

**Dissertation Proposal**

**Decentralization and State-Building in Rwanda:  
Essays on the Role of Decentralization in Helping Rwanda  
Implement Its Vision for a Better Future**

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## **Introduction**

Rwanda is a country in a rush. Since the devastations of the genocide in 1994, Rwanda's new leaders have been exerting every effort and mobilizing every resource possible to put the poor and conflict-ridden country onto a trajectory towards peace, and prosperity. To this end, Rwanda has engaged in extensive state-building measures, revamping all branches of government and restructuring their institutions, reworking its entire legal framework, and reorganizing decision-making processes and standard operating procedures. In this context, the decentralization of functional responsibilities and finances to lower level governments has been pursued as one of the core public sector reforms.

State-building is a highly complex endeavor. Most notably it entails improving the administrative, fiscal and institutional capacity of the state not only in order to provide for efficiently functioning public sector operations, but also to ensure to carry out these operations in service of and in agreement with its citizens (Braeutigam, 2008). The literature offers various analytical perspectives and approaches to state-building. Braeutigam, Fjeldstad and Moore (2008) elaborate on one of the central tenets of fiscal sociology which argues that the necessity for a state to tax its citizens constitutes a strong incentive to engage in state-building. This constructive effect of taxation on building state capacity operates through two mechanisms: One refers to the revenue imperative creating an impetus for building institutional capacity for tax extraction. The other refers to negotiations over taxation resulting in a social contract between state and citizens (Braeutigam, 2008).

Another strand of literature (see e.g. Lemay-Hébert, 2009; Paine, 2010) argues that state-building cannot be divorced from nation-building efforts as state-building requires that state institutions reflect the norms and values of the community (or communities) that citizens identify with (Paine, 2010). This congruency of norms and values creates the socio-political cohesion necessary for a state to gain legitimacy (Lemay- Hébert, 2009).

According to key policy documents, the decentralization process in Rwanda is intended to reform the public sector in order to improve the efficiency of public service delivery and to empower citizens to take part in the development process (MINALOC, 2001). Taken at face value, this reform thus seems to be fully aligned with the objectives of state-building more generally and have the potential to contribute to Rwanda's state-building efforts in important ways.

For this reason, this dissertation will examine the role of decentralization on state-building in Rwanda by looking at the relationship from three different angles. In particular, the three essays outlined in this proposal will look at local taxation as an important aspect of decentralized governance from the perspective of the local administration, at local taxation from the perspective of the tax payer, and at decentralization policy more generally and its relationship with national unity and nation-building. In investigating these questions, I will loosely draw on ideas from the three theoretical mechanisms described above. More specifically, the three papers will examine the following questions:

The first paper will look at the administrative and political economy issues around local taxation and their effect on tax performance. It seeks to make sense of the efforts that Rwandan local governments exert in strengthening local own revenue administration. To this end, it will assess the technical and organizational approaches employed to implement a system for local taxation. It will also explore the incentives and political motivations of districts and central government actors to support the establishment of an effective local tax administration. Getting a clearer picture of the interventions and the underlying motivations regarding the implementation of the local revenue policy will help assess to what extent local own revenue can serve as a driver for increasing local government autonomy and efficiency in Rwanda's decentralization process.

The second paper will examine issues around local tax payer compliance in Rwanda. Specifically it will attempt to determine the nature of the incentives and disincentives for tax

payers to meet their tax liability. It will also examine the extent to which the local governments are making use of their revenue systems to encourage tax payers to buy into an exchange relationship where they pay taxes in exchange for receiving desired public services, thereby positively affecting their perceptions of taxation and their attitudes towards the state. In particular, I attempt to understand how these perceptions shape incentives for tax compliance in Rwanda's local taxation system and how they affect tax payers' attitudes towards local government and their perception of its legitimacy as a body of the state.

The third paper will look at decentralization more generally and assess the extent to which it can support or weaken state-building efforts constructed around a single national identity. Notably, it proposes to explore the potential goal conflict between decentralization and nation-building in Rwanda, by studying the extent to which the implementation process of the decentralization reform is able to accommodate the principle of national unity and indivisibility, and whether it effectively promotes or impedes Rwanda's nation-building efforts. It also seeks to gain insights into the mechanisms through which decentralization can shape people's sense of belonging, and as a consequence affect the legitimacy of the state.

## **Paper 1**

### **Technical and Political Economy Issues around Local Tax Administration**

#### **1. Introduction**

Local own revenues in Rwandan districts have gone up considerably over the past few years, almost quadrupling in the period between the fiscal years 2007 and 2012/13. While policy makers are frequently quick to point to changes in tax policy to explain improved yields, tax administration often turns out to be the crucial instrument to increase tax revenues. Bird (2008) for example argues that the way “a tax system is administered affects its yield, its incidence and its efficiency” (p.20). This might have particular relevance in a situation like Rwanda where local governments cannot set their own tax rates or define their own tax bases, leaving tax administration as the only lever through which they can directly influence the amount of own revenue they collect. Ensuring that local governments maintain some control over the level of their own revenues will in turn strengthen their autonomy and efficiency thereby making decentralization efforts worthwhile.

The proposed research seeks to make sense of the efforts to strengthen local own revenue administration by Rwandan districts. To this end, the research strategy will be twofold: It will assess the technical and organizational approaches employed to implement a system for local taxation. At the same time, it will explore the incentives and political motivations of districts and central government actors to support the establishment of an effective local tax administration. Getting a clearer picture of the interventions and the underlying motivations regarding the implementation of the local revenue policy will help assess to what extent local own revenue can serve as a driver for increasing local government autonomy and efficiency in Rwanda’s decentralization process.

In what follows I begin by reviewing the literature on tax administration focusing on both political and technical issues. Following this, I describe the context in which local tax

administration is operating in Rwanda focusing on the national framework conditions, the decentralization system, and the local own revenue arrangement. Then, I present my research questions. I conclude by specifying the methodology I intend to use for this research, including the limitations I recognize in my approach.

## **2. Literature Review**

The literature on taxation has since long acknowledged the crucial role of both incentive and organizational issues in the implementation of an effective system of tax administration (see e.g. Bird, 2008, Ebel & Taliercio, 2005; Mikesell, 2007; Taliercio, 2005; Verhorn & Ahmad, 1997; von Soest, 2006). Bird (2008) for example identifies political will, a clear implementation strategy, and sufficient resources as the three indispensable conditions for the effective implementation of a tax system. An equivalent, while not perfectly analogous argument has been made with respect to subnational taxation by Taliercio (2005), who argues that political and administrative issues both have a critical influence on the implementation of local tax policy. With regards to political issues, he identifies two kinds of incentives being at work, namely intergovernmental incentives acting upon the relationship between different levels of government, and local incentives affecting the behavior of local actors (Taliercio, 2005).

Based on this insight, the remainder of this section will review the literature addressing incentives and organizational requirements for implementing an efficient system for tax administration. For this purpose I will draw on a diverse set of readings ranging from classic fiscal federalism and public finance to literature on fiscal sociology, focusing wherever possible on sub-national taxation and developing country context.

### *Incentive Issues: The Political Economy of Tax Administration*

Incentives have been recognized to play an important role in the establishment of an effective tax system. The literature that best illustrates this connection is the one on fiscal

sociology, which takes a historical perspective to explain the formation of the modern European nation state as a result of military competition (Braeutigam, 2008; Moore, 2004; Schumpeter, 1918; Tilly, 1985). Its main argument is that revenue imperatives created by external threats from war have constituted a strong incentive for rulers to develop state capacity for systematic tax collection. It suggests that states that find themselves under pressure from increased expenditure needs will invest in improving their extractive capacity and their governance more generally (Braeutigam 2008, Fjeldstad & Moore, 2008; Moore, 2004). This idea has been taken up by several scholars who have used it to explain the success or failure of state-building and the establishment of good governance in the developing world (Braeutigam, 2008; Centeno, 2002; Fieldstad & Moore, 2008; Herbst, 2000; Moore, 2004; Thies, 2004). Thies (2004) for example looks at the relationship between state-building, intra-state and interstate rivalry using data from 34 African, the Middle-Eastern and Asian countries over 25 years, and finds a positive correlation between the presence of external and internal rivals and extractive state capacity endorsing the main proposition of fiscal sociology. Moore (2004, 2007) on the other hand has been more skeptical of the applicability of this mechanism to large parts of the developing world and argues that revenue imperatives from war or other external pressures will not result in improved state capacity when the countries have access to non-tax sources of finance such as natural resource rents or donor funding.

Sub-national governments rarely engage in warfare (considering defense usually constitutes a national public good). Nevertheless, they are frequently exposed to various incentives and disincentives to establish effective tax collection systems (see e.g. Ebel & Taliercio, 2005; Smoke, 2012; Taliercio, 2005). In the intergovernmental context, excessive horizontal equalization or possibilities for tapping additional resources at low economic or political cost for example might make revenue generation from own sources less attractive to local governments (Bahl & Bird, 2008; McLure & Martinez-Vazquez, 2000). For this reason, the more normative literature on fiscal decentralization such as second generation fiscal

federalism (see e.g. Oates, 2005; Weingast, 2009) calls on policy-makers to establish hard budget constraints for sub-national governments to discipline their fiscal behavior, which will also incentivize them to establish an effective system for local revenue collection.

In the local context, incentive issues around effective revenue collection have been raised primarily in the literature on property taxation (Kelly, 2000, 2000a; Lewis, 2003; McCluskey & Franzsen, 2005; Mikesell, 2007; Monkam, 2011; Slack, 2013). Here, the literature almost unanimously refers to a “lack of political will” from local decision-makers to collect tax dues to the full extent of the law. Some explain this by the fact that property taxes in developing countries tend to strike the wealthy, who, due to their political connections, can effectively thwart taxation of their property (e.g. Mikesell, 2007). Others argue that local politicians might be reluctant to increase the financial burden on already impoverished populations (Monkam, 2011). Overall, the property tax is considered a very visible tax, which raises the political cost of strictly enforcing it (Mikesell, 2007; Slack, 2013).

#### *Technical Issues: The Organization of Taxation*

The literature addressing the more technical aspects of the institutional design and organizational arrangements of tax administration is surprisingly scanty and focuses primarily on strategic rather than procedural questions. One central argument revolves around the idea of complexity (Bagchi, Bird & Das-Gupta, 1995; Bird, 2004, 2008; Das-Gupta, 2006; Ebel & Taliercio, 2005; Mikesell, 2003; Radian, 1980). Equity and efficiency considerations often increase the complexity of a tax system (Das-Gupta 2006; Radian, 1980) According to Radian (1980), complexity in the tax code helps to “adapt the law [more closely] to the specific needs and preferences of the various groups, to which it applies” (p. 60). In this regard, it constitutes a merit. With respect to implementation however, complexity can entail considerable challenges, in particular for developing countries that often lack adequate levels of human and financial resources, expertise, and access to information. It is for this reason that one of the credos for tax reform in the developing world in the last two decades has been to simplify tax



systems in order to keep administration manageable and raise compliance also in low resource, low capacity environments (Bird, 2004, 2008, Ebel & Taliercio, 2005; Vehorn, 2011).

Independent of the level of complexity, the basic tasks of any tax administration are identification of taxpayers, assessment of tax liabilities, collection of tax payments, and monitoring and enforcement of compliance (Bird, 2008, von Soest, 2006). Here, two central issues that have been identified to have a crucial bearing on the implementation of these tasks are information collection and processing and professionalism of the workforce.

Every step of the tax administration process relies on the availability of reliable information about the tax base and/or the associated taxpayers (Bird, 2003; von Soest, 2006). Names and contact details of taxpayers need to be collected and registered, information on the type, size, quantity, or value of the tax base needs to be obtained, proof of tax payment needs to be acquired and checked against existing records. In many developing countries this information is not easily accessible due to a lack of formal records and adequate data management systems from which this data could be extracted (Radian, 1980). Even when certain information has been collected at some point in time, it is often not maintained properly and thus frequently outdated. This makes the accomplishment of the task effectively impossible. For this reason, one focus of tax administration reform has been on establishing procedures for data collection and maintenance, and introducing computerized data management systems to easily record, process and retrieve information.

Professionalism of the workforce is the second issue that has been found to strengthen tax administration (Bird, 2003, 2004, 2008, Fjeldstad & Moore, 2009; Kiser & Sacks, 2009; Radian, 1980; Taliercio, 2004; von Soest, 2006). One aspect of professionalism refers to the workforce being adequate in terms of size, and level of qualification and expertise. Most tax administrations in developing countries suffer from a lack of qualified personnel, due to a general shortage of people with higher education in the labor market and low salaries paid in

the public service (Radian, 1980). This leads to understaffing, high turnover rates and a “brain drain” of qualified people into the private sector. It also results in large amounts of backlogs and delays in processing and detracts from the administration’s ability to cope with unexpected crises (Radian, 1980). Some scholars have also pointed to patronage hiring as a source of low capacity (Kiser & Sacks, 2009). To counteract these weaknesses, tax reform has been emphasizing the importance of meritocratic recruitment and promotion, and competitive remuneration of staff in tax administrations. Semi-autonomous revenue agencies (ARAs) have been thought of as institutions facilitating the implementation of these reform elements. Over the last three decades, these agencies have sprung up in a number of African and Latin American countries and have received a fair amount of attention in the more recent literature (Fjeldstad & Moore, 2009; Taliercio, 2004; Von Soest, 2006).

Another aspect of professionalism refers to the value-orientation and honesty of the workforce. Corruption is an endemic problem in tax administration. The nature of the task makes the workforce prone to engaging in embezzlement or extortion activities. Excessive discretion and direct contact with taxpayers, but also a low work ethic aggravate the temptation for tax officers (Bird, 2008). Corruption constitutes a double whammy, as it not only diverts public revenue for personal gain, but also damages the legitimacy of the organization which might result in lower taxpayer compliance (von Soest, 2006, Fjeldstad & Rakner, 2003; Fjeldstad & Tungodden, 2003). For this reason, reform efforts have stressed the need to increase supervision and accountability of tax officers on the one hand, as well as strengthening their sense of duty and value-orientation on the other (Bird, 2008, Von Soest, 2006). On an organizational level, the semi-autonomous character of ARAs intends to insulate the administration from too much political influence that might compromise the objective and law-abiding implementation of tax policy. Taliercio (2004) even argues that “politicians create ARAs in order to signal a credible commitment to taxpayers that tax administration will be more effective, fair, and competent” (p. 213).

The literature specifically on local tax administration mainly revolves around the question of the appropriate level of administration within the intergovernmental system (Ebel & Taliercio, 2005; Mikesell, 2003, 2007; Taliercio, 2005; Vehorn & Ahmad, 1997). Vehorn & Ahmad (1997) identify four models for tax administration in a multilevel government system: central government tax administration with sharing of revenue with lower levels, central government tax administration of taxes assigned to different levels of government, multi-level tax administration with sharing of revenue, and tax administration at the level of government to which the tax has been assigned. While none of these models is considered inherently superior to any other, it is generally understood that choosing the appropriate level of tax collection involves a tradeoff between efficiency and autonomy (Ebel & Taliercio, 2005). Here, sub-national administration is thought to increase autonomy of decentralized governments. Central administration on the other hand is associated with higher efficiency due to important economies of scale and scope in tax administration. (Ebel & Taliercio, 2005).

This efficiency advantage in tax administration of the center however, while nowadays almost taken for granted, crucially depends on the availability of easily accessible, computerized information on tax base and taxpayers. Radian (1980) points to historical evidence by stating: “Today’s rich countries relied on a decentralized organization [of tax administration] when little or no information was available at the national level. Only after formal accounting developed was there a gradual shift towards centralization” (p. 88). This suggests that in information-poor environments, centralized administration might be required to operate through deconcentrated units staffed by central government employees (Mikesell, 2007). At the same time, sub-national governments can retain some control over central administration of their taxes by paying performance-based bonuses to tax collectors (Martinez-Vazquez, 20003 as cited in Ebel & Taliercio, 2005), which can preserve their revenues even under central tax administration.

Another issue with regard to local tax administration that has gained increasing attention over the last few years is the outsourcing of tax collection to private service providers, also referred to as tax farming (Ebel & Taliercio, 2005). Many local governments overwhelmed with the responsibility of tax and fee collection have opted for privatization to increase their revenues. Here, one major challenge for the local governments is to conduct a proper assessment of their local revenue potential in order to determine appropriate collection targets for the private contractors (Fjeldstad & Heggstad, 2012). Another challenge is the inability of most local governments to properly monitor the collection activities of private contractors resulting in increased incidences of corruption, overzealous collection and perverse distributional effects (Iversen, Fjeldstad, Bahiigwa, Ellis & James, 2006).

The only strand of literature that digs deep into the procedural issues of local tax administration is the literature on property taxation (Bahl, Martinez-Vazquez & Youngman, 2008; Kelly, 2000, 2000a, 2003; Lewis, 2003; McCluskey, Cornia & Walters, 2013; McCluskey & Franzsen, 2005; Monkam, 2011). This literature tends to be very technical and hands-on focusing on assessing and improving the various steps of property tax administration. Some of the main issues identified are an often fragmentary process of land registration, in particular in rural areas, leading to out-dated and incomplete fiscal cadastre information (Kelly, 2000a), and inaccurate and infrequent property valuations and the neglect to index in between valuations resulting in inefficiencies, inequities, and stagnant tax bases (Smoke, 2008). While this literature identifies a multitude of specific problems and weaknesses in the property tax administration process, most of them originate from the same central issues discussed above, i.e. from chronic weaknesses in information collection and processing and from a lack of professionalism of the workforce.

### 3. Contextual Factors

#### *The National Framework*

Rwanda is a small, land-locked, resource-poor country in central Africa with a population of 10.5 million (NISR, 2014). Its last twenty years have been marked by a steep recovery from a state of complete devastation caused by civil war that culminated in 100 days of genocide in 1994. The government that has been in power since these incisive events has been pursuing an aggressive development strategy that declares to work towards the establishment of a “united, democratic and inclusive” nation, with “healthier, educated and generally more prosperous” citizens (Government of Rwanda, 2000, p. 2). Despite continuous economic growth and inequality being recently on the wane, Rwanda is still among the poorest countries in the world (with a 2012 HDI ranking of 167 out of 186 countries <sup>1</sup>). Its GDP in the FY 2012/13 was at RWF 4,606 billion (USD 6.7 billion) translating to RWF 418,000 (USD 606) per capita (MINECOFIN, 2013). According to official statistics, 37% of the population lives below the poverty line (NISR, 2014a). Expenditures in fiscal year 2012/13 were at RWF 1,344.7 (USD 1.9 billion) with the majority of funds being spent on general public service (23.4%), economic affairs including agriculture, trade and industry and transportation (20.1%), education (13.7%), and defense (7.6%). In the same fiscal year, revenues were at RWF 1,101.3 billion (USD 1.6 billion), of which 66.9% came from domestic revenues and the remaining 33.1% from international donor grants (MINECOFIN, 2013a). This high dependency on international aid has created some problems for the country in the past, when some donors decided to freeze general budget support as a response to Rwanda’s alleged support of rebel groups involved in the Congo conflict (Karuhanga, Jan 2012). Despite these issues, Rwanda is generally considered a donor darling (Marijnen & van der Lijn, 2012) with strong, proven commitment to macroeconomic stabilization and broad-based economic and social development.

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<sup>1</sup> <https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k>

### *Decentralization in Rwanda*

In 2000, Rwanda embarked on a process of decentralization by beginning to devolve resources and functional responsibilities to lower levels of government. The objective of this public sector reform was to accelerate the provision of public services to local communities and to empower citizens to participate in the planning and managing of the development process (MINALOC, 2001). To date, the decentralized entities consist of 30 districts, which are further subdivided into sectors, cells and villages. Sectors and cells constitute official administrative units that operate under the direct control of the districts.

Districts are in charge of the provision of the majority of public services, such as primary and secondary education, health services including the marketing of health insurance (known as “mutuelles”), promotion of economic development e.g. through agricultural extension services, and the administration of social protection programs such as “Ubudehe” or “One Cow Per Poor Family”. Most services are delivered at the sector-level, while the districts are responsible for the overall coordination of planning, financing and implementation of services. The decentralized entities are held accountable for effective public service provision through yearly performance contracts, so called “Imihigos” that the district mayors sign with the President of the Republic.

The majority of district revenues - on average 84.3% in the FY 2012/13 - are comprised of intergovernmental transfers. Of these transfers, about 70% are earmarked for specific use, 20% come from other agencies and donor grants, usually also with some form of conditionality attached, and 10% are transferred as unconditional block grant. On average about 15% of district revenues are generated from own sources, although this share varies considerably between districts.

### *The System of Local Own Source Revenues*

Since the beginning of the decentralization process, several efforts have been undertaken to support Districts’ own source revenue generation. The first formal local

revenue assignment was stipulated in law 17 of 2002 decentralizing taxes on property, rental income and trading licenses to the districts. This law was later replaced by law 59 of 2011, with the intention to increase revenue by broadening the tax base, simplifying the tax code and making it more equitable (GIZ, 2012). The use of tax administration software was piloted in several districts from 2007 to 2009, some of which still continue to use it.

Currently, local taxes consist of taxes on property (known as fixed asset tax), on rental income and on trading licenses. They have been assigned to the district level since 2002. As of the new tax law of 2011, all property owners conduct a self-assessment of their tax liability based on the presumed market price of their property, i.e. of land, buildings and improvements. The tax rate has been set at 0.1 percent uniformly across all districts. The rental income tax is set up progressively with three tax brackets of 0 percent, 20 percent, and 30 percent and is to be paid on the total amount of the rental income earned in the previous tax year. The business license tax is based on the turnover of the profit-oriented activity for all VAT-registered businesses. For all non-VAT-registered activities, the tax is a fixed amount depending on the type of activity and on the location (MINECOFIN, 2012). For all three taxes, base and rate are determined by national legislation, thus the local councils have no control over the tax burden they levy on their constituency.

In addition to local taxes, districts in Rwanda can also levy a number of local fees and charges. The most important fees and charges in terms of revenue are land lease fees, market fees, public cleaning service fees, and fees charged on official documents and documents notified by the public notary (MINECOFIN, 2012a). For all fees and charges<sup>2</sup>, national legislation determines a threshold indicating the maximum amount that districts can charge as well as the frequency of payment. The district councils are responsible for deciding on the exact amounts to be charged in their constituency.

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<sup>2</sup> with the exception of parking fees

The amount of own source revenue collected by the districts has been steadily increasing over the last few years. While the total amount of own source revenues for all districts was still as low as RWF 9.5 billion (USD 13.8 million) in FY 2007, it had almost quadrupled by FY 2012/13, totaling RWF 35.8 billion (USD 51.9 million).

Until recently, districts were responsible for the administration of their own revenues. Interaction with the tax payer mainly occurred at the sector-level, while the district was responsible for coordination and supervision of collection and consolidation of records. Taxpayers were required to submit their tax declaration to the sector and, when accepted, deposit the payable amount into the district account at the bank or SACCO. There, they were issued a payment slip, which they were required to take back to the sector for proof of payment. In return they received a receipt.

In early 2014, the cabinet of ministers took the decision to centralize local tax collection. From March 2014 on, Rwanda Revenue Authority will be charged with collecting local taxes on behalf of districts in exchange for a nominal fee (Tumwebaze, March 2014). Information on how this will affect collection procedures will need to be obtained in due time.

#### **4. Research Question**

Expanding local governments' ability to raise own source revenue through taxes and fees has long been recognized as an effective way to enhance their autonomy and efficiency. While the design of tax policy plays an important role in this regard, policy implementation proves to be just as crucial (Bird, 2003). Research has shown that an effective implementation of tax policy requires both the political will from all relevant stakeholders to endorse it coming into operation, as well as taking the necessary and appropriate, technical steps to make it happen. Without these two conditions in place, local tax policy – like most other policies for that matter – will remain toothless without any noteworthy impact.



This research on the implementation of local taxation in Rwanda seeks to make sense of the efforts exerted by various actors to strengthen local own revenue generation in Rwandan districts. It will assess the actions taken by the main actors with regards to organizational set up, procedures, staffing and other resources available for implementing local tax administration. It also seeks to reveal the incentives underlying these actions (and possibly omissions). Here, it attempts in particular to shed light on the relationship between central and local actors, and how this relationship affects their respective behaviors. Getting a clearer picture of the interventions and the underlying motivations regarding the implementation of the local revenue policy will help assess to what extent local own source revenue can serve as a driver for increasing local government autonomy and efficiency in Rwanda's decentralization process. Specifically, the proposed research will answer the following questions:

- I. What strategies have the districts employed to improve the administration their own source revenues?
- II. What incentives do the districts face with regards to implementing their local revenue administration?
- III. What role does the central government play in supporting local own revenue increase for districts?
- IV. How does the handling of the issue of local own revenue administration affect the autonomy, and efficiency of local government finance in Rwanda?

## **5. Research Design and Methodology**

For the research I intend to use a predominantly qualitative approach drawing on different methods used in ethnographic and case study research, such as interviews, informal conversations, observations, and document analysis. In addition, I will draw on local government fiscal and financial data from several fiscal years that will be analyzed

statistically across districts and time. This research will take a multi-level approach, collecting data at the national level as well as at the level of districts and sectors. The large variety of data sources and methods used will unveil a broad range of perspectives and allow for the cross-checking of findings and emerging interpretations through triangulation, thus strengthening the validity and trustworthiness of the findings.

In order to gain insights into the process of local tax administration, I will conduct field visits to different districts across the country. I will select one district per province (Northern, Southern, Eastern, and Western Province) and two districts in the Kigali City area, amounting to a total of six districts. The districts will be purposefully selected so that the overall sample will reflect some of the diversity among the population of districts with regards to geographic location, economic performance, degree of urbanization, and poverty level, which is expected to have an important bearing on local tax revenues and potentially on collection practices of local governments.

During the field visits to the districts, I will conduct observations of revenue operations and hold informal conversations as well as semi-structured interviews with relevant officials. Among these officials will be executive secretaries (heads of administration), directors of finance, and revenue officers, inspectors, and accountants at the district level. In addition, I will speak to officials from the urban planning department and the office of statistics to learn about the current status of land registration and obtain basic statistical information about the district. Furthermore, I will visit at least two of the sector offices in each district, where I will speak to sector staff responsible for revenue collection (either sector revenue officers or accountant secretaries). During the conversations I will ask the officials to show me some of their records and files to obtain an idea of their format and substance. Finally I will ask for permission to attend TAC meetings for revenue staff, which are monthly meetings at the district and sector level for staff involved in revenue

administration used to coordinate activities, streamline procedures, and disseminate information.

In addition to the field visits to the districts, I will hold informal conversations and semi-structured interviews with key public officials from institutions involved in decentralization reform at the national level. e.g. from the Ministry of Finance and Economic Planning (MINECOFIN), the Ministry of Local Government (MINALOC), the Rwanda Association of Local Government Authorities (RALGA), the Rwanda Governance Board (RGB), the Rwanda Revenue Authority (RRA), Rwanda Natural Resources Authority (RNRA), relevant development partners such as the German International Cooperation (GIZ), the World Bank, and the Belgian Technical Cooperation (BTC), as well as other experts and researchers in the field. The interview respondents will be selected based on their roles in their respective institutions with regards to fiscal decentralization, revenue administration, or related issues.

Furthermore, I will collect various legal and policy documents, strategy papers, studies, reports, and official written communication related to design and implementation of local government taxation. Relevant documents will be identified through conversations with stakeholders, or cross-references from other documents. This will allow me to cross-check some of the data from the interviews and get more in-depth information on some of the issues. Most importantly it will allow me to identify the “official stance” of the government, or at least the issuing institution on the respective topic that I can then compare and contrast with other formal positions and personal opinions.

To complement the mostly qualitative approach, I will also collect fiscal and financial data for all 30 districts from administrative sources (e.g. Ministry of Finance and Economic Planning) and analyze them statistically. Here I will focus on the last four fiscal years (FY 2009/10, FY 2010/11, FY 2011/12, and FY 2012/13). Data to be collected will comprise data on district budgets and budget execution, data on collection of local revenues from taxes and

fees, and data on local expenditures by source of funds. The analysis will focus, among other things, on the structure of district revenues, on the composition of local own source revenue from taxes and fees, and on the use of local own source revenue in local expenditures, including changes over time. While some doubts about the quality of this data, in particular for the earlier years might be in order, this analysis will still help assess the fiscal situation in which the districts are operating and the budgetary role and relative importance of local own source revenue.

### *Limitations*

One limitation of this research is that some of the questions I intend to unveil, in particular with regards to issues around incentives, I will be unable to address directly with many of my informants, due to the nature of their position and the political environment in which they are operating. Rwanda is a tightly managed, authoritarian regime with little tolerance for conflicting opinions with regards to political issues, but to some extent even with regards to technical issues. As a result respondents might be reluctant to reveal their true opinions and concerns and rather stick to officially cleared statements. For this reason, I will need to get at some of the issues indirectly through interpretation, identifying sufficiently credible pieces of evidence to substantiate my arguments.

## **Paper 2**

### **Taxation and State Legitimacy: How Perceptions of Local Taxation in Rwanda Shape Tax Payer Compliance and Attitudes towards Local Government**

#### **1. Introduction**

The legitimacy of local revenue collection in Rwanda hit rock bottom during the 1994 genocide when local administration began to impose fines on male Hutu members of the community for each day they refused to participate in the mass killing of their Tutsi neighbors (Hatzfeld, 2005). Since these devastating events of state-instigated mass-murder, all levels of government in Rwanda have put tremendous effort into reconciliation and restoring the legitimacy of the state and all its organs. The growing literature on taxation and state-building (Brautigam, Fjeldstad & Moore, 2008; Everest-Phillips, 2010; Moore, 2004 & 2007; Sabates & Schneider, 2003) points to the important role that revenue collection can play in this regard. A social contract based on an exchange relationship between state and tax payers, in which the latter agrees to make tax payments in return for receiving public goods and services from the former, can strengthen not only the prosperity and capacity of a state, but also its legitimacy. (Everest-Phillips, 2010).

Following this logic, the present proposal suggests examining the extent to which the Government of Rwanda is making use of its revenue system to encourage tax payers to buy into this exchange relationship, thereby positively affecting their perceptions of taxation and their attitudes towards the state. Here, my focus will be on the local level, as this is where most Rwandans interact with government on a regular basis. Specifically, I attempt to understand how these perceptions shape incentives for tax compliance in Rwanda's local taxation system and how they affect tax payers' attitudes towards local government and their perception of its legitimacy as a body of the state.

With this objective for the full paper in mind, the present proposal will be structured as follows: I begin by providing a review of the relevant literature on tax compliance and its relation to state-building. Then I present the pertinent contextual factors of the Rwandan case. Third, I will articulate my research questions followed by the research design and methodological approach I intend to use, and I close by elaborating on my methods for data collection and analysis.

## **2. Literature Review**

Different strands of literature examine the political economy of taxation from the perspective of tax payers. One central concept to this area of research is the concept of tax compliance, the acceptance of tax payers of their legal tax liability. The literature identifies both positive and negative incentives for tax payers to increase their tax compliance. The economic literature has long considered tax compliance an issue of rational decision making under uncertainty (Slemrod, 1992). The main drivers of the decision whether to be compliant or to evade one's taxes were originally understood to be severity of penalty for non-compliance and risk of detection. Based on this theoretical framework for tax evasion, first articulated by Allingham and Sandmo (1972), empirical research has found abundant evidence for tax compliance increasing - or tax evasion decreasing - with stiffer penalties and rising chances of being caught (see e.g. Andreoni, Erard & Feinstein, 1998 for a review of this literature). Thus, negative incentives, such as high risk of substantial penalty for non-compliance, can act as a strong deterrent inciting people to comply with their tax liability. However, empirical findings have also repeatedly suggested observed compliance levels to be unreasonably high for the actual size of the penalty and the risk of detection (Cummings, Martinez-Vazquez, McKee & Torgler, 2009; Torgler, 2007), despite obvious measurement problems with most relevant variables.

This has led economists to draw on social psychology research among others to identify additional factors for predicting tax compliance. These factors constitute positive incentives that encourage tax compliance through providing reward rather than averting penalty. They include all factors contributing to an intrinsic motivation to pay taxes, sometimes referred to as tax morale (Feld & Frey, 2002; Torgler, 2007). A high level of tax morale can reflect certain normative attitudes such as rule-boundness or ideological beliefs in a welfare state (Levi, 1988), or it can stem from experiences such as positive perceptions of legitimacy and fairness of government, opportunities for taking part in the decision making process, accountability of government (spending), and satisfaction with public services (Braeutigam, 2008). Given its positive association with tax compliance, there is a growing interest in the literature to determine the factors shaping a person's tax morale (Alm & Martinez-Vazquez, 2003; Cummings, Martinez-Vazquez, McKee & Torgler, 2009; Feld & Frey, 2002; Riahi-Belkaoui, 2008; Smith & Stalans, 1991; Torgler, 2007)

Another, more sociologically inclined strand of literature differentiates between positive and negative incentives for tax compliance in a slightly different way. In this literature, negative incentives to achieve tax compliance are subsumed under the term coercion or coercive taxation (Bernstein & Lue, 2008; Everest-Phillips, 2010; Fjeldstad, 2001; Fjeldstad & Semboja, 2001; Moore, 2008). Here however, coercive taxation is not only characterized by frequent audits and daunting penalties in case of evasion, but also describes varying degrees of arbitrary assessment, coercive collection practices, absence of effective legal recourse, and lack of tax payer representation or influence in tax policy making (Moore, 2008). Moore (2008) associates coercive taxation predominantly with low-income, low-technology, agrarian economies. Fjeldstad and Therkildsen (2008) and Bernstein and Lue (2008) provide evidence for such practices from Tanzania, Uganda (Fjeldstad & Therkildsen) and rural China (Bernstein & Lue, 2008). In all these settings, even though

coercion is used to extort taxes from unwilling tax payers, tax yield remains relatively low (Moore, 2008).

Such circumstances are contrasted with situations often referred to as contractual taxation, revenue bargaining (Moore, 2008) or fiscal exchange (Fjeldstad & Semboja, 2001), where tax payers more or less implicitly enter a social contract with the government, motivating tax payers to quasi-voluntary tax payments in exchange for an institutionalized voice in matters of taxation and service delivery (Moore, 2008) thus receiving valued public services (Everest-Phillips, 2010). Under this scenario, tax payers face positive incentives for tax compliance, as they receive direct benefits from making tax payments. This revenue bargaining will create a constructive relationship of mutual interest between state and tax payers that, aside from generating revenue, will also encourage the state to improve the quality of its governance (Fjeldstad & Moore, 2008; Moore, 2004 & 2007) and engage in a process of state-building.

Unlike the economic literature that considers positive and negative incentives as largely independent from each other, what I will call here the ‘sociological’ literature tends to understand coercive and contractual taxation as two extremes on the same continuum (Moore, 2008), which, while allowing for some hybrid forms, makes the archetypes mutually exclusive.

Another important difference between the two literatures is in the kind of benefits associated with tax compliance. The economic literature is predominantly concerned with tax compliance as a means for increasing tax yield and maximizing the exploitation of the tax base. Positive and negative incentives for tax compliance are therefore evaluated under the aspect of to what extent they can contribute to this objective. The sociological literature on the other hand understands increasing tax compliance not only as a way to bolster tax revenue, but also as an approach to state-building. This however can only be achieved through contractual taxation, which will set in motion “a process of increasing the administrative,



fiscal and institutional capacity of governments to interact constructively with their societies and to pursue public goals more effectively” (Braeutigam, 2008, p.2). In this perspective, negative incentives have quite the opposite effect by further undermining the legitimacy of the state.

Some researchers argue that taxation by local governments is particularly prone to the application of coercive measures (Everest-Phillips, 2010; Fjeldstad, 2003; Moore 2008). According to Moore (2008), this relates to two broad political factors: local governments often do not have access to productive revenue sources that generate sufficiently adequate yield to cover their expenditure responsibilities; and local governments often find themselves effectively unrestrained by regulation or supervision from representative institutions such as local councils, or higher level governments. Moore (2008) however acknowledges that the connection between coercive taxation and local government is not an intrinsic one, and good arguments can be raised against this position, for example the direct accessibility of decision makers in a local setting increasing the opportunities for fiscal bargaining and exchange, and the prevalence of the benefit principle in local tax assignment stressing the link between taxes paid and services received (see e.g. Oates, 1999 & 2005).

The two strands of literature acknowledge that, while both positive and negative incentives can result in higher tax compliance, negative incentives can usually squeeze the tax payers only so far, until they start becoming counterproductive. The economic literature argues that excessively severe penalties may lead to a counter-reaction of increased bribery and corruption resulting in decreased compliance. Along the same lines, the sociological literature argues that extreme forms of coercive taxation tend to have high collection costs reducing the tax yield, and potentially lead to acts of civil disobedience and riots. Positive incentives, on the other hand, are self-perpetuating and self-reinforcing and as they not only motivate tax payers to comply with their tax liabilities in a way that reduces costs of

compliance and collection, but also encourages state-building. This will further boost collection and result in high and stable revenue yields.

## **Contextual Factors**

### *Overall Political Climate*

Ever since the Rwandan genocide in 1994 that brutally ripped the country apart, the new government has been persistently working on reconciling the conflicting groups and rebuilding a Rwandan state from scratch. A hasty and intensified promotion of broad-based and inclusive development – turning Rwanda into a middle income country, the next Singapore, in just two decades – is one central approach of the state to reestablish its legitimacy and to unite its people. This approach as articulated in key policy documents such as Vision 2020 and the EDPRS I and II, is being strictly and hurriedly pursued by all branches of government, supported by the donor community. But why this rush? The government fears there is no time to waste, as the threat of popular repudiation and insurgency instigated by hostile ‘cercles clandestins’ looms over the newly created state, and delay in delivering on its promises of a better future for all might strengthen disruptive forces that could plunge the country into violent conflict once again. It is this threat, the likelihood of its occurrence being difficult to assess, that has been serving as a justification to the government for running a tight ship – so tight that many critics speak of Rwanda as a dictatorship ( see e.g. Chapman, 2011) that sacrifices basic human rights for stability and growth.

### *Decentralization*

One means to efficiently implement its development approach across the whole country is decentralization. After holding countywide consultations between 1997 and 2000 on all issues pertaining to national unity and reconciliation, the Government of Rwanda initiated a process of decentralization and, since then, has been gradually devolving responsibilities and finances to lower level governments with a view to enabling them to

effectively plan and implement the delivery of public goods and services, fight poverty and foster local economic development based on national priorities and the needs of local citizens. In addition, the decentralization process also claims to explicitly intend to contribute to inclusion and cooperation and counteract the prevailing culture of passive obedience that runs the risk of people falling prey to sectarian manipulation, and instead stimulate a culture of debate at the grassroots level (Interim PRSP, 2000).

The lower level governments in Rwanda, since the 2005 territorial reform, comprise 30 districts, further subdivided into sectors, cells and villages, have been assigned a number of own revenue sources, such as taxes from trading licenses, property and rental income, as well as various fees, the most important being land lease fees, cleaning fees, markets fees, and fees for official documents, and notarizations. While the revenue from these own-sources is somewhat small in comparison to other local government revenues from earmarked transfers or different types of grants, it has been steadily increasing over the past 4 years, currently yielding an average of 10 % of revenue, albeit with large variations between urban and rural districts.

#### *Local Revenue Administration*

Until now, the local governments have been responsible for collecting their own revenue. Revenue collection is coordinated from the district level and mostly implemented by the sector administrations. Sectors used to employ revenue collectors, so called ‘percepteurs’ to physically collect payments from tax and fee payers. This approach however resulted in a lot of leakage, which led the Ministry of Local Government (MINALOC) to adopt the ‘zero-cash policy’ in October 2012, banning local government administrations from handling cash. Since then, local tax payers have been responsible for making their payments through banks or SACCOs<sup>3</sup>. Due to this increased inconvenience for the tax payers, in particular for the ones

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<sup>3</sup> Financial cooperatives In both banks and SACCOs, the district must hold an account in the financial institution for the taxpayer to be able to use it for tax payment

owing monthly fees, many local governments have reverted to the hiring of private tax collectors, who are paid based on performance against revenue targets. Some of these private collectors continue to collect payments from tax payers and later deposit them at the bank on their behalf, which as a practice seems to be operating in a legal grey zone, while others limit themselves to issuing payment receipts to tax payers in exchange for deposit slips.

### *Local Tax Payers*

Tax payers mainly belong to the business community or own land for residential or commercial use. Agricultural land below 2 hectares is not taxed, which exempts the majority of small subsistence farmers in rural areas from taxation. However, local tax payers are rarely wealthy or even middle-income, as poverty, in particular rural poverty is widespread, which is reflected in large revenue disparities between urban and rural areas.

## **3. Research Questions**

Given these framework conditions prevailing in the Rwandan setting, local taxation can play a crucial role in shaping the relationship between citizens and local authorities through the incentive system for tax compliance set by the local tax administration. A predominance of negative incentives could, aside from yielding only mediocre revenues, contribute to a further deterioration of the state-citizen rapport and result in people turning to opposition forces calling for a regime change. An overall prevalence of positive incentives might help not only fill the coffers of the local authorities, but also strengthen the relationship between them and their constituents and add to the confidence in the legitimacy of the state in the eyes of its people. To this effect, I seek to understand what incentive structures for tax payers dominate local taxation in Rwanda and how these incentive structures affect people's attitudes towards local government. More specifically, I propose to examine the following questions:

- I. What are people's perceptions and attitudes towards local taxation in Rwanda?

- II. How do these perceptions and attitudes affect their tax compliance?
- III. In what ways does local taxation affect people's understanding of their own role towards local government?
- IV. In what ways does local taxation affect people's understanding of the role and legitimacy of local government more generally [and does it contribute to state-building]?

By attempting to find answers to the above set of questions, I intend to contribute to the literature on taxation and state-building by exploring possible connections at the local level. I also seek to add to the scarce knowledge on local finance and taxation in Rwanda, which in the past has received considerably less attention from researchers in this field than the other countries in the East African Community.

#### **4. Research Design and Methodology**

Empirical research around the issue of tax compliance can be rather tricky, as the concept itself, as well as some of the potential influences on compliance such as risk perceptions, tax morale, or perceived legitimacy of government actions are very difficult to measure precisely (Slemrod, 1992). In addition, the general atmosphere in Rwanda is one where conformity and obedience are highly valued behavioral patterns, resulting in responses often being based on social desirability rather than honest assessment. In order to overcome these limitations to the greatest extent possible, I propose to use a sequenced multi-methods approach that will draw on different qualitative and quantitative methods that use both inductive and deductive approaches to data collection and interpretation. This will allow me to cross-check findings and emerging interpretations through triangulation. The sequenced application of the approach will permit to further examine and substantiate preliminary findings as well as explore possible underlying explanations.

In the first stage, I will analyze data from a survey of local tax and fee payers. The survey covers a range of issues around local taxation with the intent to learn about perceptions and attitudes of tax payers towards local taxes and fees as well as about their level of knowledge and understanding with regards to the intent and function of local taxation. It also addresses their reasons and motivations for compliance or non-compliance with their tax liabilities. Finally, it captures the cost of compliance that tax payers face in the process of paying their taxes and fees. The survey was administered to 535 tax and fee payers in seven sectors located in three different districts.

In addition to the survey results recorded on the questionnaires, the interviewers were asked to document any tax-related issues the interviewees would bring up spontaneously before, during or after the interview, as well as any other insights and experiences they would gain over the course of the data collection. These additional data were compiled and categorized in a debriefing workshop with all interviewers at the end of the data collection process.

Furthermore, following the example of Smith and Watkins (2005), I attempt to capture perceptions and attitudes towards local taxation by collecting chatter and street talk about taxes. For this purpose I intend to ask market vendors to document any comments or conversations relating to taxation they might overhear or be part of in a journal. Due to its non-intrusiveness, this methodological approach will provide largely unfiltered information that does not constitute a response to a direct or indirect question posed by the researcher and therefore most accurately reflects the true position of the tax payer.

The survey data, the information gathered during the debriefing workshop, as well as the street-talk journals will then be analyzed and the main issues identified will be further explored in the second stage. In the second stage of the sequenced multi-methods approach, open ended in-depth interviews with about 20 to 30 tax payers will be used to dig deeper into the issues identified in the analysis of the first stage. The interviews will provide further

insight into the underlying reasons for the perceptions and attitudes towards local taxation that predominate among tax payers in Rwanda and how they affect people's understanding of the role and legitimacy of local government. The interviews will be carried out by trained interviewers (possibly journalists) in the local African language (Kinyarwanda) following an elaborate interview protocol<sup>4</sup>.

## **5. Data Collection and Analysis**

In accordance with the sequenced multi-methods approach of this research, the data collection and analysis will unroll in two stages. The first stage consists of the local tax and fee payer survey and the street talk journals.

### *Local Tax and Fee Payer Survey:*

The local tax and fee payer survey was conducted within the framework of the GIZ Program Support to Decentralization as Contribution to Good Governance (DGG) in Rwanda, using a bilingual questionnaire (Kinyarwanda/English) with mainly closed questions. It interviewed 535 randomly selected respondents from three different districts. The questionnaire was administered to potential tax and fee payers by local interviewers in face-to-face interviews at the respondents' homes or workplaces.

The survey data will be analyzed using statistical and simple econometric methods to describe the distribution and frequency of the responses and identify distinct tendencies and correlations among them that give insight into perceptions and attitudes of tax payers towards local taxation.

In addition, feedback and additional information gathered by the surveyors within the course of their interviews was collected, structured and documented during a debriefing workshop. These data will be analyzed qualitatively.

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<sup>4</sup> This approach is contingent on the availability of additional funding. Alternatively I will conduct the interviews myself, possibly with the assistance of a translator. In this case, the number of interviews might have to be reduced for practicability reasons.

*Street Talk Journals:*

The street talk journals serve as a more inductive approach to identify people's perspectives and attitudes towards taxation. The approach is adapted from Smith and Watkins (2005) who used it to learn about the ways people speak about HIV/Aids in rural Malawi. I intend to ask 10 to 15 market vendors to keep journals of comments and conversations on taxation that they might witness over the course of several weeks. I will provide each vendor with a notebook and ask him or her to document all conversations in private and without mentioning the names or other identifying characteristics of any participants. I will leave the notebooks with the vendors and collect them again after 4 to 6 weeks.

There are several reasons for using market vendors for this exercise. First, market vendors are in principle liable to pay several local taxes and fees, such as trading license tax, cleaning fees, and market fees. Thus there is a good chance for issues around taxation being raised in their environment. Furthermore, market vendors work in close proximity to their peers and are in permanent contact with customers in a setting that is conducive to small-talk, chatter and gossip. This will allow them to overhear or participate in many different conversations carried on by diverse sets of people.

To ensure that conversations are not driven by tax collection practices of one specific district or sector, I will attempt to recruit vendors from three different markets in three different districts. The markets will be selected based on size and level and diversity of activity. In each market, I will recruit 3 to 5 vendors somewhat haphazardly based on convenience. However selection criteria will include literacy and fulltime or close to fulltime work at the market.

The journal entries will be translated into English and analyzed qualitatively using interpretative analysis (Miles & Huberman 1994).



### *Open Ended In-Depth Interviews:*

The second stage of the sequenced multi-methods approach consists of open ended in-depth interviews which serve to further explore the issues identified in the analysis of the different sources of information tapped in the first stage. The interviews will seek to provide insight into the underlying reasons for people's perceptions and attitudes towards local taxation and how they affect their understanding of the role and legitimacy of local government. The interviews will be carried out on a one-on-one basis either in the local African language (Kinyarwanda) or in French or English with support from a translator. For this purpose an elaborate interview protocol will be composed that will make sure the interviewers cover all the important issues while giving enough room to the interviewees to elaborate on their thoughts.

Open ended in-depth interviews will be conducted with about 20 to 30 local tax payers. Due to the necessity of having a base of trust with the interviewee to strengthen the trustworthiness of the interview findings, I will use a combination of convenience sampling, purposive sampling and snowballing to identify interviewees. Specifically I will ask colleagues, friends, and acquaintances to introduce me to potential candidates. The personal connection will help to put people at ease and make them less suspicious as to why they were selected. I will however try to achieve some variation in terms of age, gender, socio-economic status, place of residence, and type of tax to be liable for.

The interviews will not be audio-recorded to make sure people feel they can speak as freely as possible. However the interviewer will be taking notes during the interview and immediately afterwards. Should the interviews be conducted by local interviewers in Kinyarwanda, I will meet with them as soon as possible after each interview and request them to recount the entire conversation in as much detail as possible while I take additional notes. Again the interview notes will be analyzed using an interpretative approach (Miles & Huberman 1994).

## **Paper 3**

### **Decentralization as a Means for Unification**

#### **1. Introduction**

Countries emerging from a crisis – be it the end of a colonial era or an authoritarian regime, be it civil unrest, violent conflict or outright war – usually find themselves facing two choices to deal with conflicting parties inside their territory: They can either seek to attenuate the cleavages and strengthen national unity through centralization, or acknowledge the divisions and allow for regional autonomy through decentralization, hoping that this will keep the country from disintegrating altogether.

Resurrecting from ethnic conflict and genocide, Rwanda has decided to no longer entertain multiple ethnic identities or affiliations among its citizens. Instead it cultivates a Rwandan identity as one people and one nation. At the same time, as part of their various state-building measures, the government embarks on a process of decentralization that devolves responsibilities and finances to local governments and strengthens the self-determination of communities. This combination of policy choices seems counterintuitive and prone to create tensions between the different policy goals.

This research thus proposes to explore the potential goal conflict between decentralization and nation-building in Rwanda, by studying the extent to which the implementation process of the decentralization reform is able to accommodate the principle of national unity and indivisibility, and whether it effectively promotes or impedes Rwanda's nation-building efforts. It also seeks to gain insights into the mechanisms through which decentralization can shape people's sense of belonging, and as a consequence affect the legitimacy of the state.

To this end, the remainder of this paper will be structured as follows: The literature review begins by outlining the principle idea behind decentralization and the political motivations for its pursuit, including a short presentation of three country examples illustrating the political

implications of the events leading up to the devolution of powers. It then proceeds to discuss the connection between state-building and legitimacy, and how they relate identity and nation-building. The next section presents the historical and socio-political context in Rwanda focusing on the ethnic conflict leading up to the genocide, Rwanda's nation-building project, and its relation to decentralization. The following section presents the research questions. The final section describes the methodology to be used for the research.

## **2. Literature Review**

### *Decentralization and Political Motivations for its Pursuit*

Decentralization centers on the idea of granting increased autonomy to local communities. Increased autonomy manifests itself in the devolution of functional responsibilities and decision-making powers over resource allocation for and implementation of public goods and services to local governments. This in turn allows not only for a more efficient use of resources through better targeting of local preferences (Bird, 1993; McLure & Martinez-Vazquez, 2000; Oates, 1972, 1999; Smoke, 2001), but also for the empowerment of local communities to have a say in matters of public interest that directly concern them (Agrawal & Ribot, 1999; Crook & Manor, 1998; Ribot, 1996, 2004; Wunsch & Olowu, 2004). Especially the literature on local democracy and citizen participation as a rights-based approach (Brock, Cornwall & Gaventa, 2001; Chambers, 1997; Gaventa, 1997; Hickey, 2002; VeneKlasen et al., 2004) established the latter outcome not only as a means to greater efficiency in resource allocation, but also as an end in itself.

In its pure form, this normative approach is based on a number of more or less implicit, but fairly strong assumptions. Specifically, it requires that local governments actually possess the resources and the capacity to make effective use of their autonomy in the provision of public goods and services (Bird & Rodriguez, 1999; Gomez, 2007; Smoke, 2001; 2008, 2012). Further, it requires that there are effective mechanisms in place for citizens

input, feedback and accountability to ensure that local government planning is based on community preferences, and that local governments are delivering on their promises (Fox, 2007; Jenkins & Goetz, 2001; Manor, 1999; Ribot 2004). Finally it requires that local citizens at large, and not just local elites, are willing and able to use these mechanisms to engage constructively with their local government (Agrawal & Gupta, 2005; Bardhan & Mookherjee, 2006; Jones, et al., 2007).

While the reasons for adopting decentralization reforms are versatile, they tend to be largely political in nature (Eaton, Kaiser, Smoke, 2010; Smoke, 2007, 2012). Some countries for example have pursued decentralization reforms in times of internal tensions and conflict as a way to make concessions to groups seeking more autonomy from central control. While these groups might define themselves around a sense of differentness from others based on religion, language, culture, history, etc., their demands for increased independence and self-determination are almost always grounded in economic or political considerations. In the words of Adeney (2002) “the articulation of who ‘belongs’ is linked to the distribution of political power and economic resources” (p. 8).

In Indonesia for example, decentralization, that many observers describes as a “big bang” reform (Green, 2005; Hofman & Kaiser, 2006; Kaiser, Pattinasarany & Schulze, 2006; Smoke, 2007; White & Smoke, 2005) due to its pace and comprehensiveness, came as a response to political and economic crisis. The country, which is characterized by important regional, ethnic, religious and linguistic diversity (Hofman & Kaiser, 2006), had been governed by the centralist and authoritarian Suharto regime for over 30 years, when popular pressures for reform forced the president to step down and clear the path not only for democratization but also for extensive decentralization. Pressures for the latter reform came from regional separatist movements which in the past had time and again provoked outbreaks of violence, for example in the regions of Aceh and East Timor, as well as from resource-rich regions, which had been discontent for long about seeing the proceeds from their natural

resources being raided by the central government (Hofman & Kaiser, 2006; Kaiser, Pattinasarany & Schulze, 2006; Smoke, 2007). Also, the interim president actively sought support from the regional representatives in the consultative assembly to forge his powerbase (although ultimately unsuccessful) in exchange for greater regional autonomy. These concessions to autonomy through decentralization were thus instrumental in preventing a disintegration of the nation and stabilizing political power at the national level (Hofman & Kaiser, 2006; Kaiser, Pattinasarany & Schulze, 2006; Smoke, 2007).

After the defeat of Ethiopia's military dictatorship in 1991, the victorious Tigray People's Liberation Front (TPLF) and its allies forged a broad coalition in support of remodeling the previously centralized state into a democratic ethnically based federation. In the struggle leading up to the overthrow of the dictatorship, the insurgent groups had relied heavily on mobilization strategies around ethnic identity and ethnic self-determination (Samatar, 2005). Consequently, the new "regime [...] redefined citizenship, politics and identity on ethnic grounds" (International Crisis Group, 2009, p. 1). The federalization intended to grant more autonomy to regionally-based ethnic communities through decentralized regional governance. This, it was argued, "would recognize the country's primordial reality and bring past injustice to a rapid end" (Samatar, 2005, p.45). The federation was crafted to consist of nine regional states based on the territorial homelands of the major ethnic groups, and two city-states. The constitution reserved the regions the right to maximum self-determination including secession from the federation (Samatar, 2005). The formation of Eritrea in 1993 however remains the only secessionist incident. The other regions, despite extensive formal empowerment, remain fairly weak in practice (International Crisis Group, 2009).

India's federal structure has been codified in its constitution since independence from the British Empire in 1947. During British rule, the colonialists had devolved some moderate administrative and fiscal authority to the provinces, in the hope that strengthening provincial

affiliations and identities would weaken emerging Indian nationalism and help them maintain power at the center (Rao & Singh, 2006). When their plan failed and independence was eventually negotiated, the differing positions among the various domestic stakeholders regarding the territorial organization and governance structures of the former colony had turned into a veritable struggle. After the leading party, the Indian National Congress retracted from initial assurances to grant extensive political rights to Muslim minorities in a prospective independent Indian state (Rudolph & Hoeber Rudolph, 2010), the Muslim League decided to push for full separation resulting in the formation of Pakistan. Congress' leader Nehru openly favored a unitary solution for the new India as he believed that unified sovereignty would facilitate national socialist transformation. But his views were strongly contested within his party, in which the majority was committed to federalism as they felt that Congress' power was rooted in its multi-lingual, multi-ethnic rural base whose diverse identities and rights to self-determination needed to be respected (Rudolph & Hoeber Rudolph, 2010). As a result, the 1950 constitution stipulated India to be a federation, albeit with various centralizing features leaving the ultimate upper hand to the federal government.

In all the examples discussed above, the main driving factor behind the devolution of powers to sub-national entities through decentralization or federalization has been the intention to grant more autonomy to groups who understand their socio-cultural identity to be distinct from others living within the same national demarcation, and therefore request some degree of self-determination, instead of having others take decisions on their behalf. In some cases the step towards devolution is taken out of a genuine concern for the rights and needs of a diverse society, sometimes it rather constitutes a response to pressures from separatist movements threatening with secession. The actual outcome of such concessions – whether they satisfy the claimants or fuel their cause to push even further – is often difficult to predict and seems to heavily depend on context. Bird, Vaillancourt and Roy-César (2010) review the scarce literature on this question.

### *State-Building, Nation-Building, and Legitimacy through Identification*

Many post-conflict countries require extensive state-building to reconstruct the core operations of civil government after paralysis and destruction from war or violent conflict. State-building describes a process of creating and strengthening the administrative, fiscal and institutional capacity of governments to manage issues of public interest in an efficient and equitable manner (Braeutigam, 2007; Paine, 2010). However, state-building is not just a technical exercise, but also has important political elements (Klimis, 2009).

Fukuyama (2004) refers to four aspects of statehood that are critical to understand institutional capacity, namely organizational design and management, political system design, basis of legitimatization, and cultural and structural factors. These aspects need to engage and act in concert for effective and resilient state institutions to emerge. While some of these aspects, such as the organizational design and management of institutions have important technical components and are therefore relatively easy to influence and manipulate directly, other aspects such as the basis for legitimatization of a state vis-à-vis its people are inherently political in nature. Fukuyama (2004) argues that while historically the legitimacy of the rulers had taken many different forms, in today's world, democracy constitutes the only serious source of legitimacy.

Other scholars see a much more central role of legitimacy in state-building and consider different processes to be responsible for its emergence. Lemay-Hébert (2009) for example draws his understanding of legitimacy from Durkheimian sociology, where legitimacy is taken to stem from a process of creating socio-political cohesion, often referred to as nation-building. He cites Braud (2004, as cited in Lemay-Hébert, 2009) by stating that the "acceptance of the social control exercised by the state goes hand in hand with the feeling of belonging to a community of fate which the state would constitute the political expression of" (p. 29). Thus, in Lemay- Hébert's (2009) view, state-building is intrinsically intertwined with nation-building. This conception bears some resemblance to Paine's (2010), who argues

that nation-building implies the nurturing “of a shared set of overarching values and an overarching common identity among the inhabitants of a country with a sovereign government” (p. 7) and that the legitimacy of state institutions depends on the extent to which these institutions reflect these same overarching common values and identity.

Nation-building is often associated with the centralization of political authority (Bernman, 2010). As source of state legitimacy, it requires the building of some sort of unified ‘national identity’. Initial conditions for the emergence a national identity however vary widely. Paine (2010) emphasizes the fact that nations can be more or less homogeneous. For the more homogenous ones, the developing of a national identity will come fairly naturally. These are nations that have a broadly shared ancient history such as Egypt or share the same language, culture or ethnicity like Korea. The others might require an expedient to bring together more fragmented societies. To this end, some national leaders have attempted to instill a specific, unifying ideology such as Mao through Maoism or Atatürk through Kemalism, or a simple but powerful set of political values such as in the United States. Others used the shared concern over a major external threat to national security like Israel. Promoting and supporting the creation of communities that cut across established ethnic, religious, or linguistic groups can help cultivate overlapping loyalties and group identities in fragmented societies (Paine, 2010).

Norman (2006) even speaks of national identity as being something that can be actively constructed, deconstructed, and reconstructed through deliberate social engineering. To this end, political leaders and state institutions can draw on different tools, such as official language policy, rules for immigration and naturalization, core curriculum in schools, compulsory military service, fighting and mythologizing about patriotic wars, adopting national symbols and holidays, renaming buildings, streets, towns, and geographical features, control or regulation of national media, promotion of sports, particularly in international competitions. The way these tools are used and the messages they convey play a decisive role



in the kind of identity that is being created and the type of nation that will emerge from it (Norman, 2006).

### **3. Contextual Framework**

#### *Ethnic Conflict Leading Up to the Genocide*

During the 1994 genocide in Rwanda, about 800,000 Tutsi died at the hands of their Hutu neighbors. This incomprehensible outburst of brutal violence was the culmination of a long-smoldering conflict between the ethnic groups. During the colonial period, the Belgian colonists pursued a strategy of divide and conquer. They openly favored the Tutsis, whom they considered “superior” and to be “natural-born rulers” (Straus, 2006, p. 20), and whom they instrumentalized to control the Hutu majority. At independence in 1962, the Hutu majority took power and established a republic with a Hutu-dominated government. Tutsis were systematically driven out from public positions and acts of violence against them became widespread. But resistance started forming from the exiled Tutsi community that had taken refuge in the neighboring countries. As the Rwandan Patriotic Front (RPF), they attacked Rwanda from across the Ugandan Border in 1990 and started waging a rebel war against the Hutu-dominated government. Their military pressure eventually forced the government into a peace agreement, the so called Arusha Accords in 1993, in which it had to concede to extensive RPF demands. This agreement in turn provoked the Hutu hardliners within and close to government to respond with drastic counter measures (Straus, 2006). When the Presidential airplane was shot down on April 6<sup>th</sup> 1994 killing both the Rwandan and the Burundian Presidents, these radical forces were prepared to ignite a murderous frenzy against the Tutsi population within just a few hours. International intervention to prevent the mass killings was effectively non-existent, so it was left to the RPF to put an end to it. They succeeded by defeating the Rwandan armed forces and taking full control of the government on July 4<sup>th</sup> 1994.

### *Rwanda's Nation-Building Project*

After the devastation of the genocide, the only credible force to bring the country back on track was the RPF. What had started out as a rebel group had in the meantime transformed into a political party. Under its leadership a broad coalition of Tutsis and moderate Hutus was forged that took over government operations, reestablished security, and started bringing the perpetrators to justice. It also began working on developing a grand vision for a new Rwanda for all Rwandans. To this end, country-wide consultations were held between 1997 and 2000, which included representatives from all segments of society, i.e. the private sector, government, civil society and academia (Government of Rwanda, 2000). The outcome of this consultative process was molded into a strategic policy document, the Rwanda Vision 2020, which formulated Rwanda's medium to long-term development goals, and identified priority policy fields. It stated the aim to "transform [...] [the] country in to a middle-income nation in which Rwandans are healthier, educated and generally more prosperous" (Government of Rwanda, 2000, p. 2).

The Vision also articulated the firm determination to "construct a united, democratic and inclusive Rwandan identity" (p. 2). This emphasis on the nation's unity was underlined by "explicit political will and efforts for reconciliation" (p. 27) and the establishment of the 'National Unity and Reconciliation Commission' (NURC).

As a result of these unification efforts, holders of public office have been banned from publicly referring to, or self-identifying as a member of a particular ethnic group, and it has become increasingly socially unacceptable for many Rwandans to do so even in private. According to the new official narrative, the ethnic categories of 'Hutu' and 'Tutsi' were social constructions by the Belgian colonialists that had been created arbitrarily - based on the number of cows a family owned - as an instrument to secure their power. This illegitimate categorization has been extremely destructive to the unity of a highly homogenous people who share the same language, and the same culture and traditions, and therefore should be

done away with altogether. Instead, the only appropriate, government-sanctioned self-identification for a citizen nowadays is to be ‘Rwandan’.

### *Decentralization in Rwanda*

Another government policy that emerged from the national consultation process was decentralization. As stated in the 2001 National Decentralization Policy, it was understood as a response to the “highly centralized dictatorial governance” (MINALOC, 2001, p. 3) of the past regimes and had “excluded the Rwandese population from participating in the determination of their political economic, and social wellbeing” (p. 3). The policy further outlined, that “[d]ecentralization [...] [would] provide a structural arrangement for government and the people of Rwanda to fight poverty at close range and to enhance their reconciliation via the empowerment of local populations” (p. 7). Thus at the time of its conception, the two main objectives of the decentralization reform were to speed up the development process through enhancing public service provision and to empower local citizens to participate in their public affairs.

Through decentralization reform, responsibilities and finances for a variety of functions have now been devolved to 30 districts, which are further subdivided into sectors, cells, and villages. The districts consist of an elected district council and an administration and are headed by an executive committee composed of the district mayor and two vice-mayors. The executive committee is elected by the council from among its members. Sectors and cells are administrative entities of the districts. They each comprise an elected council and an executive secretariat staffed with district staff and supervised by an executive secretary. The villages are not formal administrative units, but they hold a council, which consists of all adult village members, and an executive committee of five elected from among the villagers.

In terms of their functional assignment, the decentralized entities have been charged with providing a broad range of public goods and services. The districts are responsible for the overall coordination of planning, financing and implementation of services, while the

actual delivery happens mostly on the sector level. The cell and village levels are responsible for data collection and community mobilization.

Several planning instruments are used at the district level. For their medium-term planning, the districts formulate five-year district development plans (DDPs). These DDPs are meant to incorporate both priority policy directives from the central government as well as community needs identified through a bottom-up process. These medium-term plans are then translated into yearly action plans. In addition to this, the mayors sign yearly performance contracts, so called ‘imihigos’ with the President of the Republic. The imihigos are a list of priority projects that the district promises to implement within a year’s time. They usually constitute a subset of the yearly action plans. Their achievement is given top priority by all districts due to their high visibility at the national level.

#### **4. Research Questions**

After experiencing tremendous grief and destruction caused by ethnic disruption, Rwanda wants to change its fate and build one nation of Rwandans. Given this objective, pursuing decentralization as one major public sector reforms seems like an odd choice for the country. Decentralization has often been pursued as an approach to acknowledge ethnic, or cultural, multiplicity and provide different groups with autonomy for political and socio-economic self-determination. Nation-building on the other hand is often associated with centralization of political authority (Bernman, 2010). This potential goal conflict even finds recognition in the National Decentralization Policy document (MINALOC, 2001), which states that the decentralization reform is to be formulated and implemented respecting the principle of national unity and indivisibility to “make sure that decentralization is not used as an excuse for national disintegration and discriminative development” (p. 9).

This research thus proposes to explore this potential goal conflict by studying the implementation process of the decentralization reform in Rwanda, the extent to which it

effectively allows for respecting the principle of national unity and indivisibility, and whether it should be considered as promoting or impeding Rwanda's nation-building efforts. In particular, the research seeks to find answers to the following questions:

- I. What motivated Rwanda to pursue decentralization rather than centralization?
- II. What are the mechanisms through which Rwanda was hoping to achieve greater unity through decentralization?
- III. What specific elements and characteristics of the Rwandan decentralization approach can be understood as contributing to greater unification, which ones might not?
- IV. Can decentralization be considered a viable approach for other countries in pursuit of nation-building, and under what specific circumstances might this work?

By answering these questions, I attempt to contribute to the literature on the role of decentralization in state-building and in particular on its effect on the legitimacy and national unity.

## **5. Research Design and Methodology**

In post-genocide Rwanda, the unity of the nation is treated as a sacred cow. Therefore, conducting research on related issues is a sensitive endeavor that requires the researcher to proceed with caution and tact. For this reason, I intend to conduct this research using an ethnographic approach, mainly drawing on participatory observation as means of data collection to minimize the impact of my research by raising any potential concerns with my informants. Furthermore, I will draw on document analysis and, to a lesser extent on interviews with various stakeholders at the national and district levels.

The setting for my participatory observations is a technical assistance program financed by the German government and its more or less immediate environment. The Rwandan government has nominated Germany to be the lead donor for decentralization, so the program is involved in many of the core reform processes. The program is co-managed by

the German International Cooperation (GIZ) and its implementation partner, the Ministry of Local Government (MINALOC), and provides support to decentralization as a contribution to good governance. It consists of three components, which all contribute to the program goal. The three components are support for fiscal decentralization, capacity building for local government, and strengthening civil society organizations. The program environment comprises a large variety of governmental and non-governmental institutions and organizations at both national and local levels that do work in relation to any of the three program components and cooperate with the program on a continuous, or sometimes more ad hoc basis. Among these cooperating institutions and organizations are the Ministry of Local Government (MINALOC), the Ministry of Finance and Economic Planning (MINECOFIN), Rwanda Governance Board (RBG), Rwandan Association of Local Government Authorities (RALGA), Rwanda Revenue Authority (RRA), Rwanda Local Development Support Fund (RLDSF), several district governments, the City of Kigali (CoK), and several national and local NGOs.

The program has invited me to use their office space as my 'home base' during my field research about fiscal decentralization and local finance in Rwanda. By sharing an office with the program staff, I will have many opportunities for informal discussions and exchange of information. Further I will get a chance to take part in some of the internal program meetings as well as meetings between program staff and their cooperation partners. Here of particular interest are the regular meetings of the Fiscal Decentralization Steering Committee and affiliated technical working group, which represent the national coordination mechanism for Rwanda's fiscal decentralization process. Through the program network, I will also have access to information about presentations, conferences and other public events held in Rwanda regarding decentralization.

The participatory observations will not only help me gain insights into the details of the decentralization process, but also, and more importantly, into the way the various

stakeholders make sense of it. Through repeated interactions, I will learn to understand their attitudes, their conceptions of their own role and that of others in the process, as well as their incentives and disincentives to work towards their stated goals.

In addition to the participatory observations, I will conduct a limited number of semi-structured interviews. Here, the program staff can also help me establish direct contact with some of the key stakeholders in the decentralization process and solicit their participation. These stakeholders will be selected based on their expertise, knowledge and assumed willingness to share information and personal assessment beyond the standard narrative.

Finally, I will analyze various legal and policy documents, strategy papers, studies, reports, and official written communication related to the objective, design and implementation of decentralization. Public documents will allow me to determine the official government position on specific issues. Internal reports and communication will potentially shed light on the negotiation processes leading up to it.

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