL REPORT 2006



For enhancing capacity of RRA staff

Kigali, May 2007

Taxes for Growth and Development

TABLE OF CONTENTS

1.0	FOREWORD BY THE COMMISSIONER GENERAL.....	3
2.0	OVERVIEW ON THE ECONOMIC PERFORMANCE.....	5
2.1	AGRICULTURE.....	6
2.2	INDUSTRY.....	6
2.3	SERVICE SECTOR.....	7
2.4	INTERNATIONAL TRADE.....	8
2.4.1	<i>Exports</i>	8
2.4.2	<i>Imports</i>	9
3.0	OVERVIEW OF RRA’S PERFORMANCE.....	11
4.0	MAXIMISATION OF FLOW OF REVENUES, FISCAL YEAR, 2006.....	11
4.1	FISCAL REVENUE PERFORMANCE.....	11
4.2	COMPARISON BETWEEN 2006 AND 2005 FISCAL REVENUE PERFORMANCE.....	14
4.3	ACTUAL REVENUE PERFORMANCE COMPARED TO TARGETS (2000-2006).....	14
4.4	REVENUE GROWTH AND NOMINAL GDP GROWTH.....	15
4.5	COMPARISON OF REVENUE GROWTH RATE AND INFLATION RATE IN 2006.....	18
4.6	CONTRIBUTION OF FISCAL REVENUE PERFORMANCE BY TYPE OF TAX; 2000 – 2006.....	18
4.7	CONTRIBUTION BY DEPARTMENTS.....	19
4.8	NON-FISCAL REVENUE PERFORMANCE.....	20
5.0	RRA FINANCE AND EXPENDITURE OUTTURN 2006.....	21
6.0	OTHER ACHIEVEMENTS MADE DURING THE YEAR 2006.....	24
6.1	MAXIMIZING REVENUE COLLECTION.....	24
6.1.1	<i>Board of Directors activities</i>	24
6.1.2	<i>Audit activities</i>	24
6.1.3	<i>Enforcement operations</i>	25
6.1.4	<i>Preventing, detecting and investigating tax evasion and smuggling</i>	25
6.1.5	<i>Taxpayers recruitment</i>	25
6.2	MAINTAINING EFFECTIVE FINANCIAL MANAGEMENT SYSTEMS.....	25
6.3	MAINTAINING SOUND INTERNAL BUSINESS PROCESS.....	26
6.3.1	<i>Internal audit</i>	26
6.3.2	<i>RRA Business Plan and monitoring process</i>	26
6.3.3	<i>Review of Processes and Procedures</i>	26
6.3.4	<i>Trade facilitation through computerization of our systems</i>	27
6.4	DEVELOPING A CAPABLE AND EFFECTIVE ORGANIZATION.....	27
6.4.1	<i>Internal restructuring and re-organizations</i>	27
6.4.2	<i>Staff recruitment</i>	27
6.4.3	<i>Staff promotion</i>	28
6.4.4	<i>Staff discipline</i>	28

6.4.5 Staff welfare	28
6.4.6 Enhancing Staff Capacity.....	28
6.4.7 Infrastructure Development	29
6.5 SATISFYING CUSTOMER AND STAKE HOLDER'S REQUIREMENTS	29
6.5.1 Enhancing the quality of customers and stakeholders requirements	29
6.5.2 Evaluation and registration of competent customs clearing agencies	30
6.5.3 Review of Legal Instruments	30
6.5.4 Improving Cooperation with Regional and International Bodies	31
6.5.5 Donor Support.....	32
7.0 MAJOR CONSTRAINTS ENCOUNTERED IN 2006	33
7.1 EXTERNAL AND INTERNAL ECONOMIC SHOCKS	33
7.2 CONTINUED GROWTH OF INFORMAL SECTOR AND CHANGING OF PHYSICAL ADDRESSES BY SOME TAXPAYERS	33
7.3 POOR RECORD KEEPING CULTURE AMONG SOME TAXPAYERS	33
7.4 SMUGGLING AND OTHER FORMS OF TAX EVASION AND AVOIDANCE	33
7.5 FIGHTING CORRUPTION BOTH FROM WITHIN OUR AGENTS AND IN THE TAXPAYER COMMUNITY.....	34
7.6 PREFERENTIAL COMESA RATES THAT REDUCED THE IMPORT DUTY.....	34
7.7 INADEQUATE CAPACITIES OF RRA STAFF IN SOME AREAS ESPECIALLY THE TELECOMMUNICATIONS SECTOR	34
7.8 SUSTAINABILITY OF RRA INFRASTRUCTURE AND INFORMATION TECHNOLOGY SYSTEMS.....	34
7.9 DEBT MANAGEMENT	35
8.0 CONCLUSION.....	35
APPENDIX A: DEPARTMENTAL PERFORMANCE DURING 2006.....	36
APPENDIX B: MAIN PRIORITIES FOR 2007	47

1.0 FOREWORD BY THE COMMISSIONER GENERAL

The year 2006 was a turning point for the Rwanda Revenue Authority (RRA). It was the first year of implementation of its set medium-term strategic goals. This meant that all efforts and previous achievements had to be consolidated in order to lay a firm foundation that would enable RRA embark firmly on a three year strategic course.

RRA is pleased to report its achievements as realized and this, we believe, will strategically lead to the successful conclusion of the medium-term plan. These range from revenue targets, capacity building and staff motivation, restructuring of the organization, strengthening and extension of the computerization program, good services to taxpayers and stakeholders, and an improved infrastructure aimed at providing a conducive working environment.

RRA could not have attained this in isolation. We enjoyed constant support from all stakeholders. The Government continued to extend its full support in form of policy issues and budget flexibility, which enabled us to run our programs effectively. The RRA's Board of Directors provided guidance and leadership while the continued partnership with DFID has provided flexible and targeted financial support. All this helped improve the image and management of RRA. We appreciate the support while anticipating more.

The economy in general registered a substantial performance with a GDP growth rate of 6.4%. This performance boosted RRA's performance in revenue mobilization leading to the achievement of Rwf 204.9 billion against the target of Rwf 182.5 billion or 12.3% achievement over the target. It can be noted that the revenue to GDP ratio in 2006 accounted for 12.8%. It should be noted that RRA's revenue growth in recent years has been greater than the growth in the economy, amounting to almost half a percent of GDP per annum. The positive economic performance was mainly registered in the construction, manufacturing, services and export sectors that continued to show strong growth.

In collaboration with other government agencies like the National Police, the Army, the Local Authorities and good taxpayers, RRA efficiently mobilized taxes and duties; and prevented or intercepted tax evaders, smugglers and other malpractices that were aimed at eroding government revenue.

In partnership with the DFID, RRA continued the process of enhancing its computerization programs. ASYCUDA++ was rolled out to all major border posts and inland ports. SIGTAS, SAGE and PODESY software systems were improved and operated well in 2006 in the Domestic Taxes, Finance and Human Resources departments respectively. This improved services offered to the taxpayers.

We continued to strengthen our staff capacity. Focused courses were offered to RRA staff, policy manuals were developed, the RRA organisation structure was revised, audit activities were effectively planned and conducted and the business plan for 2006 was implemented and well monitored. These factors enabled focused investigations and enforcement that led to the recovery of substantial revenues and improvement in taxpayers' compliance.

In order to satisfy the requirements of our customers and other stakeholders, the Authority continued its campaign on taxpayers' sensitization. A partnership was built between RRA and

other agencies both public and private. This will be strengthened to reduce the overall collection costs.

During the year, RRA encountered some challenges. Among these, high energy prices affected business performance and necessitated Government subsidization on petroleum products. Poor record keeping especially amongst the medium and small taxpayers, in addition to low compliance levels persisted. Smuggling and other forms of tax evasion continued especially towards the end of the year. All these issues had a substantial negative impact on revenue performance.

The year 2007 will see much of our achievements attained in 2006 consolidated. Efforts will be geared towards achieving the set targets of Rwf 220 Billion, further strengthening our internal business and financial systems, developing a capable and effective organization through training and improving our services to customers and stakeholders.

As clear strategies have been designed, it is our conviction that RRA with the support from other positive thinking citizens especially the tax paying community will achieve and surpass the set targets. This clearly keeps us all on track as we all strive to contribute to lead our nation to economic independence.

Mary BAINE
Commissioner General

2.0 OVERVIEW OF THE ECONOMIC PERFORMANCE IN 2006

The financial year 2006 demonstrated improved performance for the Rwandan economy. GDP growth was significant, despite the effects of poor harvests in agriculture, the rising costs of petroleum products, foodstuffs, energy and the bad rains across the country. Ministry of Finance and Economic Planning (MINECOFIN) current estimates indicate that real Gross Domestic Product (GDP) grew by 6.4% between 2005 and 2006. However, this represents a decrease compared to a more significant growth of 7.3% registered in 2005.

The following table shows sector performance and a detailed analysis follows thereafter. GDP is presented in real terms and the period covered is 2002 - 2006.

Table 1 : Sector Performance 2002 – 2006, Figures in million Rwf

Sector	2002	2003	2004	2005	Growth rate 2005	2006	Growth rate 2006
GDP	755.3	756.6	795.1	853.0	7.3%	907.4	6.4%
Real GDP Growth	10%	0.2%	5.1%	7.3%	7.3%	6.4%	6.4%
Agriculture	318.3	303.5	303.8	318.5	4.8%	318.9	0.1%
Of which: Food crop	277.9	263.8	259.2	275.7	6.4%	271.5	-1.5%
Industry	110.4	113.7	127.8	136.8	7.0%	162.4	18.7%
Of which: Construction	46.0	49.8	59.3	63.9	7.8%	70.7	10.6%
Manufacturing	56.3	56.4	60.0	62.3	3.8%	76.5	22.8%
Mining	4.3	3.4	5.0	6.6	32.0%	8.3	25.8%
Services	345.2	360.9	389.3	424.9	9.1%	457.8	7.7%
Wholesale and retail trade	86.9	85.8	92.2	101.1	9.7%	108.1	6.9%
Transport and communication	47.5	47.5	53.1	58.8	10.7%	61.7	4.9%
Finance	107.5	117.8	125.8	138.2	9.9%	154.2	11.6%
Public Administration	105.1	109.7	118.3	126.9	7.3%	133.7	5.4%

Source: MINECOFIN

Agriculture performed poorly in 2006 with food crop production declining. This has severe implications for poverty reduction in Rwanda since close to 90 percent of the population depends on agriculture. Overall growth was driven by the industrial sector, in particular the buoyant construction activity, manufacturing, as well as strong receipts from the export and service sectors.

Real sector performance

The current estimates indicate that Rwanda's GDP grew by 6.4% between 2005 and 2006. Though this represents a substantial GDP performance for the year 2006, when compared with 2005 real GDP growth, there was a decline of 12.3%.

Substantial growth was precipitated by excellent performance of the industry sector where the growth rate in relative terms was about 18.7%. Mining and manufacturing triggered this performance by registering 25.8% and 22.8% respectively compared with the year 2005.

Services on the other hand registered a modest performance of about 7.7%. This modest performance was triggered by a decline in performance in wholesale and retail trade, transport, communication and public administration. Financial services performed significantly well by about 11.6%.

2.1 Agriculture

Food Crops

Food crop production performed poorly and registered a decline of 1.5 percent in value. This led to a production deficit of approximately 33,000 tones of cereal. The rainfall shortage caused the poor performance of agricultural produce across the country, farmers encountered difficulties related to the exhaustion of their plots of land that have been used over the decades. The efforts by the Ministry of Agriculture to increase productivity have been greatly hampered by inadequate resources and equipment to boost production and increase the growth in farm output.

Finally, agriculture in Rwanda like has other countries in the developing world remains vulnerable to the changes of nature, with a continued lack of adequate irrigation and water storage systems. Indicative of this is the late rains in 2005 which delayed planting of the 2006 Season A seeds and hence poor harvests. The striking variation in the performance of different crops within Season B illustrates the sensitivity of different harvests to a timely rainfall.

2.2 Industry

The industrial sector was the leading sector in economic performance in 2006 in terms of percentage performance. MINECOFIN's estimates suggest that overall growth in Rwanda's industrial sector was about 18.7 percent.

Mining

2006 saw a robust growth in the mining sub-sector of 25.8 percent due to huge growth in value and volume in spite of a negative growth of other mineral products like coltan and caste rite. An increase in wolfram exports was driven by the steady international prices which persisted in 2005 and 2006 thereby stimulating increment in domestic production. On the other hand, coltan and caste rite both registered a slight decline in prices in 2005 and 2006 hence accounting for the overall decrease in total exports in 2006.

Manufacturing

Rwanda's manufacturing sector registered strong growth in 2006. It accounted for 22.8 percent of the total growth in the industrial sector. The largest sub-sector was the manufacturing of food beverages. The production of beer and soft drinks increased by 36.2 and 23 percentage respectively.

Rwanda's producers of beer and soft drinks attribute this growth mainly to increased demand, owing in particular to a rise in money incomes in the population as a result of the expansion of microfinance and increase in revenues from the ongoing coffee and tea boom. The other important factor is that Bralirwa was granted a license to brew an additional alcoholic (Amstel) beverage. Another cited supply-side factor is that the Rwandan Franc has been relatively stable over 2006 making it easy to import raw materials from Europe with fewer price fluctuations. Manufacturers are predicting that 2007 will be another year of strong growth, particularly exports to East African countries especially Uganda, which are on increase.

Construction

The construction sector continued to show strong growth and registered a 10.6 percent of the total growth in the industrial sector. Big public and private construction projects in 2006 contributed to this growth. However, private dwellings of new houses especially around Kigali and other urban areas accounted for a large proportion of total construction. Supporting this growth were the increase in electricity production which increased by 37.5 percent after the importation of thermal generators and the growth in imports of construction materials, especially cement.

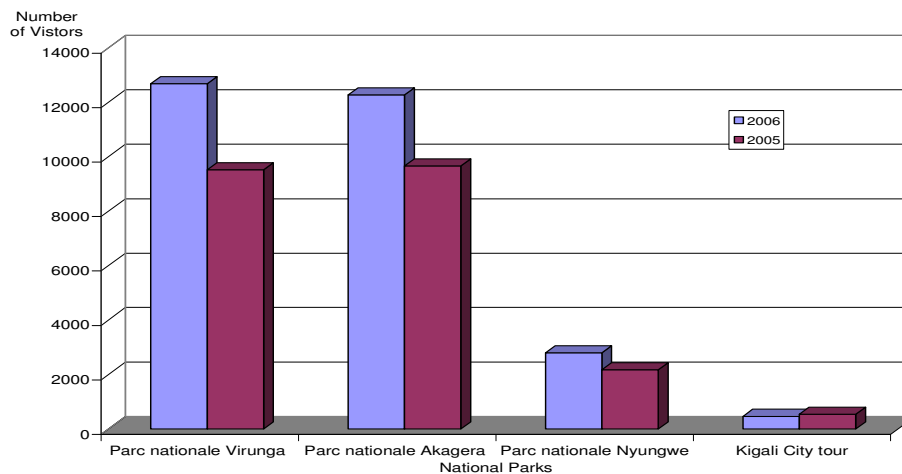
2.3 Service sector

The service sector had a modest growth of 7.7 percent in 2006. It should be noted that in value terms, this sector performed better than the industry sector. This growth was driven by finance and insurance, and the wholesale and retail trades. Developments in the ICT sector continue at a remarkable pace. In the internet sector, connectivity is expanding across Rwanda and connection speeds are improving with the laying of fiber optic cables.

Penetration of the mobile phone in the market also shows a steady increase. MTN has recorded high growth rates of above 40 percent in 2006 due to an increase in the customer base and usage.

The Tourism sector performed well in 2006 and the actual revenues far exceeded targets. This excellent performance was driven by an increase in the number of non resident visitors as compared to local visitors. This is positive for Rwanda's tourist promotion policy.

The graph on the next page shows the composition of tourists in 2005/2006.

Graph I – Number of visitors to National Parks

2.4 International trade

2.4.1 Exports

Rwanda's traditional exports increased significantly in the financial year 2006. Total exports amounted to US\$142.69 million. In comparison with 2005, exports increased by US\$17.64 million. This is 14.1% increase in relative terms. When expressed in Rwandese currency, it is 9.7 billion increase. This was a great improvement and if the trend continues, the balance of payment would gradually reduce.

Considering performance by each type of export, coffee contributed the greatest amount of foreign earnings amounting to US\$54.03 million which is 37.86% of total exports. Strategies to enhance and further boost production and improve the quality of coffee exports need to be enhanced significantly as it proved to be the most leading type of export over the years with an expanding market in the United States of America among other countries.

The increase in exports is further attributed to the favourable prices on the international market for the products and the increased production in 2006. However, this demonstrates Rwanda's continued dependence on a few commodities which face serious competition from other producing countries and the urgent need to encourage diversification. Detailed statistics on the performance of exports are shown in table 2 below on the next page.

Table 2: Trend of Exports 2002-2006 (Value in million USD)

Exports (fob)	2002	2003	2004	2005	2006
Coffee % of total	14.65 21.75%	15.01 23.71%	32.23 32.81%	38.27 30.60%	54.03 37.86%
Tea % of total	22.02 32.69%	22.52 35.58%	21.55 21.94%	24.38 19.50%	32.10 22.50%
Mineral products % of total exports	15.87 23.57%	11.09 17.52%	29.27 29.80%	37.30 29.83%	36.57 25.63%
Hides & Skins % of total exports	2.64 3.92%	3.78 5.97%	3.39 3.45%	4.73 3.79%	1.99 1.39%
Pyrethrum & Chincona % of total exports	1.05 1.56%	1.28 2.02%	0.65 0.66%	0.00 0.00%	1.92 1.35%
Other exports % of total exports	8.53 12.66%	9.37 14.80%	10.97 11.16%	20.29 16.23%	16.00 11.21%
Adjustments (electricity exports)	2.60	0.25	0.17	0.08	0.08
TOTAL fob	67.36	63.30	98.22	125.05	142.69

Source: BNR, Exchange and BOP Department

2.4.2 Imports

Imports increased by about 29.9% in the year 2006. Finished products and intermediate goods constituted 68% of the total imports. This explains lack of facilities to transform raw materials into intermediate or finished goods respectively.

Comparing the level of exports in relation to the level of imports, the country still has unfavourable balance of payment situation reaching 69%. The implication here is that Rwanda's imports far exceed her exports by about 69%. This is still a very big unfavourable balance of payment situation that is overstraining our domestic resources. It therefore needs concrete strategies to raise the level of exports to reduce significantly the balance of payment problem. Other imports also increased in comparison terms.

Table 3: Trend of Imports 2002-2006 (Value in millions of USD)

Imports (CIF)	2002	2003	2004	2005	2006
Capital goods	37.92	75.95	79.98	109.88	126.80
Intermediate goods	45.30	64.81	79.20	111.16	146.15
Energy products	37.89	53.39	68.64	78.16	114.06
Finished products	124.41	79.1	102.46	131.17	166.54
Adjustments	30.48	32.11	38.07	41.74	56.06
Total imports CIF	278.51	305.36	368.35	472.11	609.62
Fret & Insurance	74.36	76.28	92.01	117.93	149.53
Total imports fob	204.15	229.08	276.34	354.18	460.08

Source: BNR, Exchange and BOP Department.

The above table indicates that Rwanda's imports in all forms have experienced a steady growth. Finished products cover the largest part of this trend, capital and intermediate goods that are used in production continue to register a steady increase. This is a positive sign since these are destined for industrial development.

However, comparing our exports and imports, strategies are needed to check this significant continuous imbalance. On the fiscal side, trade taxes did not perform well due to high levels of exemptions granted to some finished goods and reduced rates applied on capital, intermediate and energy products.

3.0 OVERVIEW OF RRA's PERFORMANCE

Rwanda Revenue Authority since the year 2000, has been generating corporate plans annually. However, in the year 2005, the Authority found it necessary to implement Medium-Term Corporate Planning. This move came as a result of the fact that some projects would cut across several years before completion.

The first medium-term corporate plan covered the period 2006-2008. The Authority is still working within that three-year-period strategic direction. RRA's Strategic Goals for the said period are as follows:

- Maximization of the flow of revenues;
- Maintaining effective financial management systems;
- Maintaining Sound Internal Business Processes;
- Developing a capable and effective organization;
- Satisfying Customer and Stakeholders' Requirements.

This report is prepared along the above strategic goals.

4.0 MAXIMISATION OF FLOW OF REVENUES, FISCAL YEAR 2006

Revenue Performance in the fiscal year 2006 was significantly impressive. The total revenue target for the year amounted to Rwf **182.5** billion and the total revenue collected was Rwf **204.9** billion registering a surplus of Rwf **22.4** billion, which is **12.3%** above the target.

Total revenue performance between fiscal years 2005 and 2006 grew by **11.3%**. This is a significant improvement that is inline with the good economic performance registered in the economy and RRA's strategic approach to maximise the flow of revenues.

Details of revenue collections for the fiscal year 2006 together with the comparisons of collections made in the fiscal year 2005 are explained hereunder.

4.1 Fiscal Revenue Performance

In the fiscal year 2006, the total fiscal revenue performance amounted to Rwf **198.2** billion against the target of Rwf **176.6** billion. This is an achievement of **112.6%**. The total fiscal revenue excluding Treasury Credit Cheques amounted to Rwf **194.8** billion and this translates into **110.3%**.

The overall tax collection was good mainly due to some tax heads that performed substantially well and surpassed their targets significantly. Their detailed analysis is highlighted on the following page:

Direct taxes: The total direct taxes amounted to Rwf **64.6** billion against the target of Rwf **54.6** billion registering **118.5%** or Rwf **10.0** billion higher than the target set for the year. A Rwf **10.0** billion was the most significant over performance on direct taxes as a result of the government's salary reform policy that saw an increase in the wage bill in mid-year 2006 that shot up significantly the level of collection on PAYE. The review and implementation of the substantive income tax law which also reduced the level of tax bands from **5** to **3** supplemented this. This strategy taxed reasonably the higher income earners while subsidising the low income earners where the minimum threshold shifted from Rwf **15,000** to Rwf **30,000**. Also the efficiency gains from reforms in the Domestic Taxes Department.

There was also substantial improvement in enforcement actions and close monitoring of monthly returns specifically PAYE and profit taxes. It should be noted that the stringent actions against non-compliant corporate taxpayers were put in place and this resulted into reasonable collection of arrears.

Taxes on goods and services: These taxes registered a modest performance amounting to Rwf **96.2** billion against the target of Rwf **90.7** billion, which translates into **6.1%** above the target. This was attributed to the increase of more taxes from VAT and excise taxes that contributed Rwf **67.2** and **23.3** respectively and this constitutes Rwf **90.5** billion of the above tax head. Though these taxes exceeded their targets, there is a lot of room for improvement. Efforts will therefore be geared towards ensuring effective control of these.

Despite its modest performance in comparison to the other tax heads this type of tax contributed the greatest share of revenues to the overall collection which was **48.6%** of the entire collection.

Taxes on international trade: Overall performance for this type of tax was Rwf **30.4** billion against a target of Rwf **27.2** billion, which is **111.7%** achievement. This good performance was mainly attributed to a range of factors that included among others the stabilisation of oil prices in the world market towards the end of the year 2006. This increased tax revenues on the overall oil imports due to the fact that this product attracted more import duties.

Despite the good performance indicated above, different initiatives have impacted significantly on the level of import duties and these include the total ban on the right hand driven vehicles since May 2005.

The increase in the revenue foregone through exemptions due to the revised customs law, RIEPA, COMESA trade arrangement and others greatly reduced the level of revenues to the Government. These have impacted significantly on taxes and duties collected by customs but it is hoped that this will increase investment that will have gains in future.

Taxes on Electrogaz Fuel for Generators: This line underperformed by about **17.1%**. This poor performance was due to the increased subsidisation of fuel imports by the Government that affected import duty collections.

Another significant issue indicated by the table below was the great improvement in terms of reduced level of Government Treasury Credit cheques by about **68.8%**. That is, from Rwf **10.9** Bn in 2005 to only Rwf **3.4** Bn in 2006. This was attributed to the substantial improvement in the government budgeting in the year 2006 compared to the previous years.

Table 4 depicts the situation on the previous page.

Table 4: 2006 Revenue receipts against targets compared to 2005
(Value in Billion Rwf)

Revenue Instruments	Targets for fiscal year 2006	Revenue collections fiscal year 2006	Variance	% achievement	Revenue collections fiscal year' 2005	% 2006/2005
Total Revenues	182.5	204.9	22.4	112.3%	183.9	111.3%
Total Non Fiscal Revenues	5.9	6.7	0.8	113.5%	10.5	62.8%
Total Fiscal Revenues	176.6	198.2	21.6	112.2%	173.4	114.3%
<i>Direct Taxes</i>	<i>54.6</i>	<i>64.6</i>	<i>10.0</i>	<i>118.3%</i>	<i>50.7</i>	<i>127.4%</i>
<i>Taxes on Goods and Services</i>	<i>90.7</i>	<i>96.2</i>	<i>5.5</i>	<i>106.1%</i>	<i>82.9</i>	<i>116%</i>
<i>Taxes on International Trade</i>	<i>27.2</i>	<i>30.4</i>	<i>3.2</i>	<i>111.7%</i>	<i>27.8</i>	<i>109.3%</i>
<i>Taxes on Electrogaz Fuel for Generators</i>	<i>4.1</i>	<i>3.4</i>	<i>-0.7</i>	<i>82.9%</i>	<i>1.1</i>	<i>309%</i>
<i>Treasury Credit Cheques</i>	<i>-</i>	<i>3.4</i>	<i>3.4</i>	<i>-</i>	<i>10.9</i>	<i>31.2%</i>
<i>Transfers from caution money account to OTR</i>	<i>-</i>	<i>0.2</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

4.2 Comparison between 2006 and 2005 Fiscal Revenue Performance

In comparison with the year 2005, the fiscal revenue performance in 2006 was higher by Rwf **24.8** billion representing **14.3%** revenue growth between the two fiscal years. Overall detailed analysis reveals the following:

Direct taxes registered a satisfactory performance of about Rwf **13.9** billion in 2006 more than that collected in the fiscal year 2005 and this represents **27.4%** revenue growth between the two periods. This growth is attributed to the higher growth in the taxes from individuals particularly PAYE followed by corporate tax.

Increased efficiency in audit activities including the allocation of the audit functions into sector audits have significantly impacted on our policy of revenue maximization. Strong enforcement measures to recover the collectible arrears, a taxpayers' census and stringent recruitment and other strategies employed by the Authority greatly improved the revenue collection in the fiscal year 2006.

A comparison of taxes on goods and services between 2006 and 2005 indicates an increase in revenue growth of about Rwf **13.3** billion, which translates into **16%** growth. Many factors are responsible for this but the major ones include improved economic performance, effective and efficient administration of VAT particularly enforcement, good performance of some excisable products particularly beer and positive impact of inflation on revenues.

Revenue collection on taxes from international trade registered a modest growth between the two fiscal years. The growth rate between taxes on international trade over the two periods is **9.3%**. This was largely attributed to an increase in CIF value and volume of imports between the two periods and this was **18.5%** and **50.4%** respectively.

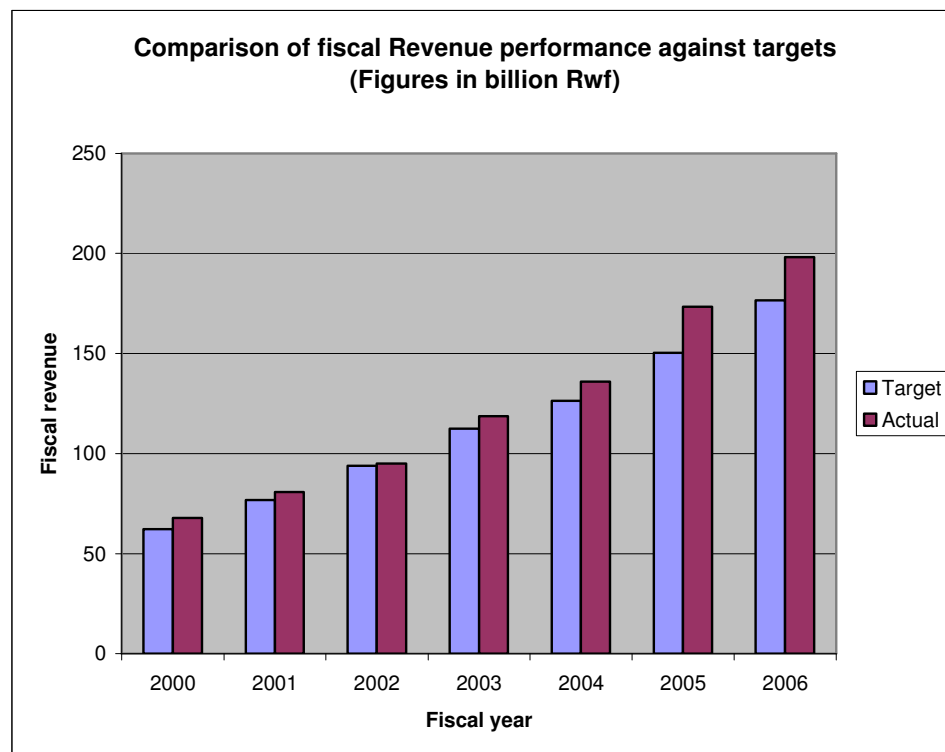
4.3 Actual revenue performance compared to the targets (2000-2006)

The following table illustrates the positive revenue collection performance registered by the Authority since the year 2000 to date as illustrated in the Table and Graph below:

Table 5: Actual fiscal revenue performance compared to targets (2000-2006)
(Value in billion Rwf)

<i>Fiscal Year</i>	2000	2001	2002	2003	2004	2005	2006
<i>Target</i>	62.3	76.8	93.9	112.4	126.3	150.3	176.6
<i>Actual</i>	67.9	80.7	95.0	118.7	136.0	173.4	198.2
<i>% achievement</i>	109%	105%	101%	106%	108%	115%	112.2%

Graph II: Comparison of actual fiscal revenue performance against targets, (2000 – 2006)



The trend has been rising steadily and the task ahead is how to sustain this performance. Strategies continue to be designed today to ensure that tax performance remains on course while tax burden is widely distributed.

4.4 Revenue Growth and Nominal GDP growth

It is evident that revenue performance since RRA's establishment has been improving. It is also important to compare growth in nominal GDP to growth in revenue over the period. Growth in the economy, under normal circumstances triggers a corresponding growth in revenues as long as there is efficiency and effectiveness in tax administration.

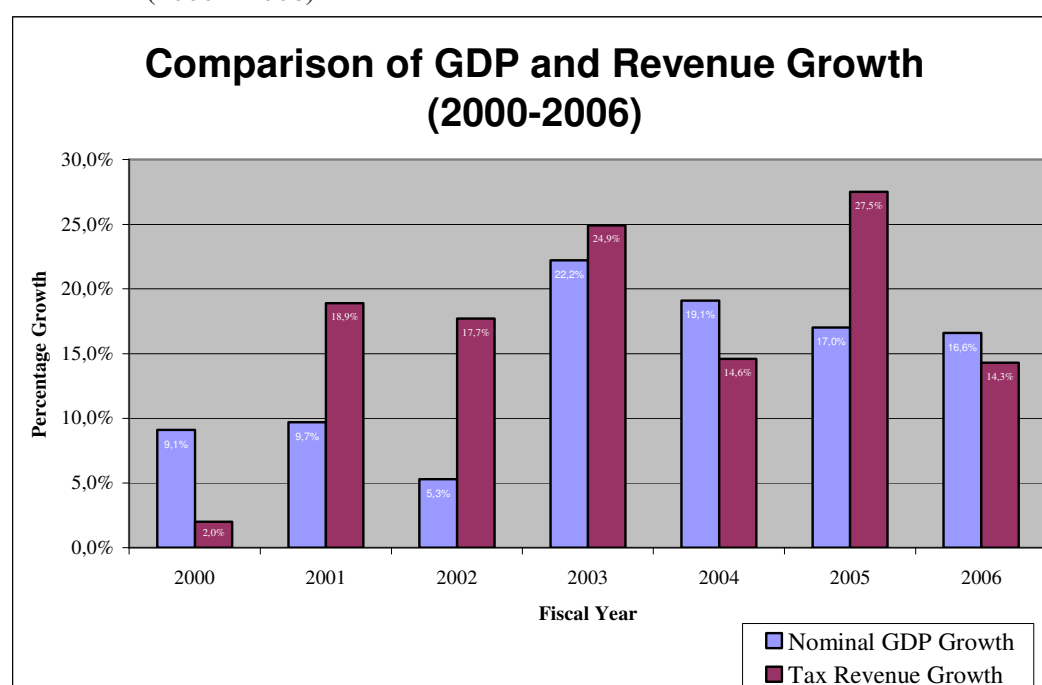
Table 6 and Graph III on the following page compare Nominal GDP growth to revenue growth since the year 2000. From the table and graph below, it is evident that the rate of revenue growth over the years has been higher compared to the Nominal GDP growth except in 2004 and 2006 respectively.

Table 6: Comparison of GDP and Revenue Growth

Period	2000	2001	2002	2003	2004	2005	2006
Rwf Bn							
Nominal GDP	676.1	741.9	781.5	955.2	1137.9	1331.6	1552.9
Total Tax Revenue	67.9	80.7	95.0	118.7	136.0	173.4	198.2
Tax Revenue / GDP ratio	10.0%	10.8%	12.1%	12.4%	11.9%	13.0%	12.8%
Nominal GDP Growth	9.1%	9.7%	5.3%	22.2%	19.1%	17.0%	16.6%
Tax Revenue Growth	2.0%	18.9%	17.7%	24.9%	14.6%	27.5%	14.3%
Annual inflation rate	2.1%	1.1%	-1.3%	11.7%	11.9%	9.1%	8.9%
Disparity between tax Revenue growth and Inflation	-0.1%	17.8%	16.4%	13.2%	2.7%	18.4%	5.4%

Source: MINECOFIN & RRA

Graph III: Comparison of Nominal GDP Growth to Revenue Growth (2000 – 2006)



It is noted that the 2006 Nominal GDP growth differs significantly with the revenue growth for the same period. The break down of this analysis is set out below:

The industrial sector performed significantly well compared to the other sectors in the economy despite its enormous level of exemptions. It should further be noted that most of the industrial inputs imported are eligible for exemptions and reduced tariff rates. These factors reduce the level of import duties and add value on the overall national output thereby increasing nominal GDP while lowering revenue growth.

On the other hand, communications and ICT equipment under the national ICT development initiatives are exempt from paying import duties but again contribute significantly to the growth of nominal GDP.

Agriculture contributed 35.1% of the overall GDP in the fiscal year 2007, industry 17.9% and services contributed the largest share of performance of about 50.5%. Despite a significant contribution to the overall economic performance, agricultural activities are exempt from tax payments. This explains why nominal GDP growth was significantly higher than the revenue growth in 2006.

Other factors that cause variance between nominal GDP and revenue growth include:

- The growing application of tax planning commonly associated with the complex multi national entities and firms that reduce taxable profits but which adds value on economic output;
- Informal sector operations which are hard-to-tax;
- Increased costs of production and high operating costs between wholesale and retail trade activities that reduce their profit margins thereby triggering low revenue collections but whose value addition is factored in, in nominal GDP compilation;
- Other fraudulent activities that impact on revenue collections such as smuggling but whose economic impact adds some value on the national output.

The above factors are the ones that explain the great divergence between GDP growth and Revenue growth ratios for the year 2006.

The growth in tax revenue growth between two periods decreased by about 52% (i.e. from 27.5% in 2005 to 14.3% in 2006) and the main factor attributable to this tendency is that there was a huge volume of government imports in 2005 especially the importation of vehicles for the senior government officials that increased the import duty performance of about Rwf 10.9 Bn.

4.5 Comparison of revenue growth rate and inflation rate in 2006

Obviously, revenue collected by the RRA is affected by the inflationary tendencies in the economy which is why a comparison between two aspects is drawn. This analysis is done to try and see the impact that inflationary tendencies have on revenue collected during the year 2006. However, it is interesting to note that the parity between revenue growth and inflation growth differs in 2006 by 5.4% compared to that of the previous year of 18.4%.

Real revenue collected before factoring in inflationary tendencies for the year amounted to Rwf 182.8 Bn against a target of Rwf 176.6 Bn registering a surplus of Rwf 6.2 Bn or 3.5%. It is important to note that even if we factor in inflation, the authority still achieves its stated goals and objectives for the period under consideration.

4.6 Contribution of fiscal revenue performance by major types of tax; 2000 – 2006

Graph IV below shows the percentage of revenue contribution by type of tax. As evident from the Graph, Taxes on Goods and Services contributed **48.6%** of total tax revenues in the year 2006. Taxes on Goods and Services have contributed a similar share in the past seven years. This highlights the important role played by this tax head and indicates the growing shift from reliance on taxes on international trade to domestic taxes, which is internationally commendable.

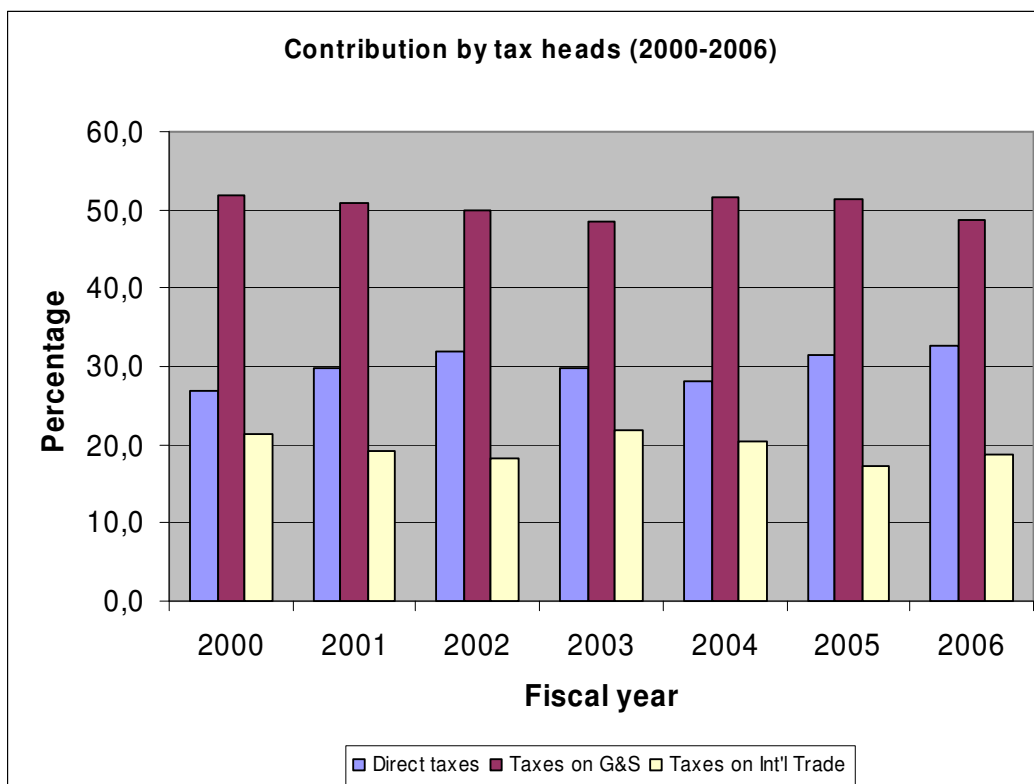
Furthermore, this indicates the value that the Rwandan Government attaches to regional integration commitments because part of the reasons for the decline in international trade taxes is due to effects of preferential import duty rates on products originating from COMESA member countries.

The Graph also shows the growing importance of direct taxes which also contributed about **32.6%** of the total tax revenues in the year 2006. This further indicates the improvement in the effectiveness of the tax administration through enforcement and audit activities coupled with improvement in taxpayer identification, registration and education.

Taxes on international trade contributed about **18.8%** of the total tax revenues for the year 2006. This is mainly attributed to substantial decline in import duties collected from goods originating from COMESA Member States as such goods enjoy preferential treatment hence little or no import duties are collected on the said products.

The implication is that policy and strong administration efforts must be strengthened along the domestic taxes that have showed strong performance. The following graph shows tax heads performance for the period 2000 – 2006.

Graph IV: Contribution by tax heads; 2000 – 2006



4.7 Contribution by departments

The year 2006 was a year of fundamental reforms. The former Large Taxpayers' Department and Internal Revenue Department structure responsible for the domestic tax mobilization were merged into one functional Domestic Taxes Department. The principal reason for this restructuring came as a result of IMF mission request in collaboration with the Ministry of Finance and Economic Planning and RRA Board of Directors to eliminate the duplication of functions exhibited in both departments such as audit, legal and enforcement functions.

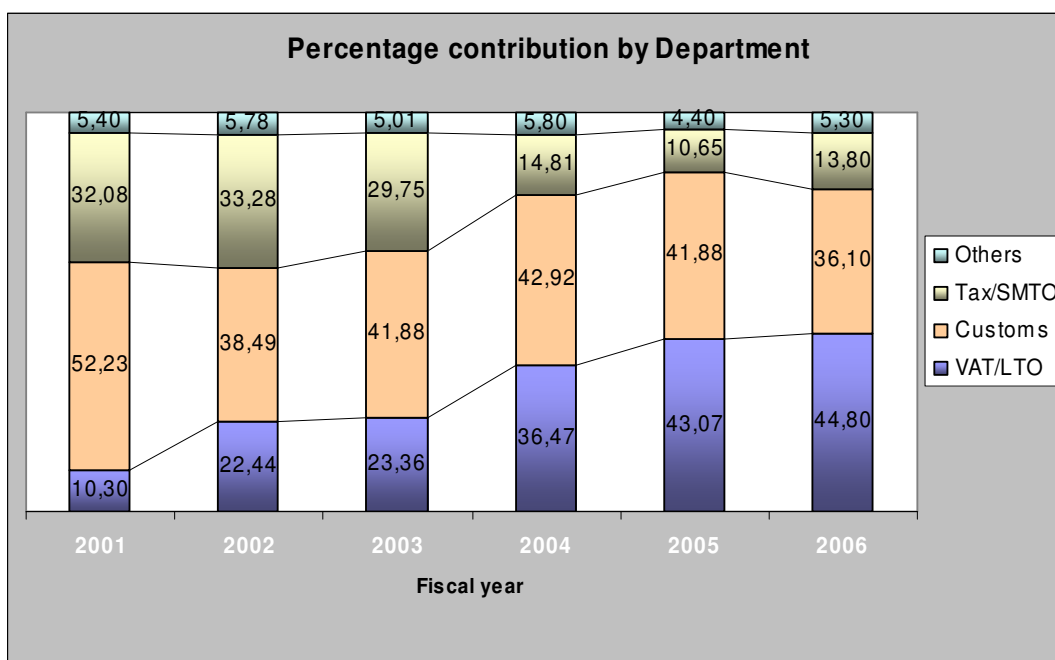
On the other hand, this restructuring was part of the RRA continuous modernization endeavours that led to the establishment of the new functional structure renamed as Large Taxpayers Office (LTO) and Small and Medium taxpayers' office (SMTO).

Previously, the Customs Department has contributed the biggest share of revenues. However, following the establishment of Domestic Taxes Department, the norm has reversed.

It can be said that the decline in revenues from international trade taxes indicates heavy reliance on domestic revenue mobilization and this is significantly supportive in macro economic considerations.

The departmental contribution towards the overall revenue collection is indicated below. Large Taxpayers office contributed **44.8%**, Customs Department **36.1%**, Small and Medium Taxpayers Office **13.8%** while others including MAGERWA and Road Fund contributed about **5.3%** as shown in the graph below.

Graph V: Departmental contribution; 2001 –2006



4.8 Non-Fiscal Revenue Performance

Non-fiscal revenue performance for the fiscal year 2006 was significantly good. In particular, revenues from public property assets, fines and fees as well as collections from administrative fees were good and these performed at **72.5%**, **62.1%** and **41.6%** above their targets respectively. Poor performance is evident on the sale proceeds of the formerly government owned vehicles which fell short of its target by about **40%**. This is due to the fact that most of those vehicles were sold in 2005. The table below highlights the achievement.

Table 7: Performance of Non Fiscal Revenue (Value in Millions Rwf)

Description	Target 2006	Actual receipts 2006	% ge achieved 2006	Actual 2005	%ge of revenue growth 2006/2005
Fines and Fees	423.6	686.7	162.1%	582.2	117.9%
Revenue from Public Property and assets	455.3	785.3	172.5%	1,306.0	60.1%
Proceeds from sale of Government vehicles	2,400.0	1,449.8	60%	5,521.2	26.3%
Administrative Fees	2,662.6	3,772.1	141.6%	3,055.7	123.4%
Total	5,941.5	6,693.9	112.6%	10,465.1	63.9%

As seen from the above table, the non-fiscal revenue performance for the year 2006 was significantly less than that in 2005 by **63.9%**. This decrease resulted from lower sale proceeds from government vehicles.

5.0 RRA FINANCE AND EXPENDITURE OUTTURN 2006

The total expenditure in the fiscal year 2006 was largely in compliance with the resource envelope. The total budget was Rwf **7.00** billion and the total receipts by RRA were Rwf **7.3** billion. Total actual expenditure before including other outstanding obligations amounted to Rwf **6.99** billion. End year commitments amounted to Rwf **295.5** million. This left RRA with a positive balance of Rwf **10.1** million.

Sources of Funds available in 2006 (Value in Rwf)

During the year 2006, the RRA financial resources rose to Rwf **7.302** billion. This comprised of the statutory RRA retention of **2.6%** of revenue collected, funds from donor support, contributions from stakeholders as well as replacement fees and others. The **2.6%** retention contributed **66.7%** of the total financial resources that were available in the year 2006. The detailed sources of finance for the year 2006 are shown in table 9 below:

Table 9: Sources of funds available in 2006 (Value in Rwf)

SOURCE	AMOUNT
Grant from DFID	494,934,557
Replacement fees	577,727,549
Road maintenance fund	44,409,529
Contribution from MAGERWA	10,000,000
Other transfer from Government	1,306,085,757
RRA 2.6% Retention	4,869,048,239
Total Income	7,302,205,631

From the table above, it is evident that 2.6% RRA retention contributed a very significant portion of the financial resources available in 2006 by about 67% and 69.6% of what was our initial budget for 2006.

The details of the expenditure in the year 2006 are shown in table 8 below.

Table 8: Total RRA Expenditure in 2006 (Value in Million Rwf)

Expenses	Budget 2006	Actual 2006	Variance	%
Total Personnel Expenses	5,071.59	4,707.19	364.40	92.8%
Total Staff welfare	9.70	11.56	-1.86	119.2%
Total travel and Subsistence	70.41	112.86	-42.45	160.0%
Total transport expenses	220.07	208.52	11.55	94.8%
Total maintenance and repairs costs	103.02	104.61	-1.59	101.5%
Total office supplies	495.81	503.48	-7.67	101.5%
Utilities	243.55	314.99	-71.44	129.3%
Audit & Investigations expenses	15.24	29.40	-14.16	192.9%
Total taxpayer Education expenses	104.21	99.11	5.10	95.1%
Total staff training expenses	210.17	235.01	-24.84	111.8%
Total Finance fees	8.70	3.43	5.27	39.4%
Total professional fees	187.07	195.31	-8.24	104.4%
Total Board expenses	5.60	2.04	3.56	36.4%
1. Total recurrent expenditure	6,745.14	6,527.51	217.63	96.8%
2. Total Capital Expenditure	261.32	469.16	-207.84	179.5%
Grand Total	7,006.46	6,996.67	9.79	99.9%

If one compares the actual expenditure and payments due to suppliers and RRA commitments relating to the year 2006 expenses exceeded the initial budget but this gap was closed by receipts that exceeded the budget. This implies that RRA's initial budget and expenses for the year 2006 had been underestimated.

Even though RRA registered a saving, it is important to note that some expenses surpassed the budget and these include:

Total travel and Subsistence

Overspending under this budget line significantly exceeded its budget by about **60%** and the cause for this spending is associated with expenses incurred in the process of Rwanda's accession to the East African Community where RRA staff played a pivotal role in the Customs Union negotiations.

Utilities

The rent paid on the use of SMTO and LTO offices in the second half of the fiscal year 2006 had not been budgeted for as it was expected that these departments would shift to the new RRA building in July 2006 and hiring of a generator for headquarter led to overspending on this line item.

Audit & Investigations expenses

Overspending of about **92.9%** was mainly due to insufficient budget provided on this budget item. There are increased cases of forgery as we try to implement computerized systems. This calls for vigorous intelligence and investigations to counteract these practices making our expenditure on this line increase.

Total staff training expenses

This overspending was mainly attributed to the induction trainings and refresher course trainings granted to RRA staff on the substantive income tax law and customs law and procedures after the significant reform of the two.

Capital expenditure

Overspending of about **79.5%** was due to office equipment bought for new staff and RRA's contribution to the staff Laptop project that increased in value exceeding what had originally been budgeted for.

Comparing revenue collection to costs incurred towards fulfillment of the Authority's objectives, the collection-cost ratio was **3.4%** which is higher than RRA's retention of **2.6%** by about **0.8%**.

6.0 OTHER ACHIEVEMENTS MADE DURING THE YEAR 2006

RRA undertook various administrative measures in the fiscal year 2006 aimed at streamlining revenue collections and providing courteous services to all stakeholders and to ensure that the corporate objectives of the organization are achieved. Most of these are continuous and are intended to direct the organization towards attaining maximum efficiency. Below are some of the major activities that were pursued in the fiscal year 2006.

6.1 Maximizing Revenue Collection

6.1.1 Board of Directors activities

The Board of Directors was very participative in all the achievements mentioned above. The Board of Directors responsively supported the formulation and implementation of RRA policies and the key areas of intervention during the year included:

- The internal recruitment of Commissioner for Internal Revenue Department, Commissioner for Domestic Taxes Department, Deputy Commissioners for Large Taxpayers Office and Small and Medium Taxpayers Office, Director of Planning and Research, Director of Taxpayers Services, Director of Human Resources and Administration and Director of Finance;
- The approval of RRA restructuring which merged the former Large Taxpayers and Internal Revenue Departments into a single Domestic Taxes Department and separated Legal and Taxpayers Departments into two departments;
- The approval of RRA annual report for the year 2005;
- The approval of RRA financial statements for financial year 2005;
- The approval of the 2007 RRA annual budget submitted to MINECOFIN;
- The approval of salary for Deputy Commissioners;
- The approval of the three quarters performance reports for 2006;
- Continuous guidance as far as RRA operations is concerned.

6.1.2 Audit activities

During the year 2006, audit teams were successfully managed in the Domestic Taxes department. Audits were conducted on the basis of a risk based audit approach and a wide variety of audits were performed. In 2006 LTO-audit plan reflected **240** ordinary audit cases to be handled and the department handled **399** cases which is **66.2%** performance above the target.

The establishment of sector specialization has enabled auditors to fully understand sector operations and this has greatly helped in better planning before commencement of the audits. In 2006, SMTO - audit plan reflected **480** ordinary audit cases to be handled and only **380** cases were handled missing the target by about **20.9%**. This was as a result of old cases carried forward into 2006 from previous years.

Efficiency in auditing was also improved by adopting issue oriented audits especially in the Large Taxpayers' Office while Post-clearance auditing was stepped up at Customs to support expedited clearance.

6.1.3 Enforcement operations

The general objective of enforcement is to maximize voluntary compliance by taking appropriate action to obtain overdue arrears of revenues besides pursuing defaulters.

The total annual revenues from enforcement in 2006 amounted to Rwf **4,863.0** million against a target of Rwf **3,445.5** million registering a surplus of about Rwf **1,417.5** million that is **41.1%** above the target.

6.1.4 Preventing, detecting and investigating tax evasion and smuggling

In 2006, there was a remarkable increase on the revenue recovered due to vigilant anti-smuggling activities throughout the country and special VAT operations basically done in Kigali City.

28 investigation cases were finalized with a total assessment of Rwf **3.222** billion. Many seizures of fraudulent cases led to recovery of taxes that would have otherwise been evaded and **22** cases were prosecuted. The total recoveries made during 2006 amounted to Rwf **414.197** million. The main source of smuggled goods into the country are DRC, Uganda, Tanzania and Burundi, this is why the former Gisenyi, Ruhengeri, Kibungo, Byumba and Umutara are high risk areas. Kigali City is the major market for smuggled goods.

6.1.5 Taxpayers' recruitment

In 2006, RRA registered **2,887** new taxpayers of which **27** in VAT system and **2,267** in both PAYE and Income Tax accounts. By the end of the year, VAT taxpayers were **2,637**, PAYE taxpayers were **4,495** and Income taxpayers were **4,025**.

During the year 2006, **2** additional taxpayers were transferred from SMTO to LTO making the number totaling to **284** while one taxpayer was transferred from LTO to SMTO. Among these taxpayers, 281 are subject to PAYE, 225 to Profit tax and 228 are liable to VAT and 8 pay Excise duties.

2,718 new motor vehicles, **3,198** new motor cycles and **198** old ones were registered.

6.2 Maintaining effective financial management systems

In 2006, RRA carried out a number of activities that were geared towards maximizing revenue collection and controlling the organization's expenditure so as to collect revenues at the minimum possible cost.

Revenue collections were reconciled with the Ministry of Finance and Economic Planning receipts whenever collected by the revenue departments and revenue performance reports were produced on a weekly and monthly basis so as to provide management and other stakeholders with the information required for various purposes.

RRA ensured that all the revenues collected were transferred to the national treasury by reconciling between the transfers claimed as transferred by commercial banks and the actual transfers as found in the Central Bank ensuring that transfers from commercial banks were made in the set timeframe.

Budget preparation for the year 2007 was finalized in 2006. RRA worked hand in hand with MINECOFIN to provide explanations whenever it was necessary, so as to have the budget approved. Out of a budget of Rwf 8.173 billion, only Rwf 7.487 billion was approved as a contribution from the National Budget, implying that for RRA to achieve its objectives and priorities for the fiscal year 2007, it requires to identify some other sources of funds to bridge the gap.

2005 Financial Statements were prepared, presented and approved by the Board of Directors in August 2006.

Finally, RRA carried out regular activities of preparing payments to suppliers, management of the 2.6% retention exercise, refunding of the VAT and Caution Money refund claimed.

6.3 Maintaining Sound Internal Business Processes

6.3.1 Internal audit

Internal audit is an independent activity with an objective that gives assurance to the Minister of Finance and Economic Planning, the Board of Directors and the Senior Management of Rwanda Revenue Authority on the internal controls of its operations, provides advice for improvement and contributes to the creation of added value.

Therefore, the paramount role of the internal audit is the assessment of effectiveness and efficiency of the RRA internal controls.

In 2006, **20** internal audit activities were conducted and finalized against a target of **18** internal audit assignments that had been planned making **111.1%** achievement. Additionally **142** recommendations had been raised and **87** of them were implemented leading to **61.3%**. On the other hand, **5** quality audit assignments against **6** planned were finalized which registered **83.3%** of achievement.

6.3.2 RRA Business Plan and monitoring process

RRA is an institution guided by corporate and business plans to objectively attain its pre-determined goals, aims and strategies. It is against this background that the 2007 RRA Business Plan was successfully prepared and completed in 2006 and is now being implemented.

RRA also continued to implement and monitor the 2006 business plan and evaluation of its effectiveness was done on a monthly and quarterly basis.

6.3.3 Review of Processes and Procedures

RRA continued to develop different policy manuals and guidelines aimed at harmonizing our internal processes and procedures. In this respect, different activities were accomplished through RRA's operational policy unit and these were:

Tax Audit manual, Registration guide, Customs examination manual, Internal appeals instructions, Commissioner General's instruction on **3%** withholding tax and rectification of **5%** customs withholding tax, Voluntary disclosure, Commissioner General's rules on the publication of tax defaulters and Key Performance Indicators.

6.3.4 Trade facilitation through computerization of our systems

The Authority continued to strengthen the computerization process through enhancing the existing systems and developing new ones:

Throughout the year 2006, the Authority had taken a lot of computerization projects across major functional lines throughout the country. These were aimed at increasing efficiency by reducing complex business procedures. It is therefore in this context that the roll out of the ASYCUDA++ on remaining customs border posts was successfully implemented. Currently Asycuda++ is operational on all our major entry points i.e. Gatuna, Kagitumba, Rusumo, Kanyaru Haut, Rusizi I & II, Gisenyi Corniche and Butare.

SIGTAS operates well in Domestic Taxes Department and PEODES, an HR software is also operational. In addition, RRA in support of minimization of costs designed and implemented an Electronic document management system which has reduced substantially the amount of paper previously used to transmit internally generated information to numerous recipients in the organization.

6.4 Developing a Capable and Effective Organization

6.4.1 Internal restructuring and re-organizations

In a bid to harmonize our systems and improve our services to taxpayers, RRA in 2006 merged the former Large Taxpayers and Internal Revenue Departments into a single Domestic Taxes Department. At the same time, the Legal and Taxpayers Departments were separated and are now two separate departments with the aim of rejuvenating the taxpayers department to improve its primary role of educating taxpayers.

On the other hand, RRA established an operational policy unit under the Planning and Research department to review and re-design processes and procedures by drafting policy manual guidelines and templates with a view to promote efficiency and effectiveness along all operational functions.

RRA's new regional structure was established in tandem with the newly established local government structures. This was in a bid to give more strength to the provincial tax administration and significantly reduce unnecessary expenditure associated with their routine functions. Indeed, the move to implement this was successful and tax administrative units in provinces are doing well. However, RRA will continue to build their capacities through trainings and work hard to improve services in provinces.

6.4.2 Staff recruitment

From January to December 2006, **168** officers were successfully recruited by the Human Resources and Administration Department in order to fill vacant positions within different departments as follows: **143** revenue auditors and customs officers, **1** estate assistant, **1** intelligence officer, **18** IT/IS officers and **5** legal officers.

6.4.3 Staff promotion

During the year 2006, **78** RRA employees were promoted to higher grades in order to fill vacant positions within different departments. All promotions were done in accordance with the Terms and Conditions of RRA's staff and internal processes and procedures.

6.4.4 Staff discipline

46 staff indiscipline cases were identified in the course of the year 2006 and **42** cases were concluded while **4** are still under investigation.

- **18** cases show that the officers involved were suspected to be corrupt, and were associated in the move to assist some taxpayers to evade and avoid taxes and duties.
- **1** got involved in an embezzlement case.
- **18** cases were of a gross misconduct nature through different from corruption tendencies.
- **1** case relates to an officer who accumulated wealth in an unjustifiable way.
- **6** were charged against serious misconduct due to negligence that caused loss of revenue and / or tarnished RRA's image.
- **2** cases referred to minor misconducts.

The concluded cases involved **48** employees, **23** were dismissed, **10** officers were acquitted after being found not guilty, **6** employees received last written warnings, **3** received first written warnings and **6** were given oral warnings.

6.4.5 Staff welfare

In 2006, RRA carried out some activities in as far as staff welfare was concerned. The major ones are:

- In August 2006, RRA implemented the monthly bonus payment for its staff as given by Government;
- RRA facilitated **143** officers to acquire loans from different banks;
- RRA discussed with MIFOTRA the new RRA salary classification for harmonization on a national level and subsequent salary levels were established

6.4.6 Enhancing Staff Capacity

During the year 2006, **16** training programs were carried out internally, while **2** major programs that involved SATI and CATA courses were external. **10** staff benefited from external courses while **500** staff benefited from the courses conducted locally. All these were aimed at enhancing employee skills and effectiveness towards achieving institutional goals and providing excellent services to the public.

The courses delivered locally include induction courses for new staff, training of trainers, advanced internal auditing techniques, IT auditing techniques, Information Technology in Revenue Administration, Risk management, Customer care, Career Path management, RRA corporate antivirus solution, training on the avoidance of double taxation agreements, refresher course on new tax and customs laws, refresher course on HR software.

26 officers are enrolled on the ACCA programme as part of a strategy to greatly increase the accountancy capability of RRA and they are continuing with this training.

RRA carried out a skills inventory exercise throughout the whole organization and subsequently consolidated training needs have been used as basis for the training plan for 2007.

RRA also carried out preparatory activities to establish the RRA Training Centre. Among the preparatory activities that were required for the establishment of the RRA Training Centre was to write a concept paper of the Centre, make a write up of all equipment and materials required at the Centre, and fulfill requirements for accreditation of the Centre by the Ministry of Education.

A draft concept paper was developed and is awaiting approval. A list of equipment and materials required for smooth running of the institute was prepared and procurement of some of these was done in 2006. The requirements of the Ministry of Education for the centre to be accredited include Legal documents establishing the centre, title deed, and the concept paper. It should be noted that all documents required by the Ministry were drafted.

6.4.7 Infrastructure Development

Construction work at the RRA complex continued. Considerable effort was put into the preparation of a detailed spatial analysis and revised layouts for all the agencies that will occupy the new RRA complex. In addition, a detailed furniture tender and bill of quantities was prepared and an international tender was issued.

Completion and occupation of RRA Complex is scheduled for June 2007. As the next phase is the furnishing level, we commenced the preparations for the seamless transfer of RRA systems to the new building.

RRA Tax Training Centre construction was completed as scheduled. The provisional handover of works was held in December 2006. All preliminary preparations for the establishment of the RRA Training Centre were made and by end of 2006 all preparations for inaugurating the Centre are at an advanced stage.

The rehabilitation of border posts for accommodation of Asycuda ++ was completed and the new RRA offices in the provinces were established and rehabilitated at NYAMATA, NYANZA and RUHANGO. The construction and rehabilitation of RRA offices commenced and is in progress at Kabuhanga and Rubavu in the Western region. The RPD premises were rehabilitated and finally the installation of generators to supplement the shortage of electricity power supply was done at different borders and main offices with funding from the DFID.

6.5 Satisfying Customer and Stake Holder's Requirements

6.5.1 Enhancing the quality of customers and stakeholders requirements

Services we offer to our customers have been greatly improved and in particular, RRA greatly reduced the time spent in serving customers. RRA boosted provincial offices and increased their mandate to provide most services available at the Head office. Similarly, RRA established a new outstations structure in tandem with the newly established local government structures for better accessibility and efficiency.

Separation of functions and duties between Legal and Taxpayers Departments have impacted positively in responding to the taxpayer's queries. Informative leaflets were prepared and issued to taxpayers, delays in the appeals process have been reduced to a minimum and further strategies to significantly polish services to taxpayers continue to be developed.

SMTO operations were enhanced to resolve the problem of long queues during peak periods; taxpayers' transaction costs have also been reduced as a result of relocating the number plate issuance office to Customs department from SMTO.

Taxpayers' education continued especially on the new tax law with emphasis on PAYE and profit tax and on the new customs law with a view to enhance compliance. RRA also continued to avail relevant information to all our stakeholders as well as regularly upgrading the website with a view to making our operations widely accessible.

6.5.2 Evaluation and registration of competent customs clearing agencies

The exercise to evaluate the operations of customs clearing agencies aimed at evaluating their effectiveness and subsequent registration of competent agencies was successfully done in 2006. This will not only improve service delivery between the customs administration and taxpayers but will also reduce inefficiencies and significantly improve their day to day operations. Out of **104** clearing agencies that applied, **88** met the criteria and were registered to operate in 2007.

6.5.3 Review of Legal Instruments

The income tax law and law on tax procedures took effect from January 2006. The implementation has begun successfully. Since its implementation, the application of the laws was monitored in order to identify any areas of difficulty that may require legislative amendment or elaboration through Commissioner General's rules. The findings were documented and a preliminary list was made available.

The following laws were also prepared and completed:

- Law n° 54/2006 modifying and completing law n° 21/2006 of 28/04/2006 establishing the Customs system;
- Law n° 55/2006 of 31/12/2006 completing law n° 25/2005 of 04/12/2005 on tax procedures (Voluntary disclosure);
- Law n° 56/2006 of 27/05/2006 modifying the law n° 26/2006 of 27/05/2006 determining and establishing consumption tax on some imported and locally manufactured products.

Work on the subsidiary legislations (both for income tax and customs laws) was completed in 2006 at RRA level. They have since been gazetted.

The revised Customs law was published and implemented since July 2006. The process of working on the subsidiary legislation was initiated in 2006 and continues. The task ahead is to harmonize Rwanda's Customs Law with the EAC Customs Management Act and other related instruments. Also the law establishing RRA is under review by Parliament to harmonize it with other public institutions' laws where relevant.

It should be noted here, that the year 2006 saw a substantial increase in the number of appeals as a result of the law that puts the burden of resolution on the tax administration, to provide a response to the taxpayer. This encouraged many taxpayers to appeal and in 2006, a total number of 155 cases were handled. Additionally, a backlog of cases that were inherited from previous years was conducted – from 1,400 audits, and 144 remained by December 2006.

6.5.4 Improving Cooperation with Regional and International Bodies

In the fiscal year 2006, RRA continued to develop and enhance good working relations with Regional and International Bodies. RRA with other stakeholders hosted a number of forums and workshops such as the World Customs Organization Heads of Customs Conference for Eastern and Southern Africa for the 22 member countries.

RRA also hosted a regional IT workshop on “Integrated Tax Administration Systems” that was sponsored by IMF EAST AFRITAC. All Revenue Authorities that participated in this workshop have registered their appreciation on the importance of this workshop. RRA hosted the East African Revenue Authorities Technical Committee meeting and actively participated in Technical Committee and Commissioners General meetings of the East African Revenue Authorities.

RRA participated in the Northern Corridor Stakeholders Consultative Forum and Commissioners General meeting held in Kampala and participated in a number of regional and international meetings organized by among others COMESA, WTO and WCO.

RRA hosted delegations from Ghana, Tanzania and Malawi Revenue Authorities to learn how RRA had undergone through its computerization strategy to improve its service delivery functions.

In April 2006, the RRA team visited Irish and Dutch tax administrations and the International Bureau for Fiscal Documentation with a view to strengthen bilateral relations and important ideas were drawn from such discussions.

The IMF East AFRITAC sourced an advisor from the Irish Revenue Commissioners to help RRA in building capacity in the establishment of operations policy unit. The advisor visited Rwanda in April and June 2006. In May 2006, an RRA team from the OPU visited Dublin to carry out a practical study on how an Operational Policy Unit works in Ireland and what the linkages are between this unit and the operational departments. Very good links now exist between RRA and the Irish Revenue Commissioners.

Rwanda was admitted to the East African Community (EAC) in November 2006 and RRA was actively involved in the preparations for Rwanda’s admission. Following assistance provided by the IMF East AFRITAC in February 2006, a permanent team to prepare for Rwanda’s accession and entry to the Customs Union was formed at that time. Work done includes identification of areas for negotiating transitional arrangements, and compilation of a list of sensitive items for which Rwanda would seek transitional protection. The timely formation of the EAC desk in RRA helped guide the negotiation team on matters related to customs operations.

6.5.5 Donor Support

The RRA has since its inception received significant technical and financial support from the UK Department for International Development [DFID] through its various phases.

In August 2006, the DFID independent review team assessed the performance of RRA/DFID phase V project. The team noted that overall, the program of support was on track and this formed the basis to extend the project support until February 2007.

During the year 2006, enormous progress was made in the areas of computerization and training with a total disbursement made during the year of Rwf 466.956 million. DFID also committed its support of about Rwf **2.5** Billion to the outfitting of the RRA Complex and the possibility of extending further support to RRA in subsequent years is under consideration.

7.0 MAJOR CONSTRAINTS ENCOUNTERED IN 2006

Despite the achievements and impressive revenue performance during the year 2006, the Authority continued to face some challenges including but not limited to the ones listed below:

7.1 External and internal economic shocks

The Rwandan economy is still recovering and taxes collected are an indication of how the economy is doing. Despite the achievement of our targets, there were a number of internal and external shocks to the economy particularly fluctuating petroleum products prices on the international market, and the continuous decline of power production. These major elements have significantly affected performance of business entities in the country by incurring high production and transaction costs which eventually affected their pricing policies and reduces their profits.

The reduction in profit margins of these entities has had a corresponding effect on revenue collection.

7.2 Continued growth of informal sector and changing of physical addresses by some taxpayers

The size of the informal sector is still big and growing. This jeopardizes revenue collections in many aspects. First, business activities in this sector are not captured in the tax net and therefore have no yields; this puts the entire tax burden on the few compliant taxpayers in the formal sector. The existence of an uncontrolled informal sector discourages tax compliance and makes it more attractive and a shelter for delinquent taxpayers.

The informal sector survey that started in August 2006 with the support of the World Bank and in collaboration with MINECOFIN, MINICOM and the Private Sector Federation lays hope to provide the baseline to address this problem.

7.3 Poor record keeping culture among some taxpayers

Some business players have not yet conceived the great importance of proper invoicing / recording of their transactions. This business activity not only helps RRA to track all transactions and events that took place under the year of audit but it also helps them to account for their business performances. Revenues collected under these types of businesses are significantly low and costs of compliance continue to increase. This is illustrated by the substantive revenues from audits and subsequent rigorous enforcement.

7.4 Smuggling and other forms of tax evasion and avoidance.

There has been significant reduction in smuggling countrywide as a result of strict law enforcement and cooperation from stakeholders. However, smuggling of goods from neighboring countries has continued to surface in districts bordering Uganda and DRC due to the porous nature of the borderline. Other methods of smuggling and tax evasion are also being employed by the business community including non-issuance of VAT invoices and forging of certificates of origin and invoices on imported goods.

Creative accounting under multi-national corporations and firms has also impacted on revenue collections with some business entities declaring losses. These may or may not be real losses because taxpayers may inflate their transaction costs and affect substantially the level of their taxable profits hence low revenues declared in the process of transfer pricing.

RRA continues to train its staff in such areas and strengthen its partnership with local authorities and security organs to combat smuggling and tax evasion of any kind.

7.5 Fighting corruption both from within our agents and in the taxpayer community.

RRA like any other institution that is charged with corporate governance issues continues to adhere to its culture of zero tolerance to corruption among its staff and the public. All staff and the general public who have been involved in malpractices of any kind that was geared toward defrauding tax revenues or tax systems in Rwanda and were identified have been dealt with in accordance with the laws in place. Additionally, massive campaigns on the proper accountability of state finances have been delivered to various sections of the population in which RRA actively participated.

7.6 Preferential trade impact on import duties.

Rwanda remains determined and actively involved in promoting and belonging to various economic blocks. While executing the demands of these blocks, substantial revenues have been foregone or waived on the fiscal side and this significantly impacted on the overall revenue collected. The share of revenue loss due to the implementation of COMESA rules of origin accounted for **18.8%** on customs overall collections and **6.7%** of total fiscal revenue collections. This is substantial revenue foregone in the medium term but should generate substantive yields in future.

Exemptions in general have significantly impacted negatively on revenues and these are equivalent to **64.6%** of customs collected taxes and duties and about **23.0%** of the total fiscal revenues collected by RRA. This is significant and hence calls for the periodical review of the exemption status in RRA and customs department particularly as Rwanda joins EAC that has a less elaborate regime.

7.7 Inadequate capacities of RRA staff in some specialized sectors.

Despite an enormous RRA staff training strategy that has been effected over the years the business community continues to advance in business transaction technologies which are not matched with our existing skills. Such areas include electronic transactions which reveal less or no documentation hence difficult to track the relevant transactions.

Additionally, limited use of international accounting standards and limited knowledge of their applications in some areas like construction contracts, leasing, related party events and transactions etc. continue to pose a threat with the likelihood of revenue loss.

7.8 Sustainability of RRA Infrastructure and Information Technology Systems.

Rwanda Revenue Authority has substantially employed information technology systems in its operations with the support of the DFID. However, the practice in the information technology arena is that technology changes rapidly to the extent that our current systems might be

obsolete in the near future. The Authority is looking at possible replacement mechanisms through creative ways such as a revolving fund.

7.9 Debt management

RRA administration continues to face challenges related to recovery and management of arrears. Towards the end of fiscal year 2006, RRA had a total amount of arrears totaling Rwf **58.2** billion and this is equivalent to **28.6%** of total revenues collected in 2006. In addition about Rwf **35.7** billion of the total arrears seem irrecoverable and this constitutes **61.4%** of the entire arrears and **17.5%** of the total revenues collected in 2006.

8.0 CONCLUSION

It is our pleasure to report that the overall performance for the fiscal year 2006 was impressive. It is our determination to forge ahead as we strive to continuously increase the budget size financed from domestic resources.

Every effort is being made to ensure that we do not miss the target and other major goals of the organization for 2007.

We shall consistently monitor the Corporate and Business plans to ensure that all strategies designed are executed. This has greatly helped in managing our resources efficiently and focusing our efforts on priority issues. The highlighted challenges have been underlined in the 2007 Business Plan and every effort will be made to overcome these.

Mary BAINE
COMMISSIONER GENERAL

APPENDIX A: DEPARTMENTAL PERFORMANCE DURING 2006

<i>Priorities</i>	<i>Achievement</i>
LARGE TAXPAYER OFFICE	
<p>1. Meeting collection and audit targets</p> <p>2. Improve quality of Audits and ensure that evidence to assessments is well documented.</p> <p>3. Improving service delivery to taxpayers and stakeholders:</p> <ul style="list-style-type: none"> • Quick processing of refund for taxpayers and privileged persons. • Reducing waiting time for tax clearance certificates and tax Quitus. • Improved communication with taxpayers. • Time management measures put in place. 	<p>The LTO's mission in 2006 was significantly achieved and revenue collections exceeded the target. Revenue collected was Rwf 87.34 billion against a target of Rwf 80.41 this translates into 8.6% higher than the target.</p> <p>The Audit division had a target of 240 audit cases to be finalized, and this target was achieved and exceeded. In 2006, there were 399 cases handled and properly documented with relevant evidence. This shows an achievement of 66.2% above the target.</p> <p>The establishment of sector specialization and issue oriented audits has enabled auditors to understand sector operations and has led to better planning before commencement of audits. Sectors in place include construction, insurance, banking, hotel and restaurants.</p> <p>Customer care through service provision has been greatly improved.</p> <p>In LTO, the refund processing procedures was expedited for the year 2006, LTO authorised a refund worth Rwf 3.3 billion out of Rwf 4.3 billion claimed. Generally, there is an improvement in refund processing, this is because out of 1,004 claims received, 942 (93.82) have been settled completely.</p> <p>The issue of tax clearance certificates was given greater attention. The processing time has been set to 3 days. The tax clearance certificates and Quitus fiscal approved in 2006 were 572 and 321 respectively. 3 transfers of immovable assets were approved out of 5 logged.</p> <p>Consultations are being made with Taxpayer services. So far LTO has put in place mechanisms of registering all taxpayers' complaints and remedies advanced via leaflets.</p> <p>In LTO, at least all functions try to respect time management, however, sometimes delays may occur due to shortage of staff and this disrupts efforts and cause discrepancies.</p>

Priorities	Achievement
<p>4. <i>Strictly observing assessment, reassessment, and accounting functions.</i></p> <p>5. <i>Strict enforcement on collectable arrears.</i></p> <p>6. <i>Implementation of SIGTAS.</i></p>	<p><i>A lot of emphasis was put in place as regards the assessment and reassessment of tax returns in LTO but this is hampered by the absence of the assessment group to improve on its effectiveness.</i></p> <p><i>All the possible methods to improve the collection of collectable arrears in LTO were employed and an amount of Rwf 4.309 billion was collected in 2006 against the target of Rwf 2.357 billion. This shows an achievement of 82.81% above the target.</i></p> <p><i>SIGTAS was implemented in 2005 and the following issues have been finalized: The processes of managing tax roll, assessment, cashing and documentation plus the associated procedures, reviewing and updating core processes and procedures, designing declaration forms (VAT, Profit tax, PAYE Excise duty) in SIGTAS, business Analysts worked with the Director of Finance and BCDI in designing of new payment slips to be used by taxpayers in paying taxes, BCDI is now processing the printing exercise, Re-registration of Small and medium taxpayers and training staff involved, Analysis of reports to be generated by SIGTAS.</i></p>
SMALL AND MEDIUM TAXPAYER'S OFFICE	
<p>1. <i>Increase our effort in collecting of fiscal and non-fiscal revenues.</i></p> <p>2. <i>Increasing the tax base for VAT, PAYE and Profit tax.</i></p> <p>3. <i>Updating taxpayers register by de-registering VAT non-filers/nil filers and those with a turnover below 20 million Rwandan Francs.</i></p> <p>4. <i>Making close follow up of the top 500 medium taxpayers.</i></p>	<p><i>Fiscal revenue collection task attributed to SMTO for the fiscal year 2006 was significantly achieved and even exceeded. Revenue collected amounted to Rwf 26.8 billion against a target of Rwf 19.2 billion overachieving by Rwf 7.6 billion or 39.6% above the target.</i></p> <p><i>2,718 new motor vehicles, 3,189 new motorcycles and 198 old ones were received and registered from different checking posts (RPD, Customs and Provinces). 2,628 VAT taxpayers, 3,718 PAYE and 4,237 Profit taxpayers were registered by the end the year.</i></p> <p><i>Taxpayers register was updated, cases of re-registration and de-registration were dealt with all the year round.</i></p> <p><i>It was found better to closely monitor the largest 200 taxpayers who yield around 70% of total revenue collected in SMTO. Those taxpayers are already identified and all of them submit their returns regularly.</i></p>

Priorities	Achievement
<p>5. <i>Improve the quality of audit work by adopting improved techniques and field supervision</i></p>	<p><i>136 comprehensive audits for the first notice of assessment out of 390 for the whole division were finalised, amounting to Rwf 2,633,343,301 thus the achievement is 34.8%.</i></p> <p><i>244 comprehensive audits out of 380 for the final notice of assessment were finalised amounting to Rwf 2.979 billion thus surpassing the target by about 64%.</i></p> <p><i>17 field visits were carried out by Head of Division, Group leaders accomplished 133 field visits; the performance is 60%.</i></p>
<p>6. <i>Taking strong enforcement measures against non-compliant taxpayers.</i></p>	<p><i>All the possible methods to improve the collection of collectible arrears in SMTO were employed and an amount of Rwf 1.269 billion were collected for the year against Rwf 0.561 billion targeted</i></p>
<p>7. <i>Improving service delivery</i></p>	<p><i>Customer care through service provision has been greatly improved. Waiting time was reduced significantly and timely response of customer queries was also ensured.</i></p>
<p>8. <i>Effectively implement the new tax laws and procedures.</i></p>	<p><i>Since January 2006 the new tax laws and procedure were implemented and all declarations were received as provided in the new laws.</i></p>
<p>9. <i>Liaising with RRA legal & taxpayers Service Department to revise the current Motor vehicles legislation.</i></p>	<p><i>The link and close collaboration between these departments continued throughout 2006, identification of articles to be revised on motor vehicles legislation was done.</i></p>
<p>10. <i>Implement SIGTAS.</i></p>	<p><i>The SIGTAS was implanted in SMTO late December 2005, and is now operational.</i></p>
CUSTOMS DEPARTMENT	
<p>1. <i>To link the valuation database with Asycuda++ system and enforce all possible areas in operations and enforcement in order to achieve the 2006 revenue target.</i></p>	<p><i>It was not possible to link the valuation database with Asycuda++ due to incompatibility. However, the set revenue target was achieved: Revenue collected was Rwf 70.3 billion against a target of Rwf 63.0 and this translates into 7.3 billion or 11.6% higher than the target.</i></p>
<p>2. <i>To ensure that Asycuda ++ is rolled out to other areas of customs operations including warehousing, petroleum oil depots, transit and general border posts operations.</i></p>	<p><i>Asycuda++ was rolled out to Gikondo warehouses, petroleum units, transit unit and to all major borders.</i></p>

Priorities	Achievement
<p>3. Further strengthen the petroleum unit to ensure proper follow up of transit and inward distribution of petroleum products in order to guard against any revenue risks.</p> <p>4. Strengthen and build capacity in the physical examination and Inspection unit in order to improve both internal and external audits.</p> <p>5. Streamline the Exemptions Unit</p> <p>6. Full implementation of the new Customs law and ensure comprehension through sensitisation to all staff and stakeholders.</p> <p>7. Improve application of Selectivity Risk based approach to reduce time in clearance.</p>	<p>Petroleum products in transit were fully controlled under Asycuda++ system and audit inspection manuals for petrol stations were prepared.</p> <p>Trainings in different areas were conducted for physical examiners and Inspectors. However, a big number of staff is not yet trained and formal standard of Inspection is lacking.</p> <p>Exemption applications fulfilling required conditions ere processed in one day.</p> <p>New customs law is in operation and customs staff, clearing agents and traders were trained in it..</p> <p>Strategies were put in place to fasten the time taken to clear goods from customs bonds by staffing the functions, and further extend the normal working hours.</p>
REVENUE PROTECTION DEPARTMENT	
<p>1. Increase the capacity of staff and vigilance in deterrence, detection and prosecution of smuggling, tax evasion and other kinds of breach of revenue laws.</p> <p>2. Minimise all forms of transit dumping by enhancing security and surveillance for all imported and transit goods.</p> <p>3. Update and manage an effective database system of tax evasion and smuggling in order to provide relevant information to the operational departments and other partners through profiling of individuals and products.</p>	<p>In the fiscal year 2006, some RPD staff received trainings in income tax law, fraud, detection and investigation of smuggled goods across border. An amount of Rwf 414.197 million was recovered from RPD operations.</p> <p>Dumping of imported goods was controlled due to increased surveillance by RPD staff.</p> <p>RPD continued to review its database. Different products were also seized in a bid to protect the country's business environment and individuals involved were tracked down and punished accordingly with reference to the current laws.</p>

Priorities	Achievement
<p>4. Establish focal points in neighbouring countries and the major exporting countries to Rwanda.</p>	<p>An officer was deployed at Mombasa entry port charged with the responsibility of overseeing all the possible fraud cases including forging and falsification of invoices and other related malpractices.</p>
QUALITY ASSURANCE DEPARTMENT	
<p>1. Ensure implementation of the operational and strategic plans of the Department.</p>	<p>Flash reports, monthly reports and internal audit quarterly reports were submitted regularly to the CG.</p>
	<p>As at 31st December 2006, twenty four audit assignments were reviewed and 20 audits out of 18 assignments were finalised; 61.3% of the recommendations raised by the Department were implemented.</p>
<p>2. Training of staff in advanced Internal Audit and IT techniques.</p>	<p>All internal auditors, quality Assurance auditors and internal affairs officers were trained on basic and advanced techniques in internal auditing. The basic training in IT auditing was postponed to 2007.</p>
<p>3. Provide assurance that all processes and procedures are clear and efficient and provide the satisfaction to all stakeholders.</p>	<p>The quality assurance unit conducted and finalized five quality audit assignments out of the target of six assignments which is 83.3% achievement.</p>
<p>4. Implement QMS in all Departments by providing the quality manual as a reference in their work.</p>	<p>Quality management manual was developed and agreed by the RRA Senior Management Team and their copies were submitted to each RRA department. The quality assurance representative team was put in place and give support to quality assurance unit.</p>
<p>5. Promote the RRA culture of excellence in all operations of the authority;</p>	<p>Training on RRA code of conduct was done for new RRA recruits before commencing their job and code of conduct distributed to the new recruits. Sensitization on RRA staff integrity was done in different RRA staff meetings.</p>
<p>6. Investigate cases of corruption, theft and other serious staff malpractices and initiate disciplinary procedures for those found guilty.</p>	<p>46 cumulative cases were identified in the course of the year 2006. 42 cases were concluded, while 4 are still under investigation. The concluded cases involved 48 employees. Those who were dismissed are 23 or 48 %, 10 officers were acquitted after being found not guilty, which is 21 %.</p>

<i>Priorities</i>	<i>Achievement</i>
TAXPAYERS SERVICES DEPARTMENT	
<ol style="list-style-type: none"> 1. Reinforce the training of RRA staff in customer care aimed at improving the corporate image 2. Create and reinforce tax friend clubs in secondary schools in all provinces and Kigali city 3. Generate simplified written information and guidelines for taxpayers and the general public. 4. Up dating and providing regular information on fiscal reforms in RRA. 5. Conduct publicity campaigns through billboards, spots, calendars and other possible promotional activities 6. Collaborate more with diverse opinion leaders for public sensitization on the culture of paying taxes voluntarily. 7. Organize the Taxpayer's day 2006 8. Develop and conduct regular visits to taxpayers in their premises to understand the difficulties they have in fiscal matters and advise them. 9. Strengthening Provincial Tax Advisory Councils through training. 10. Implement quality management system within the Department. 	<p>The head of department and one senior officer in the department attended a course for a week on customer handling that took place from Kenya where they made a tour around KRA operational departments as their practical exercise.</p> <p>Revived 9 secondary school tax friendly clubs out of the existing 40.</p> <p>Produced 6 types of leaflets which were largely distributed.</p> <p>Published 3 leaflets on new tax laws that were distributed during the 2006 taxpayer's day to all provinces plus Kigali city.</p> <p>Produced 2007 calendars, 11 spot publicity announcements and various announcements that were broadcasted on TV, radios and print media.</p> <p>Held meetings with TAC members at the provincial level in all provinces.</p> <p>Taxpayer's day was organized and the report produced.</p> <p>No visits conducted. This activity was not achieved though recently a unit in charge of registration and taxpayer clinics was established in DTD that will handle this on a constant basis. Customer relations officers will be in charge of this too when they get operational.</p> <p>Revived TAC at provincial levels throughout the country.</p> <p>Activity not accomplished. Refresher training needed for staff to implement this.</p>

Priorities	Achievement
<p>11. Reorganize well the process of issuance of tax clearance certificates, TIN and Quitus fiscal.</p> <p>12. Improve and publish the Taxpayer's Charter</p> <p>13. Creation of a task force to follow up the implementation of the customer services standards within RRA.</p>	<p>Meetings held with operational departments and a policy paper proposed on the way forward in line with speeding up these processes.</p> <p>Activity not accomplished and forwarded to 2007 priorities.</p> <p>Activity not accomplished and forwarded to 2007 priorities.</p>
LEGAL AND BOARD SECRETARY DEPARTMENT	
<p>1. Follow up the implementation of new tax and customs laws.</p> <p>2. Drafting Laws, Ministerial Orders, instructions or regulations</p> <p>3. Handling all Taxpayers' appeal cases on time.</p> <p>4. Assist other departments by providing legal advice related to legal matters.</p> <p>5. Represent RRA before the courts of laws.</p> <p>6. Furnish complete services to the Board by writing minutes of Board meetings and communicate decisions taken to all concerned departments.</p>	<p>The follow up was done since the official launch of the income tax and customs laws.</p> <p>Laws, Ministerial orders, instructions and regulations produced whenever necessary.</p> <p>This was done as required and at 98%.</p> <p>Advices sought were provided.</p> <p>This function was successfully done and RRA lost 2 cases out of 14 cases.</p> <p>Accurate reports produced and distributed to board members and RRA staff.</p>
PLANNING & RESEARCH DEPARTMENT	
<p>1. Improve the quality of management reports produced by the department.</p> <p>2. Implement processes and procedures for functions within the department in conformity with the established standards.</p>	<p>There was significant improvement in the quality of reports produced. Management reports were prepared and submitted to the end users on time.</p> <p>Processes and procedures were implemented in the department and the departmental activities being done conform to the standards prescribed by the processes and procedures.</p>

Priorities	Achievement
3. Prepare operational policy manuals for operational departments and monitor their effective implementation.	The operations Policy Unit was established in May 2006. The Unit became operational and eight policies manual and guidelines were prepared.
4. Undertake research studies on certain key areas of tax administration.	Four research studies were conducted during the year 2006 and reports were submitted. They included a study on appropriate retention ratio of income tax collection to accommodate refunds to taxpayers who make overpayments as specified under the new income tax law in 2006, a study on the revenue implications of Ministerial Instruction No.5860/05/10/macro of November 28, 2005 & other previous instructions exempting Agricultural inputs, a study on current leasing provisions in Rwanda with suggestions on a way forward and a study on how best petroleum products can be taxed and monitored.
5. Ensure that the quality and coverage of revenue statistics is improved.	A statistical bulletin is prepared and circulated to users every quarter.
6. Develop an exemptions data base of all tax heads	Preparatory arrangements for database were put in place.
FINANCE DEPARTMENT	
1. Establish, maintain and ensure adequacy of systems for collecting, safeguarding and accounting for government revenues collected by RRA.	<p>Financial systems that were in place for different revenue centers were maintained and strengthened through technical support to the officers involved.</p> <p>Finance operations with commercial banks and National Bank of Rwanda all worked effectively, though some problems were experienced with certain banks such as BCDI during the period when they were changing their Information System.</p> <p>Regular check ups by Finance department and the said institutions was done with the aim of finding out any instances of mismatch between revenues collected by RRA and revenues remitted to the national treasury bank account.</p>
2. Provide timely and accurate Financial Management Information to RRA and other stakeholders.	Tax Revenue information was compiled and consolidated by finance department, and was regularly communicated to RRA senior management and other stakeholders.

Priorities	Achievement
<p>3. Assist in the process of Budgeting by ensuring efficient and proper systems of budgetary planning, preparation, monitoring and control, as well as its review based on corporate and departmental objectives and outputs.</p> <p>4. Implement and where necessary review the Financial Regulations as well as the processes and procedures that govern the systems of revenue collections, budget and expenditure management.</p>	<p>Guidelines for preparing budget were prepared and communicated to other departments for uniformity. Consolidation of the departmental budgets into a master budget is also done and regular monitoring done to ensure proper execution of the budget.</p> <p>Financial transactions were conducted in compliance with the Financial Regulations. However, their review was not possible due to the Public Finance Management project that was in place involving the writing of the Organic Budget Law and Financial Regulations which was not ready by the end of the year 2006.</p>
HUMAN RESOURCES & ADMINISTRATION DEPARTMENT	
<p>1. Effectively implement and regularly update HR Policies and Procedures, Staff Code of Conduct and Terms and Conditions of Service.</p> <p>2. Recruitment of competent and professional staff as per the needs of the Authority.</p> <p>3. Facilitate staff in acquiring mortgage loans from financial institutions;</p> <p>4. Enhance capacity of documentation center to cater for research needs of RRA staff.</p> <p>5. Implement HR software package for Human Resource Management.</p> <p>6. Organize priority-training programs developed from the training plan for 2006.</p>	<p>Draft Staff and Supervisors' hand books were developed out of policies, Code of Conduct, Terms and Conditions of service and Procedures Manual. Staff code of Conduct was also updated.</p> <p>This was done as per departmental requirements; though there were some challenges of un predicted high rate of staff turn over during the first two quarters of the year.</p> <p>A total of 143 members of staff were facilitated in acquiring loans from different Financial institutions equivalent to 326 million Rwandese Francs.</p> <p>Document Center not yet developed, still dominated by ACCA Course Materials. In 2006 two hundred and thirty seven (237) books were bought to facilitate staff under going ACCA programme.</p> <p>Human Resources Software-Peodesy was implemented though not yet to the full capacity. Out standing issues (Recruitment and Training Modules) are being worked upon through a remote connection with the supplier.</p> <p>The training plan for 2006 was implemented by 80%. Of the 30 training programs scheduled, 20 courses were delivered while 10 courses were not delivered. All overseas courses planned were implemented. 500 staff were trained in local course, while 10 staff obtained overseas training.</p>

Priorities	Achievement
7. Develop and improve infrastructure facilities.	A bout 90% of this was achieved and includes renovation of border posts, provision of Asycuda++ infrastructure, Construction of Butare training institute and new houses for office and residences at Bugarama.
INFORMATION SYSTEMS & TECHNOLOGY DEPARTMENT	
<ol style="list-style-type: none"> 1. Decide on, purchase, and install the various servers, pc, local area network equipment and software needed to support the 4 main projects. Each project is providing its own minimum requirements and suggested architecture. The IT Department has the responsibility to analyze all of these requirements and decide the final total architecture. 2. Define, schedule, staff and execute a comprehensive training program on Oracle database and tools, Linux operating system, system administration, and network administration, with a strong emphasis on security (virus, firewall, confidentiality, sensitive data etc). Each project has its own requirements; 3. Define and implement a network and data access security plan; 4. Define a backup recovery strategy, design the backup and recovery process and implement it; 5. Analyze, design, purchase and install the RRA Telecommunications backbone that will support RRA operations over the next 3 years; 	<p>Appropriate computer hardware and telecommunications equipment were purchased, installed and worked to support the computer systems.</p> <p>Training on Sage Enterprise, oracle, SIGTAS development Peodesy and one person trained on IT project management.</p> <p>Network and data access security plan implemented successfully.</p> <p>Backup and recovery strategy implemented.</p> <p>RRA telecommunication backbone is running well using fiber, frame relay and VSAT at border station.</p>

Priorities	Achievement
6. <i>Implement RRA intranet and redesign RRA website to provide customer services to taxpayers;</i>	<i>RRA intranet was designed and implemented and RRA website has been redesigned.</i>
7. <i>Define and implement a customer support service also called “Helpdesk” or Call Centre for RRA. The Helpdesk must be in a position to analyse the type of problem (functional or technical), on which application, and decide what priority to give the problem;</i>	<i>A web based system for user support has been implemented on RRA intranet</i>
8. <i>Implement E-document application for electronic documents management;</i>	<i>E-document is implemented and used in all departments.</i>
9. <i>Implement an internal RRA e-mail system to support the previous points;</i>	<i>RRA internal e-mail installed and tested, but not yet implemented.</i>
10. <i>Review RRA IT strategic plan;</i>	<i>RRA IT strategic plan reviewed.</i>
11. <i>Plan the move of all equipment to the new RRA building;</i>	<i>Plan was successfully done and execution is still in progress.</i>

APPENDIX B: MAIN PRIORITIES FOR 2007

In an effort to achieve the RRA mission, the organization has set the following strategic objectives for the year 2007. The under listed major strategic objectives are central to the achievement of our mission and will of necessity remain our focus in the year 2007:

(a) Maximizing Revenue Collection

- Achieve the target of Rwf **220** billion;
- Strengthen enforcement activities to collect at least **90%** of recoverable arrears;
- Implement 2007 audit plan with at least **85%** accurate audit results;
- Develop and implement a strategic plan to widen the tax base;
- Enhance combating of tax evasion and avoidance.

(b) Maintaining Effective Financial Management Systems

- Ensure proper accountability of revenues collected by reporting on OTR and RRA accounts reconciliation;
- Monitor and manage funds provided by the government in form of **3.5%** retention of the revenues collected;
- Monitor and Account for incomes generated from replacement and computer fees.

(c) Maintaining Sound Internal Business Process

- Ensure publication of legal instruments' implementing provisions;
- Evaluate and review twenty four internal audit control systems;
- Prepare a minimum of 12 operational policy manuals for operational departments;
- Finalize Asycuda ++ deployment;
- Fully utilize SIGTAS in LTO and SMTO;
- Deploy SIGTAS to regional offices;

(d) Developing a Capable and Effective Organization

- Implement 2007 training plan and improve performance appraisal system;
- Implement staff welfare schemes notably the sports scheme and HIV/AIDS sensitization program;
- Operationalise and ensure maintenance of RRA training centre;
- Furnish the RRA complex and relocate RRA offices;
- Rehabilitation of border post offices.

(e) Satisfying Requirements of our Customer and Stakeholders

- Delivery of enhanced programmes of taxpayers' education;
- Conduct a time release study at Customs;
- Prepare the 2007 taxpayers' day and organize official commissioning of the RRA complex;
- Participate in developing capacity of tax collecting functions for local governments;
- Conduct studies to review tax systems and devise ways to widen tax base;
- Participate in the accession process to the EAC;
- Review motor vehicle and VAT laws and regulations;
- Implement DFID phase VI support.