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**RWANDA FISCAL DECENTRALIZATION PROJECT**

Rate Setting for Local Taxes and  
Local Non-Tax Revenues:

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A Case of  
Rwandan Local Governments

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## Abbreviations and Acronyms

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CDF	Common Development Fund
CoK	City of Kigali
EAC	East African Community
FDD	Fiscal Decentralization Data
FDP	Fiscal Decentralization Project
GOR	Government of Rwanda
RWF	Rwandese Francs
USAID	Unites States Agency for International Development

## 1.0 Background

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The objective of this study is to examine rate setting of local taxes and other local non-tax revenues for the Government of Rwanda (GOR).<sup>1</sup> Local taxes are taxes administered and collected at local levels. In Rwanda, sources of local taxes include property tax, trading license tax, tax on rental income, and others such as local non-tax revenues.<sup>2</sup> In the local non-tax revenue category, various user charges, fees, fines, and penalties are included. As opposed to taxes, user charges, fees, and fines are directly related to the provision or use of particular local public services. All these form own source revenues for the local authorities in Rwanda, and each is examined on its own section in the study. The GOR's sub-national governments are mandated to administer various local revenue sources as part and parcel of the decentralization policy.

The local authorities have been given powers to administer, collect, and set rates for both types of sources (i.e., both local taxes and other non-tax sources) by Law No.17/2002 modified by Law No.33/2003.<sup>3</sup> In this study, these laws will be referred to jointly as 'the law.' However, the law provides for some ranges where an individual district and town can choose its own specific rate. The modalities and the basis for the selection are not very clear. We examined both of these and tried to establish specific rates for all the districts and towns of the GOR. In achieving this objective, we worked together with the officials of the City of Kigali (CoK) and randomly consulted the ratepayers.

The preparation of this study is as follows. Section 2 explains the theoretical approaches used in setting tax rates. Section 3 focuses on rate setting for the property tax. In Section 4, the rate setting for trading license tax is elaborated. Rental income tax and non-tax revenues form Sections 5 and 6, respectively. Policy recommendations form Section 7, and, lastly, Section 8 provides a conclusion and lessons learned.

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<sup>1</sup> These local taxes and other local non-tax revenues have been provided by Law No. 17/2002 as amended by Law No. 33/2003, Articles 2 and 1, respectively.

<sup>2</sup> The first three are the devolved taxes while the rest are local non-tax revenue.

<sup>3</sup> See Article 1 of the cited law.

## 2.0 Rate Setting Theory

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There is no unique way to set rates for taxable and local non-taxable sources of revenues. According to basic theory, rates for user charges (the major source of non-tax revenues) should be set to allow providers to fully recover the costs of providing goods and services. With regard to taxes, theoretically, the tax rate dutiable ( $\pi$ ) is defined as a result of the aggregate fiscal needs desired ( $\lambda$ ) minus the anticipated collections from all other sources ( $\beta$ ). Then the difference is taken as a proportion of total local taxable value base ( $\gamma$ ).<sup>4</sup> However, this is too theoretical; various considerations including lack of reliable data, widespread poverty, etc., limit the pure application of such theory in Rwanda.

The theory of *pure public* and *semi-public (private)* goods and services helps us to understand why it is difficult to set taxes and user charges at the levels that basic theory seems to call for. First, some of the services provided by district governments are *pure public* goods and services—that is, they are indivisible and secondly, they are non-excludable. Examples are streetlights and local roads. The implication, therefore, is once these goods are provided, everybody enjoys their benefits. This creates the ‘*free rider problem*’ expounded for the first time by Musgrave (1939). The gist of this condition is that people would not reveal their valuation of (i.e., what they would be willing to pay for) public goods if the goods could be consumed regardless of whether they paid.

On the other hand, these goods and services may be *semi or pure private* where the local governments are able to estimate the correct price and charge the consumers accordingly. In this case, the provider can exclude the non-payers (e.g., goods and services such as sewage and solid waste collection). However, even here it is difficult to set rates so as to fully recover the cost of providing those goods and services. First, there are some goods and services that the local communities need to supply at a subsidized pricing due to their positive spillover effects to the society. Such goods and services may be vaccines for health reasons and education; without such special arrangements in their provision they may be under-consumed.

Second, as Tiebout (1956) has pointed out, citizens may “vote with their feet.” In other words, they will choose to live in a community that approximates their preference revelation, i.e., that matches their level of demand (and willingness to pay) for those goods. The hypothesis has a useful bearing in this study since it cautions the different localities to incorporate the reaction functions of the other districts and towns when setting their rates and when deciding on the type of services and goods they offer.

For the first group (i.e., public goods or services), this study uses willingness and ability to pay with wide consultations from the public voters and officials in CoK. In the second category (i.e., semi-private goods or services), we considered the self-revelation principle backed with historical data currently available at CoK. In setting the trading license tax, through consultations with the CoK management, traders, and the public in general, several suggestions were put forth. These may be summarized in the following mix of four strategies: expected sales turnover, historical sales turnover of incumbent business, initial capital investment, minimum required reserves for banking industry, capacity for hotel industry ability, and willingness to pay. These approaches are considered under strict assumptions that local authorities collect the taxes and fees then reciprocate by providing a reasonable amount of public goods and services.

Finally, in proposing rates, we also considered the variations in resource endowments where the rates determined are districts- and towns-specific and can control for resources and business mobility. This consideration is important given the small size of the country that can easily permit earning income at different location from where one lives.

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<sup>4</sup> Mathematically, the formula on setting rates for taxes takes the form  $\pi = (\lambda - \beta) / \gamma$ . We assume away central government grants and transfers.

## 3.0 Property Tax Rate Setting

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The current section describes the basis for setting property taxes specifically for land and buildings.<sup>5</sup> Property tax is defined as a tax imposed on a piece of property or combined holdings of a person or his net worth. Franzsen (2000) defines property tax as an annual tax on the ownership (or occupation) of immovable property (i.e., land and/or buildings). It is an important source of revenue to local governments in many countries.

Nevertheless, local governments in Rwanda, like in many other developing countries, have not been able to tap the potentials of taxing properties at sub-national level governments—due mostly to the inherent problems that characterize these countries, including but not limited to, lack of valuation, narrow tax base, poor assessment, lack of political will, poor collection strategies, and lack of enforcement. It has been shown that, in 2002, Rwanda property taxes accounted for 21 percent of the local taxes (Gatabazi and Shirima, 2004).

The property tax represented about 50 percent of the collections from devolved (or to-be-devolved) local taxes from 1996 to 2002. After 2002, the collection of local revenues became erratic and uncertain due to the suspension of Law No. 17/2002 that called for its modifications by Law No. 33/2003.

In the Fixed Asset Manual for Rwanda, Almy (2003) argues that in setting property tax rates, it is useful to consider the following four elements shown in Box 1.

### Box 1: Rate Setting Elements

Setting the rates will require a balancing of four factors:

1. Revenue needs as indicated by the budget minus the revenue expected from other local sources and central government;
2. The share of fixed asset taxes desired from buildings taking into account rate limits and broadly applicable exemptions (that is, the basic value exemption allowed by Article 5, the indigent's exemption allowed by Article 9, and the five-hectare exemption mandated by Article 17;
3. Affordability, as indicated by the cash taxpayers have to pay or the underlying value of the properties; and
4. Viability, as indicated by the ratio of the revenue received from the property tax divided by the cost of administration.

*Source: See Almy (2003)*

Property tax by its structure is not automatically a buoyant revenue source; that is, the property tax relies extensively on active government participation to ensure that changes in tax base information and property values are kept up-to-date and that taxes are properly assessed, billed, collected, and enforced (Kelly, 1999).

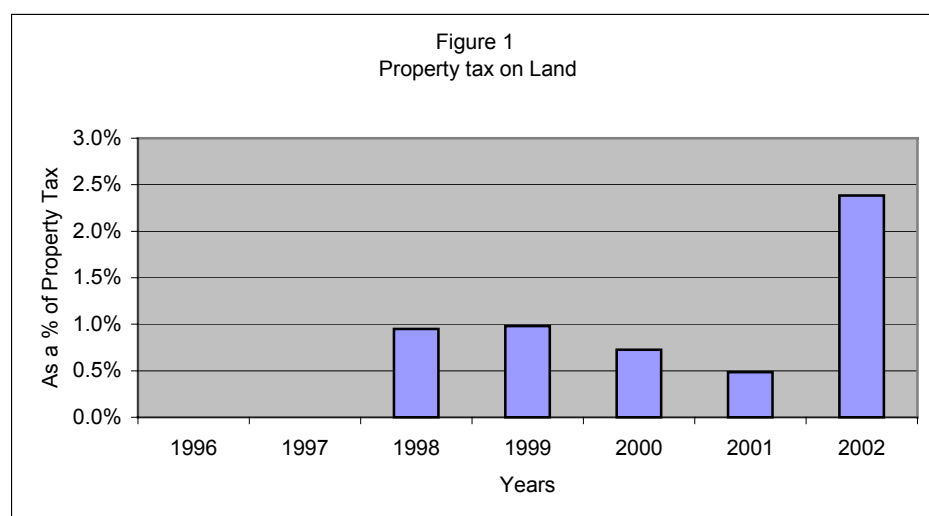
### 3.1 Setting Property Tax on Land

Rights in land have both economic and social dimensions. In Rwanda, lack of land is a crucial problem. According to Household Living Conditions Survey (2000-2001), at the national level, the mean size of a family holding is 0.76 hectares. The provinces that have the largest family

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<sup>5</sup> For more discussion on this subject see Shirima and Gatabazi (2004).

holding are Kibungo with an average of 1 hectare, Umutara with 0.99 hectares, and Gitarama with 0.86 hectares while Butare has the smallest with 0.36 hectares. An overview of land contribution to the property tax is given in Figure 1 below.



Source: Authors Own Computations from Fiscal Decentralization Data (FDD)

From Figure 1 above, we observe that, over the years, the land tax has contributed little to total property tax collections. In 2002, that contribution rose to 2.4 percent. This is a substantial increase for a country like Rwanda where enforcement and valuation are still a problem. The seen jump may be partly attributed to the devolution policy, which put it under the administration of the local government where voters regard its revenues as largely earmarked for activities that benefit their jurisdiction—an incentive that apparently helped to increase compliance.

In some countries, citizens have direct rights on land while in others, like Rwanda, land is the state property; thus, the property tax systems in the two cases will definitely differ. For this reason, different countries have different approaches in their property taxation systems; for example:

**East African Countries:** The three countries forming Eastern African Community (EAC), namely Tanzania, Kenya, and Uganda, do not have a uniform taxation system. Tanzania taxes only buildings. Kenya taxes only land using capital-based for an unimproved site valuation, while Uganda taxes both land and buildings (Kelly, 2000). Rwanda taxes both as Uganda.

**Indonesia:** In Indonesia, all land parcels located within one zone are valued by multiplying the area with the average per-unit price. The buildings are valued based on a cost approach using cost tables determined by the tax department. The total property value is the summation of the land and building values (Kelly, 2003).

**Estonia:** According to Ott (1999), in Estonia, each municipal government is given the responsibility of setting its own tax rate within the region of 0.8–1.2 percent per year of the assessed price of land, while the agricultural land receives preferential tax treatment on social and economic grounds. Advocates for this classification often argue that subsidization (lower tax payments) provides benefits to poor farmers who otherwise could not remain in farming.

**Lithuania:** Sabaliauskas (2002) observed that Lithuania taxes a 1.5 percent land tax paid by landowners as market elements were being introduced gradually in the land tax base.



**Rwanda:** The rates for land taxes in Rwanda have been explained by Article 17 of Law No.17/2002 as modified by Article 6 of Law No. 33/2002 presented in the Table 1 below.

**Table 1: Current and Proposed Rates for Land Taxation in Different Areas of Rwanda - Based on Square Meter Area (in Rwandese Francs-Rwf)**

Area	City of Kigali		Other Towns		Trading Centers		Rural Areas
	C	R	C	R	C	R	
<b>Use</b>							N/A
<b>Current Rates per square meter</b>	20-50	N/A	10-20	N/A	1-10	N/A	Not to exceed Rwf. 1000/per hectare (<1000)
<b>Proposed rates per square meter</b>	40	20	15	10	7	3	Not to exceed Rwf. 500/per hectare (<500) <sup>6</sup>

Source: Law No. 17/2002 as Modified and Completed by Law No. 33/2003, Article 6, Sections (a) to (f).  
C - Commercial, R - Residential, N/A – Not Applicable.

Nevertheless, market value taxation offers a stable source of revenue with a potentially broad and expanding tax base for local governments and it also provides the benefits of a more equitable distribution on taxes, as well as greater fiscal transparency and accountability. Many developing countries, including Rwanda, set different rates for urban and rural land for the purpose of favoring the rural poor. Article 5 of Law No.17 as modified by Article No. 2 sections (a) and (b) of Law 33/2003 clearly indicates that fixed assets to be taxed are buildings registered in the land registry and land reserved for research or mining and quarry. In addition, Article 16 of Law No.17 as modified by Article No.6 of Law No.33/2003 sets different rates for different areas of land in specified locations.

Therefore, as illustrated in Table 1 above, this study advocates that there is a need to incorporate other land attributes, such as use and location, that determine value for any given square area. The reason is simply that the same area of a parcel of land, even in the same town in different locations, for instance, makes a huge difference in value terms when these factors are considered together. The implication is that the current suggestions aim at minimizing these differences.

### 3.2 Setting Property Tax on Buildings

Lessons from other countries show that different approaches are used in building taxation. For example, Tanzania uses flat rates<sup>7</sup> (Kelly and Musunu, 2000). *Ad-valorem* taxation is used in Lithuania and Poland according to Sabaliauskas (2002) and Malme (1999), respectively. Examining Article 2 of section (a) of Law No. 33/2003, the tax is calculated on the value of the house or building, which has been declared by the taxpayer, and that house or building must have been registered in the land registry and the owner must possess a title deed. The law provides that tax rates should be within the range of 0.1 to 0.2 percent of the property value. Obviously, it ignores the aspects of location and use. For instance, residential properties are treated the same as commercial premises. This study proposes the following rates as indicated by Table 2 below.

<sup>6</sup> The rural Rwandans are the poorest and still agriculture is rudimentary, thus high rates seem to discourage agricultural activities.

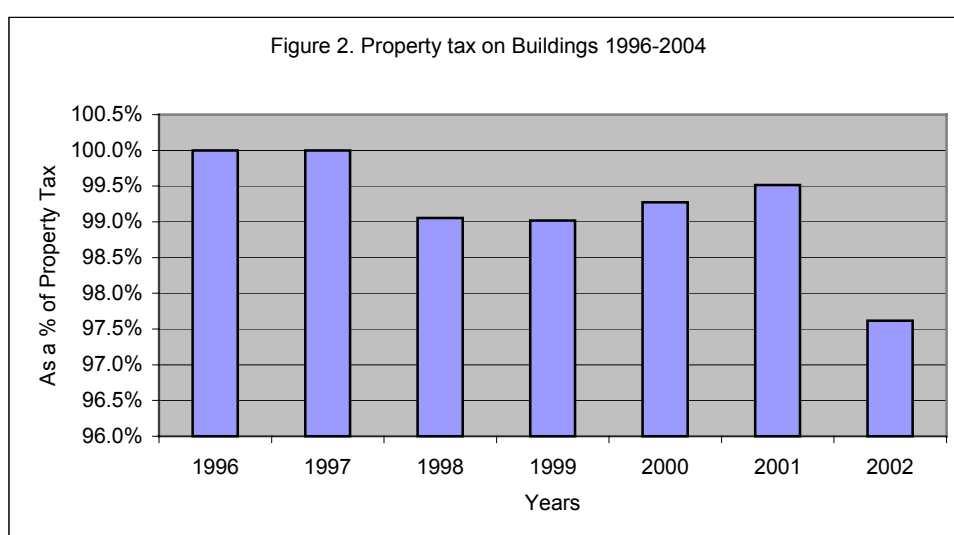
<sup>7</sup> Flat rates are taxes charged on properties that are believed to belong to the same category or categories, whereas *ad valorem* taxation system is based on the prevailing market value of the properties.

**Table 2: Suggested Tax Rates for Buildings (All figures in percentage)**

Use	City of Kigali		Other Towns		Trading Centers		Rural Areas	
	C	R	C	R	C	R	C	R
<b>Current</b>	0.2	0.2	0.1	0.1	0.1	0.1	N/A	N/A
<b>Proposed</b>	0.2	0.1	0.1	0.05	0.05	0.03	0.01	0.005

Source: Law No. 17/2002 as Modified and Completed by Law No. 33/2003, Article 6, Sections (a) to (f).  
C - Commercial, R - Residential, N/A – Not Applicable.

Figure 2 below, illustrates the buildings property tax collection as percentage of total property taxes. It reveals that property tax is mainly on buildings and this confirms the widely accepted claim that it is an urban phenomenon. In 2002, it slightly dropped, due to the initiation of the decentralization initiative and transfer of responsibility for administering this tax to the district level (see earlier discussion).



Source: Authors Own Computations from Fiscal Decentralization Data (FDD)

In addition, it is a well-known fact that a good number of house owners in Rwanda, including some of the houses in CoK, have no title deeds. Even many government buildings have no title deeds. The law requires fixed asset owners, possessors, or usufructuary to be liable to pay the property tax; however, the situation remains difficult for the tax administration departments to identify these potential ratepayers, thus the above suggestions.

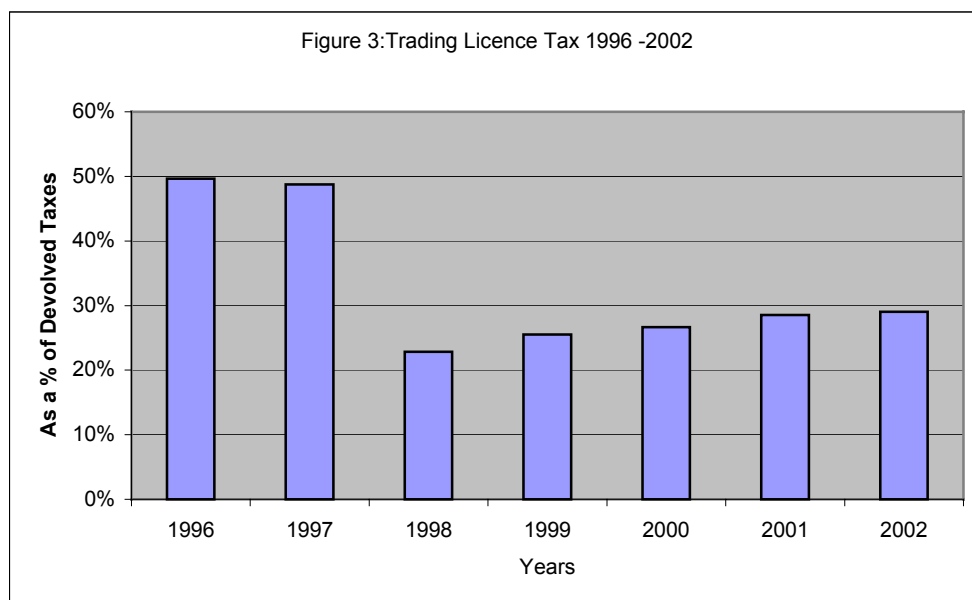
Nonetheless, those who do not pay taxes deserve and actually equally demand municipal services such as roads and other essential amenities (Turk, 2003). Consequently, the study observes the infrastructure supply to the non-payers who do not give money, causes damage for the payers because they do not enjoy their contribution. As a result of this, there is a need for local governments in Rwanda to consider collecting taxes from those citizens who have no title deeds but possess the District's legal ownership document, "Acte De Noterieté," because it also shows the holder enjoys the benefits from the stated assets. We may further emphasize that, even if the owner does not have legal ownership (i.e., title deeds) but 'possesses' the property, he must be liable to pay taxes. Currently, no enforcement is directed towards collecting taxes for possessors or usufructuary individuals. This may be applicable to all valuable properties constructed in un-surveyed areas. The market value approach incorporating location and use is still the best alternative for building taxation for Rwanda.

## 4.0 Rate Setting for Trading License

Articles 16 and 17 of Law No 33/2003 stipulate that trading license is determined on the principle of the basic license 'P', and that will vary according to the type of activity but does not exceed 2,000 Rwanda francs (Rwf 2000). Further, it sets the ceiling of the fee that has to be paid by each business according to its category.<sup>8</sup>

However, Article 16 does not explain the basis used to select 2000 Rwf as a basic license; again Article 17 does not explain the criteria used in determining the business categories. This creates unfairness in trading license payment as a whole; for example, banking businesses are treated the same regardless of their size. Furthermore, there is no rationale to classify a small retail shop in Butamwa District and a big wholesaler in Matheus Street in Nyarugenge District (both in CoK) into one category (i.e., Category B) and thus charge them the same amount for trading license tax. In addition, there is no apparent reason for charging the same amount of trading license tax to a flower exporter in Kigali (120PG) and a brewery company, or tobacco factory, or a textiles manufacturing company, both which fall into Category F (120PF). It would seem that this Article favors big businesses at the expense of small ones.

Figure 3 shows the performance of business licenses as a percentage of devolved taxes for the period 1996 to 2002. Surprisingly, in the first two years (i.e., 1996 and 1997), contribution was at their highest levels of nearly 50 percent in both years.



Source: Authors Own Computations from Fiscal Decentralization Data (FDD)

The performance deteriorated following the period of the establishment of RRA in 1997. But then from 1998 on, performance maintained an average trend of 25 percent per year up to 2002.

A further imperfection in the present law is that its Article 17 provides that, if an individual or company owns various hawking or vending businesses in the same district, he shall pay for only one, that is, the highest of all. This makes it possible for people to collude to own several businesses under a single name

<sup>8</sup> The schedule represents eight different categories labeled A to H and groups business according to type of activities.

to evade paying the trading license taxes. Therefore, in both cases, local authorities will lose a substantial amount of revenue because some businesses will operate without paying the trading license fee. We suggest that this Article be revised so that each business is obliged to pay for trading license taxes irrespective of ownership and location (See Annex 1).

All these deficiencies call for a rational basis that can help local governments charge an equitable trading license fee to all types of businesses. The local governments also need to periodically consult the taxpayers and adjust their rates accordingly. This study in Section 2 observed four possible bases for rate setting as follows:

**Expected sales turnover:** For any new business, there is no clear criterion that can be used to determine trading license fees. However, if the applicant would honestly disclose his/her expected sales turnover in the first year, it would be possible to set the fee with minimal problems. Again, it is not possible for any businessperson to divulge such information.

**Rwanda Revenue Authority's taxation basis:** For the existing business, it could be simple if the local governments can obtain information from the Rwanda Revenue Authority that has been used to determine sales tax or Value Added Tax and use the same as the basis for determining trading license. The major shortcoming with this method is that the taxpayers are most likely to under-declare their sales revenue.

**Historical sales turnover of a well established business:** With the absence of the expected sales turnover in the case of new business, and the likelihood of getting unreliable information from Rwanda Revenue Authority, another possible alternative would be to use historical sales turnover of similar business. Some similar businesses can be surveyed and the mean of their sales turnover can be used to determine the trading license fee for the new similar business.

**Initial investment.** Because every business owner starts this undertaking with the purpose and hope of getting benefits from it, one would opine that the bigger the investment, the bigger the benefits expected. Consequently, the initial investment forms a potential basis for rate setting.

Following the above-suggested approaches, local taxing authorities will be required to set ranges that will form the basis for determining a specific trading license tax. We also agreed that the historical sales turnover of a well-established business and the initial investment form the best basis that can be used in setting rates for trade license taxes, while for the banking industries, a minimum reserve requirement should be the determinant. This means that the larger the bank, the greater the trading license taxes. Moreover, we consider the affordability and the willingness to pay of the taxpayers. The suggested rates are in Annex 1.<sup>9</sup>

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<sup>9</sup> In view of the above we classify business groups into large, intermediate, medium, small and very small based on the nature of the activity and initial capital involved, as is the practice in CoK.

## 5.0 Rental Income Taxation Rate Setting

Article 23 (section b) of Law No 33/2003 states that the beneficiaries of the net profit from rental income of land and buildings are liable to pay rental income tax. In addition, Article 22 of the same law explains that the net revenue is obtained after deducting the gross revenue expenses incurred by the owner for maintenance amounting to 70 percent of the gross revenue, or 50 percent of gross revenue plus interest for the bank in case the taxpayer produces a proof for having paid bank interests in the same year.

Furthermore, Article 24 of the same law lays down the limits from which the districts' and towns' councils can set different rates for different rental income brackets (sections (a) to (f), see Table 3 below, column 3). Therefore, using net rental income as the tax base for this purpose is a fair approach to the ratepayer, but the use of the fixed asset should be differentiated whether it is for residential or commercial purposes.

**Table 3: Rates Applied and Proposed on Net Rental Income to Determine Rental Income Tax**

	Rent Income Bracket in RWF	Current Rate (%)	Proposed Rates (%)							
			City of Kigali		Other Towns		Trading Centers		Rural Areas	
	Location		R	C	R	C	R	C	R	C
	Use	N/A	R	C	R	C	R	C	R	C
1	Below.60, 000	E	E	E	E	E	E	E	N	E
2	60,001-180,000	15	10	15	5	10	2.5	5	N/A	2
3	180001-300,000	20	15	20	10	15	5	10	N/A	5
4	300,001-600,000	25	20	25	15	20	10	15	N/A	10
5	600,001-1,000,000	30	25	30	20	25	15	20	N/A	15

Source: Law No. 17/2002 as Modified and Completed by Law No. 33/2003  
C - Commercial, R - Residential, N/A – Not Applicable, E-Exempted

The new rates proposed in Table 3 above are expected to enhance compliance and discourage evasion, especially for the areas in which the rates have been moderately lowered.

Contrary to the business license tax discussed previously, Figure 4 below illustrates that the initial period of rental tax (1996 and 1997) as a percentage of total devolved taxes was at its lowest level, contributing less than 5 percent of the devolved taxes. In the period after the inception of the RRA (1998-2002), its contribution averaged 23 percent of the total devolved taxes. This is a huge increase within a short period of time for a country like Rwanda, which means that the local governments may enhance their revenues by directing their forces toward this source.



Source: Authors Own Computations from Fiscal Decentralization Data (FDD)

## 6.0 Local Non-Tax Revenues Rate Setting

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In Rwanda, local non-tax revenues include rent on local government infrastructures, documents issued by the local authorities, services rendered by the local authority officials, fines, and other available charges explained below. It should be pointed out that failure to exhaustively identify other sources of local non-tax revenues and put in place proper mechanisms for collecting fees and other associated charges has denied the local governments in Rwanda substantial amounts of money in terms of uncollected dues. For example, Canada has managed to exploit this source of revenue such that it now accounts for approximately 25 percent of total revenue for Canadian municipalities (Swift, 2004).

### 6.1 Rent on Local Government Infrastructures

Where local government erects an infrastructure such as markets,<sup>10</sup> individual tenants have to pay rent for the space they occupy so that the authority can recover the invested funds. However, the current practices, particularly with the CoK, is that tenants have been classified into different categories based on the nature of activities for which different amounts of money are charged in the form of duties. It is suggested that the quality and area occupied by the tenant should be the basis used to set the amount of rent. As a result, markets in CoK in different locations attract different fees based on the above elements and mainly on their strategic location.

The proposal implies that local authority should charge rent only, which will cover all other small fees that seem to be administratively nuisances to collect. For example, where the space includes walls and doors, the tenant will have to pay more than others without these facilities do. In addition, markets are differentiated and charged accordingly based on whether they are roofed or operated in an open space without roof. For the suggested rent-charges, see Annex 2 (a) to (d).

### 6.2 Charges on Documents Issued

There are different types of documents issued by the local governments whose suggested charges are presented in Annex 3. Our investigations revealed that some of these fees were set many years ago and do not reflect changes in the cost of living, thus an upward change is suggested. Others seemingly appeared to have been highly pegged and we decided not to change them or slightly scale them downward. However, some rates do not seem plausible and do not match the current situation, so we have suggested they be abolished.

### 6.3 Charges on Services Rendered by Local Governments

These are of two types: services rendered to the public in general such as streetlights, sewer cleaning, etc., and those that are rendered to specific individuals. With the former, it is difficult to estimate how much each individual will contribute, as costing the benefits is too cumbersome; the theory behind this has been explained elsewhere in this study. On the other hand, charges for the latter are easy to understand by both the giver and beneficiaries and Annex 4 has the current charges and some suggested ones.

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<sup>10</sup> Common Development Fund (CDF) funds most of these projects.

## 6.4 Fines

Local governments also collect different types of fines as a result of various offenses committed. Included in the discussion are fines that are specific to particular areas of jurisdictions and those that are collected on general cases. Annex 5 reflects only the latter category.

## 6.5 Other Sources

By virtue of their locations or endowment, different district authorities have different other sources of revenues. Examples of such sources with their respective charges are identified and presented in Annex 6.



## 7.0 Policy Recommendations

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This is the first comprehensive study to be implemented for GOR in an attempt to set rates for local taxable and non-taxable sources of revenues for its sub-national level structures. First, the study recognizes the heterogeneity of the various 106 districts and towns of Rwanda. Second, we identified all the possible local own sources of revenues. Third, we grouped them according to the nature of business disaggregated to the kind of activity and to size. Fourth, we classified these local own sources of revenues into four broad categories as provided for by the law: property tax, trading license tax, rental income tax, and other sources. These other sources were further defined as fees, fines, penalties, and user charges.

We next carefully reviewed the current rate setting for the existing sources and linked this with the respective law that empowers the local governments in Rwanda to fix and levy these sources. New proposals of some sections and articles of the law are promulgated, and these will form the basis of amending the current law. Finally, we attempted to incorporate value, location, and use in determining the rates whenever possible. The following specific recommendations are thus pertinent for the GOR's districts and towns.

1. There is an immediate need to reexamine and rewrite the law almost entirely. It creates obvious errors of omission and commission—Articles and sections contradict one another, there are misspellings/typos, French and English versions are conflicting, etc. This has created misinterpretation of some sections and has jeopardized revenue realizations of some districts.
2. Property tax from land and buildings contributes about 21 percent of all the local taxes combined *ceteris paribus* based on 2002 FDD data. This has a good implication policy-wise, that the GOR, in collaboration with districts, may enhance this source over time. Land is lagging behind building in generating revenues; therefore, local authorities need to explore more on this potential source. One plausible and quick solution is to reexamine the procedure of title issuance.
3. Collection of trading licenses should have been an easy task for local governments in Rwanda as is the case with many other countries. However, the current implementation of the law allows hawking traders and vendors to do business under a single license to operate multiple business entities.
4. Further, businesses are grouped in the same category, which ignores the size or volume of business that reflects a design problem. The current study provides a more plausible design approach where, for instance, a large bank is charged differently from a smaller one, or a hotel with more capacity pays more than one that does not.
5. Aside, we incorporated a location factor that distinguishes the same activity when conducted at different sites, especially for the CoK business licenses tax. A notable example is businesses in Butamwa or Kanombe Districts are treated the same as a business at Nyarungenge District at the city center. Findings from data reveal that the two districts are more of rural than urban and Law No. 07/2001 creating CoK should be reconsidered (Gatabazi and Shirima, 2004).
6. The rental income tax current rate ignores a very important determinant, namely the 'use' concept. If a property is rented for residential purposes while another one is for commercial purposes, then they should attract different rates.
7. Similarly, we propose that a location parameter be incorporated in addition to the property use.
8. The study explored the country-specific areas where local non-tax revenues are identified in addition to the existing ones. We propose that efforts of the town and district councils be directed towards netting them among their taxable items since they are also less buoyant.
9. In terms of fees, fines, and penalties, we have recommended reasonably ideal rates with two things in mind. First, if fines and penalties are too high, then they may be a source of graft. On the other hand, they may deter evasion and avoidance for fear of being caught, therefore enforcing compliance.

## 8.0 Conclusions

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The study attempted to construct specific rates on local revenue sources for the sub-national governments in Rwanda. The approach used takes into consideration the ability to pay and willingness of the local voters. It recognizes the importance of incorporating three main aspects important in rate setting, which includes value, location, and use of the various properties and businesses according to jurisdiction.

It offers a comprehensive itemization of the various groups of properties, businesses, a wide range of products, and services that local governments in Rwanda can net to harness their revenue generation capacity. The suggestions can be used outright as they are, or may involve, minor modifications to suit individual districts and towns.

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## ANNEX 1

### Proposed Trading License Taxes for Different Business Categories

(RWF per year)

Area	City of Kigali	Other Towns	Trading Centers	Rural Areas
<b>Rate</b>	<b>400,000</b>	<b>300,000</b>	<b>150,000</b>	<b>50,000</b>
<b>Large businesses</b>				
1. Industries/Factories				
2. Banks				
4. Insurance Companies				
5. Hotels				
6. Printing Business				
<b>Intermediate businesses</b>	<b>100,000</b>	<b>80,000</b>	<b>40,000</b>	<b>10,000</b>
1. Big Enterprises				
2. Garage with Representation				
3. Wholesalers				
4. Petrol stations				
5. Transporters				
6. Big garage				
7. Import & Export				
8. Big pharmacies				
9. Big spare parts shops				
10. Beer and soft drinks depots				
11. Accounting and auditing firm				
12. Consultant bureaus				
<b>Medium businesses</b>	<b>50,000</b>	<b>30,000</b>	<b>15,000</b>	<b>5,000</b>
1. Publicity Cars				
2. Traveling agencies				
3. Chemist Depot				
4. Quarry Depot				
5. Private Clinics/dispensaries hospitals				
6. Bakeries				
7. Dry cleaners				
8. Minibus-Taxis				
9. Branches of: - Banks				

Area	City of Kigali	Other Towns	Trading Centers	Rural Areas
- Insurance companies				
10. Law firms				
11. Clearing/forwarding agencies				
12. Big photo studios				
13. Big cinema halls				
14. Medium printing				
15. Stationeries				
16. Big butchers				
17. Jewelries				
18. Publicity Cars				
19. Night clubs				
20. Florists				
21. Bars and restaurants of 1 <sup>st</sup> category				
22. Big Kiosks				
23. Big hair saloons				
24. Book shops				
25. Small hardware				
26. Small and medium enterprises				
27. Used cloth depot				
28. Big depots-for food items				
29. Wood depots				
30. Conference halls				
31. Medium Spare parts				
32. Exchange bureaus				
33. Driving schools				
34. Car wash				
35. Guest houses/lodging				
36. Internet café				
37. Handicraft				
38. Driving school				
39. Medium Size Clinics/Dispensaries				
<b>Small Businesses</b>	<b>30,000</b>	<b>15,000</b>	<b>8,000</b>	<b>3,000</b>
1. Small kiosk				
2. Butchers				
3. Medium restaurants				
4. Pubs				
5. Soda and milk shops				
6. Small restaurants				
7. Tailoring				
8. Furniture				
9. Small depot for				

Area	City of Kigali	Other Towns	Trading Centers	Rural Areas
food items				
10. Small photo studios				
11. Video cassettes for hire				
12. Small cinema Halls				
13. Small hair saloon				
14. Lavatory				
15. Break down cars				
16. Sauna and massage				
17. Charcoal depots				
18. Wood depots				
19. Wood depots				
20. Window glass				
21. Tire repairs				
22. Small spare parts shops				
23. Photocopying				
24. Tel and fax kiosk				
25. Small pharmacies				
26. Veterinary services				
27. Pick up for hire				
28. Cab (tax				
29. Typing				
30. Quarry mining				
31. Traditional medicine				
32. Wood Displaying				
33. Livestock food				
34. Barbecue				
35. Small garage				
36. Small butchers				
<b>Very Small Businesses</b>	<b>10,000</b>	<b>5,000</b>	<b>3,000</b>	<b>2,000</b>
1. Small boutiques without soda and milk				
2. Retailers of: bamboos, firewood				
3. Used books				
4. Charcoal retailers				
5. Charcoal stoves				
6. Shoes shinning				
7. Radio repairs				
8. Watch repairs				
9. Retailer (one)				
10. Hair cutting saloon				
11. Local brew-millet, banana beers				
12. Tyre repairs				
13. ID covering				

Note: for discussion of size of businesses (e.g., “small,” “very small,” etc.), see body of report.

## ANNEX 2a

### Proposed Rental Charges for Businesses in Markets with Roof (in Rwandan Francs) in City of Kigali

	Nyabugogo	Biryogo	Nyakabanda and Kimisagara	Gikondo	Kacyiru	Kicukiro	Remera
1. Banana:							
Wholesalers	6 000	6 000	6 000	6 000	4 000	4 000	6 000
Retailers	2 000	2 000	2 000	2 000	1 500	1 500	2 000
2. Potatoes	6 000	6 000	6 000	6 000	4 000	4 000	6 000
3. Sweet potatoes	2 000	2 500	2 500	2 000	2 000	2 000	2 500
4. Casava:							
- Fresh	1 000	2 000	2 000	2 000	1 500	1 500	2 000
- Soaked	4 000	4 000	4 000	4 000	3 000	3 000	3 000
- Flour	1 000	2 500	2 500	2 500	1 500	2 000	2 000
5. Rice	3 000	3 000	3 000	3 000	1 500	1 500	1 500
Sugar	3 000	3 000	3 000	3 000	1 500	1 500	1 500
Groundnut	3 000	3 000	3 000	3 000	1 500	1 500	1 500
Milk	3 000	3 000	3 000	3 000	1 500	1 500	1 500
6. Meat:							
- Beef	4 000	4 000	5 000	4 000	3 000	3 000	4 000
- Goat	3 000	3 000	4 000	3 000	2 500	2 500	3 000
- Pork	1 000		1 000	1 000	1 000	1 000	1 000
7. Tomato;							
-Wholesaler	5 000	6 000	6 000	6 000	3 000	3 000	6 000
-Retailers	1 500	2 000	2 000	2 000	1 500	1 500	2 000
8. Cabbage							
-Wholesaler	5 000	6 000	6 000	6 000	3 000	3 000	6 000
-Retailers	1 500	2 000	2 000	2 000	1 500	1 500	2 000
9. Vegetables	1 500	2 000	2 000	2 000	1 000	1 000	2 000
10. Indagara	2 000	2 000	2 000	2 000	1 000	1 000	2 000
11. Fish	4 000	4 000	4 000	4 000	2 000	2 000	3 000
12. Sweet banana	2 000	2 500	2 500	2 000	2 000	2 000	2 000
13. Fruits	1 000	2 000	2 000	2 000	1 000	1 000	2 000
14. Intoryi	1 000	1 500	1 500	1 500	1 500	1 500	1 500
15. Salt	2 000	2 000	2 500	2 500	2 000	2 000	2 500
16. Fresh beans & peas	1 500	1 500	1 500	1 500	1 000	1 000	1 500
17. Onions							
-Wholesaler	4000						
-Retailers	2000	1500	1500	1500	1500	1500	1000
18. Eggs	1500	1500	1500	1500	1500	1500	1000
19. Palm oil	4000	4000	4000	4000	2000	1500	1000
20. Spices	1000	1000	800	800	800	800	800



## ANNEX 2b

### Proposed Rental Charges for Businesses in Markets Without Roof in City of Kigali

Market	Rugenge Rwf.	Kiruhura Rwf.	Gisozi Rwf.	Kabeza Rwf.
Business				
Banana				
-wholesale	4000			
-retail	1500	1000	1000	1000
Irish Potatoes	2000	1500	1500	1500
Cassava				
-Fresh	1500	1000	1500	2000
-Soaked	2000	-	3000	2000
Flour	1000	1000	1500	2000
Rice/Sugar/Groundnuts	1500	2000	1500	1500
Milk				
Meat				
-Beef	3000	3000	3000	2000
-Goat	2500	2000	2500	2000
Pork	1000	1000	1000	1000
Tomatoes				
-wholesale	1000	8000	1500	2000
-retail	750	1500	1000	1000
Cabbage				
-wholesale	1000			
-retail	750	2500	1000	1000
Green vegetables	750	1500	1500	1500
Sardines	750	1000	1000	1000
Fishes	1000	1000	1000	1000
Ripe banana	1000	1000	1000	1000
Fruits	750	1000	1000	1000
Salt	2000	2000	2000	2000
Fresh beans/peas	1000	1000	1000	1000
Onions	1000	1000	1000	1000
Eggs	1000	1000	1000	1000
Palm oil	2000	2000	2000	2000
Spices	500	800	500	500
Used clothes				
-wholesale	1000			
-retail	750	1000	1000	1000
Mixed products	2000	2000	2000	2000
Handicrafts	2000	2000	2000	2000

Market	Rugenge Rwf.	Kiruhura Rwf.	Gisozi Rwf.	Kabeza Rwf.
Tailoring				
-Association	2000	2000	2000	2000
-One machine	1000	1000	1000	1000
Households appliances	1000	1000	1000	1000
Depot	-			
Cafeteria	-			
Chicken	3000	3000	3000	3000
Grains	2000	2000	2000	2000
Shoes	5000	3000	3000	3000
Boutiques	-			
Bags	2000	2000	2000	2000
Charcoal				
-Wholesale	5000	5000	5000	5000
-Retail	2000	2000	2000	2000
Tobacco				
-Wholesale	2000	2000	2000	2000
-Retail	1500	1500	1500	1500

## ANNEX 2c

### Proposed Rental Charges for Businesses in Markets (Rwf) in Other Towns

	With Roof	Without Roof
1. Banana:		
Wholesalers	3 000	1 000
Retailers	800	500
2. Potatoes	3 000	1 000
3. Sweet potatoes	1000	300
4. Casava:		
- Fresh	300	200
- Soaked	1 000	500
- Flour	500	300
5. Rice	2 000	600
Sugar	2 000	1 000
Groundnut	1 500	1 000
Milk	1000	500
6. Meat:		
- Beef	2 000	1 000
- Goat	1 500	1 000
- Pork	1 000	1 000
7. Tomato;		
-Wholesaler	5 000	6 000
-Retailers	1 500	2 000
8. Cabbage		
-Wholesaler	2 000	1 000
-Retailers	500	400
9. Vegetables	500	300
10. Indagara	1 000	500
11. Fish	2 000	1000
12. Sweet Banana	1 000	500
13. Fruits	800	400
14. Intoryi	500	400
15. Salt	1 000	500
16. Fresh beans & peas	500	300
17. Onions		
-Wholesaler	2000	
-Retailers	1000	500
18. Eggs	500	300
19. Palm oil	1000	500
20. Spices	500	300

## ANNEX 2d

### Proposed Rental Charges for Businesses in Markets (in Rwandan Francs) in Rural Markets

	With Roof	Without Roof
1. Banana:		
Wholesalers	1 000	500
Retailers	300	200
2. Potatoes	800	200
3. Sweet potatoes	200	100
4. Casava:		
- Fresh	200	100
- Soaked	500	200
- Flour	200	100
5. Rice	1 000	300
Sugar	1 000	300
Groundnut	500	200
Milk	500	200
6. Meat:		
- Beef	1 000	500
- Goat	500	300
- Pork	500	300
7. Tomato;		
-Wholesaler	2 000	300
-Retailers	500	200
8. Cabbage		
-Wholesaler	2 000	300
-Retailers	500	200
9. Vegetables	300	100
10. Indagara	500	200
11. Fish	500	200
12. Sweet Banana	400	200
13. Fruits	400	200
14. Intoryi	300	200
15. Salt	500	200
16. Fresh beans & peas	500	300
17. Onions		
-Wholesaler	1000	
-Retailers	500	300
18. Eggs	300	200
19. Palm oil	500	200
20. Spices	300	200

## ANNEX 3

### Documents Issued and Their Proposed Charges

S/No	Document Type	Current Charges	Suggested New charges	Remark
1.	Attestation De Nissance (Date of birth Document)	Rwf.200	-	People should have birth certificate instead of this document
2.	Birth Certificate	Rwf.2400	-	People should be advised to have them
3.	Attestation de Marriage (Date of Wedding Document)	Rwf.200	-	People should have marriage certificate instead of this document
4.	Marriage Certificate	Rwf.2400	-	Married couples should be advised to have marriage certificate
5.	Celibacy Certificate	Rwf. 200	Rwf.1000	It is a compulsory document
6.	Passport Application Forms	Rwf.1200	Rwf.2000	Applicants are capable individuals
7.	Acte De Noteriety (Property for Bank Guarantee)	Rwf.5000	-	-
8.	Property ownership Certificate	Rwf.5000	-	-
9.	Property ownership Certificate	Rwf.2400	-	-
10.	Aqui De Droit	Rwf.2400	-	-
11.	Sale of property certificate	Rwf.5000 and 6%		
12.	Child Adoption Certificate	Rwf.2400	Rwf.200	This is a service to the nation

## ANNEX 4

### Proposed Charges for Specific Services Rendered by Local Authorities (in Rwandan Francs)

S/No	Service Type	Current Charges	Suggested Charges	Remarks
1	Civil Marriage			
	-Ordinary	3000	5000	
	-Special arrangement	5000	10,000 (minimum)	Officials be flexible to conduct the services on weekends, and charge total cost appropriately
	-Foreigners	15000		Also offer special services, charge premium
2	Sewage collection truck			
	-Residential house/day	50,000		Follow market rates
	-Institution/day	70,000		Follow market rates
	-Outside the city	100,000		Follow market rates
3.	Trucks for hire			
	Pick up/day	60,000		Follow market rates
	Tractor/day	40,000		Follow market rates
	Pick up/hour	8,000		Follow market rates
	Tractor/hour	5,000		Follow market rates
4.	Other services			Consider the cost

## ANNEX 5

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### Proposed Fines for Various Offenses in Rwandan Francs

Type of offense	Suggested fine
Late identity card collection	2000
ID replacement	2000
Damages on the road	Cost of repair plus 50, 000
Damages on street light	Cost of replacement plus 50,000
Disposal of carcasses near the road or in public places	50,000

## ANNEX 6

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### Other Sources of Revenue

Source	City of Kigali and other Towns (charges)	Rural areas (Charge)
Local government properties	Apply prevailing market rates	Apply prevailing market rates
Abattoirs	Cattle- 1000	Cattle- 500
	Goat- 500	Goat- 200
	Pig- 500	Pig- 200
	Sheep- 500	Sheep- 200