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LAND TENURE REFORM AND LOCAL GOVERNMENT REVENUES IN RWANDA

POLICY RESEARCH BRIEF NO 3

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Research Aim

This policy research brief on land tenure reform and government revenue aims primarily to examine the effects of land tenure reforms on land-based revenue and to provide policy recommendations that would build on existing efforts developed to ease the process of paying and collecting various land revenue. The research topic was suggested by land sector stakeholders among other topics during the LAND Project's Year 3 Work Planning Meeting, and was endorsed by the Rwanda Natural Resources Authority and LAND Project as an important research area.

Research Objectives

The research aims to answer the following questions:

- What are the different land-based sources of public revenue generation provided for under the law (e.g. taxes, lease fees, registration fees, etc.)?
- What are the annual levels of revenue collection from these different sources since the measures were put in place?
- What factors have facilitated revenue collection efforts and what factors have hindered them? Included in this analysis is the examination of potential barriers to registering land transactions, such as access and incentives.
- Do land-based public revenue requirements have an effect on landholder participation in the formal land administration system? If so, how?
- What recommendations for policy and practice can be offered to enhance government revenue collection from the land sector while minimizing disincentives for engaging in the formal land administration system and ensuring more equitable outcomes on society?

Research Methodology

This research carried out to inform this brief relies principally on a review of existing studies and the legal framework and information gathered through interviews with key informants.

For the literature review, the authors explored the wider research conducted on the subject matter, including government and non-government reports, scholarly articles and other publications, and articles in the media. The legal review draws from Rwanda's legal and regulatory framework on land reform and land-based revenues.

A questionnaire was designed and used as a guide during key informant interviews (see Annex 1). Thirty three (33) key informants representing 20 institutions were interviewed, comprising mainly government officials including district land officers, the director of finance and mayors at district level, and senior staff in various ministries at national level who are directly responsible for land revenue collection. A full list of key informants can be found in Annex 2.

In addition, the Rwanda digital land register (LAIS) was used to generate quantifiable data such as the number of parcels where land lease fees and property tax are required, the level of mortgages registered, and number of land transactions. These figures help respond to the research questions used to guide this study.

Background and Research Context

Since 2004, Rwanda has embarked on a land reform programme to address various land-related issues, including land degradation, security of tenure, land related disputes and land revenues, to name a few. Land reform was motivated by the fact that most Rwandans depended on land as their main source of livelihood. By introducing comprehensive reforms, the Government of Rwanda also sought to mitigate future socio-political conflict based on land resources. Finally, reforms sought to introduce a system for generating land-based revenues that could contribute to the sustainability of the land administration system and help the country's development more generally.

To attain these objectives, the Government of Rwanda established a National Land Policy (NLP) in 2004, leading to the creation of the Organic Land Law (2005) on the Use and Management of land in Rwanda, and numerous other legal instruments that would guide the strategic development of the land sector. These instruments supported the creation of an efficient and self-financing land administration system based on land taxation and levying fees on land leases by the government, thereby generating considerable revenue for the Government (NLP, 2004). The GOR envisioned that revenues would not only cover the costs associated with maintaining the land administration system, but also fund other development projects which have not yet been defined.

Prior to 2011, the vast majority of land in Rwanda was held under customary tenure. This made it difficult for the Government to generate any land revenue because there was no basis for collection: land was unregistered and there was no legal requirement for owners of unregistered land to pay any taxes or fees on their land holdings. Historically, only a small proportion of owners whose land was legally registered were required to pay lease fees or property tax depending on whether the land was leasehold or freehold.

Following the establishment of the NLP and the passing of the Organic Land Law, a land administration institutional framework was created country-wide to implement both the land policy and land law. The newly-created framework had the mandate to enable land to have value in the market economy through registering land and allowing land to be used as collateral to access credit (NLP, 2004). The other main milestone envisaged under the land tenure reform was the registration of all land in Rwanda. Before the launch of a nationwide campaign to demarcate and register all land in Rwanda, it was estimated that less than 1% of all land in Rwanda was registered (SRM, 2008).

Today, most privately held land in Rwanda is registered (more than 10.4 million parcels) and land owners are in the process of receiving their land leases for land held under long-term lease and titles for land held under freehold. The legal framework has also been established to enable land revenue to be collected by local government authorities.

Why land tenure reform and government revenues?

Generally, land-based revenue constitutes an important source of income for local and central governments. While studying the housing market in Latin America, Cesar observes that *'revenues that could be generated from selling land equal the governmental borrowing to finance capital investment in various developing countries.'*¹ To be able to generate land revenue at maximum capacity, there needs to be an adequate and effective legal and institutional framework. The Global Land Tool Network (GLTN) notes the importance of raising the revenue necessary to provide key public services and improvements in infrastructure and services and effectively self-finance the land administration systems in place. According to the GLTN, the challenge is *'particularly acute in developing countries where issues of land governance and inadequate and affordable land tools impinge on tapping into land as a means for achieving sustainable outcomes.'*²

The legal framework for land-based revenue collection in Rwanda defines various sources of land-based revenues that include land lease fees, property taxes, rental income taxes, mortgage servicing fees, and various other land service charges such as transaction fees and fees paid for acquiring building permits, measuring plots, etc.. The legal framework also determines who is liable for these payments.

Benefits and drawbacks

Although there are many sources of land-based revenue, land holders frequently dispute or are otherwise reluctant to pay such fees and taxes.

In a recent study that analyzed land lease fees and property tax collected by local government in Kigali City, it was observed that collected land revenues increased sharply from RwF 1,934,072,537 in 2011 to RwF 10,628,076,702 in 2013.³ A study by Musharraf et al (2013) revealed that the estimated revenue potential from only assessing fees and taxes on agriculture parcels over 2 hectares that are liable to pay RwF 4,000 per hectare⁴ is Rwf 1.4 billion.⁵

¹ Cesar Patricio, B. Room for development. Housing Markets and in Latin America and the Caribbean.

² GLTN, <http://www.gltm.net/index.php/land-tools/themes/land-based-financing>, accessed on 06/11/2014

³ World Bank, Rwanda Land Governance indicators, April 2014. These figures concern land lease fees, property tax, rental income tax, transaction fees including notary fees, issuance of building permits etc.

⁴ Musharraf, R.C, et al, Local Government revenue potential in Rwanda, 2013

⁵ Musharraf, R.C, et al, Local Government revenue potential in Rwanda, 2013.

Indeed, reforms instituted by the Government of Rwanda requiring all land holders to register transactions and certain land holders to pay lease fees or taxes have helped contribute to land based revenues. Based on data drawn from Rwanda's Land Administration and Information System (LAIS):

- Registered land transfers are increasing. LAIS data show that men individually bought 4,731 parcels across the country, women individually bought 2,850 parcels, and women and men jointly bought 9,175 parcels.
- At national level, the number of mortgages registered increased from 113 mortgages registered in 2009 to 10,223 registered mortgages in 2013 with a total mortgage loan value of Rwf 598,831,417,244.
- The number of parcels where tax and lease fees are required to be paid is 1,545,105, which is 15% of all land parcels registered across the country.

The World Bank study on land lease fees and taxes collected by local government in Kigali City mentioned above noted, however, that there is no formal system of collecting lease fees and land tax, and it is therefore difficult for district officials to determine the level of land revenue expected to be generated from their respective districts. The fact that districts usually do not possess adequate records of all taxable land parcels and the amount of fees to be collected presents a major challenge to revenue collection efforts. The same study concludes that the current revenue collection system is inadequate and that it is difficult to disaggregate revenues generated by type of service. This was noted to be the case, in particular, with Nyarugenge District. Because all land based revenues collected there were recorded together and it was not possible to know what amount was generated from each type of land revenue source.⁶ This issue is also mentioned in a study on local government revenue potential in Rwanda which stresses that "districts providing the highest number of taxable land and plot related services are not the ones gathering the highest revenue from these services."⁷

While studying the impact of land lease fees in two peri-urban and two rural sectors in Rwanda, Rwanda Initiative for Sustainable Development (RISD) concluded that paying lease fees and property tax is important for the country's development.⁸ However, the study revealed that 82% of respondents considered that land lease fees were a burden to landowners who have other significant financial commitments to the government such as *Mutuelle de santé*, school fees, security fees and garbage collection fees. In addition, ordinary citizens are also required to pay Value Added Tax and may be liable for other taxes such as trading license fees or vehicular taxes. The RISD study also noted that communication about requirements to pay lease fees is often done poorly such that, "78% of the respondents heard

⁶ World Bank, Rwanda Land Governance indicators, April 2014.

⁷ Musharraf, R.C, et al, Local Government revenue potential in Rwanda, 2013.

⁸ RISD, Impact of land lease fees on land owners, 2012

*about the land lease fee requirement for the first time when they went to collect their certificates.*⁹

Complaints about land lease fees have also been raised in the media. The *New Times* reported that many people condemn the requirement to pay land lease fees, while others are uncertain as to why they have to pay it.¹⁰ One person interviewed by the *New Times* noted, that, *“the land lease is unfair given the present high cost of living,”* while another suggested that the *“government should either reduce the lease fees or scrap it completely...Sometimes we feel they want us to fail to pay that annual lease so that they can give out our land to investors.”*¹¹

The same *New Times* article also quotes the Prime Minister urging district authorities to review the payment schedule of land lease fees, in response to escalating complaints.

Other critics believe that payment of lease fees should only be required for those who use land for commercial purposes. Some stated that they fully participated in the land registration campaign because they were promised that registering their land would increase its value, but they now think they were tricked because there was no mention of paying land lease fees during land registration.¹²

Lack of clear and prior communication about land-based revenue collection expectations seems to be a consistent theme criticism emerging through the public.

Current Government efforts

With the aim of achieving a self-financing land administration system and sustainable long-term development, the Government of Rwanda through the RNRA Lands and Mapping Department and with support from the UK Department for International Development (DFID) commissioned a study meant to inform the development of a model for a well-functioning land administration in Rwanda that would also generate economic and social benefits. This study was triggered by the strong government belief that, in order to ensure sustainability, land administration institutions have to be at least self-sufficient in the financing of recurrent costs, and where practicable, contribute to the financing of the wider district and central budgets. Findings from the study noted the following:¹³

- *“For land administration to become sustainable, potential customers have to be convinced of the benefits and be able to bear the costs for using the*

⁹ Ibid.

¹⁰ Kaitesi M. The *New Times*; accessed 04/11/2014 from <http://www.thepromota.co.uk/rwanda-public-complains-of-land-lease-fees/>

¹¹ As above.

¹² <http://igihe.com/amakuru/u-rwanda/itariki-ntarengwa-yo-kwishyuriraho-ubutaka-iracyari-ikibazo>, accessed on 04/11/2014.

¹³ Land Tenure Regularisation Support Programme; Towards sustainability in land administration, 2012.

service. The present costs imposed on the customer are accessibility, ease of use and financial costs. The awareness of the benefits needs constant attention and transaction levels need to be closely monitored so that they increase as expected. The costs of use should be lowered especially in the rural agricultural areas.

- *To prevent failure of the land administration system, consultation is needed with the districts to lower the fees for the notarisation and transfer of small parcels of agricultural land. For agricultural parcels up to 2 ha, the notarisation and transfer fee should be around 6,000 Rwf. In case of an inheritance of agricultural parcels up to 2 ha, the notarisation and transfer fee should be as low as 2,000 Rwf for all parcels involved.*
- *The necessary services need to be available and service levels need to be defined and applied. The population should be aware of the importance of the land administration, the available land administration services, the fees charged, the requirements for registering and service levels. The implementation varies from district to district. Efforts should be made to make the districts aware of the importance of harmonized services, service levels and fees.*
- *The rigidity of the present pricing system prevents optimising the transfer fees according to what is bearable and what will still optimize revenues. A more refined system would be property value-based fees. But such a system can only be considered with a national covering property value system in place and people having a reasonable disposable income to pay fees based on value.*
- *The cost/benefit equation of using the land administration services by the customer (value created versus the fees charged for services and effort the customer has to put in order to use the services) should be monitored and optimized where possible.*
- *In the short term, up-to-date online land administration information services should be developed, as they have, after stage 2, the highest potential for adding value to the economic and social development of the country and the highest potential for the RNRA with regard to financial self-sustainability”*

Currently, a brief is being prepared to ensure some of the study recommendations are addressed at the policy level.

Legal Analysis

Though real property tax and lease fees are seen as new phenomenon after the LTR, history suggests that they are not really recent concepts. Since the pre-colonial period, indigenous institutions had authority over land use and management. They were responsible for allocating land to their subjects according to their respective

use.¹⁴ Subjects who were given land from the *Umwami* were also expected to acknowledge their gratitude by offering free labor to the community.¹⁵ Building on this customary practice, the Belgian colonial administration introduced the Ordinance of August 1912 which established graduated tax and tax on real property.¹⁶ After independence, the 1973 law governing property tax was adopted¹⁷. This law was still in use in 1997 when the government reformed the institutional and legal framework governing taxation. After reforms aimed at introducing administrative decentralization, fiscal decentralization was also introduced in Rwanda by law n° 17/2002 of 10/05/2002 establishing sources of revenue for districts and towns and its management. Law n° 17/2002 was repealed by Law n° 59/2011 of 31/12/2011., Article 4 of which stipulates that the revenue of decentralised entities should come from various sources, including funds obtained from rent and sale of land of decentralized entities, funds obtained from issuance of certificates by decentralized entities, and all other fees and penalties that may be collected by decentralized entities according to any other Rwandan law.

Article 5 of Law N° 59/2011 of 31/12/2011 also states that taxes which are collected by decentralised entities include fixed asset tax and rental income tax.¹⁸ However, fixed asset tax is broadly defined by the law¹⁹ as tax levied on immovable property and includes tax paid by owners of property under freehold. As a tax on a “fixed asset,”²⁰ it should be levied on the market value of parcels of land, buildings, and other immovable improvements, such as quarries.²¹ Law n° 59/2011 of 31/12/2011 is not very precise about whether a title deed should be required as a basis for taxation or not. As implied by Article 6,²² the market value of a parcel of land is seemingly enough to justify levying of a fixed asset tax. District Councils are tasked to set the fees and taxes according to the guidance stated in the law. The legislation that was in place before the law came into effect had different tax rates based on various ranges of property value. Law n° 59/2011 of 31/12/2011 significantly simplified tax rates by fixing them at a thousandth (1/1000) of the taxable value per year.

¹⁴ National Land Policy available at <http://minirena.gov.rw/index.php?id=166>, accessed on November 11th, 2014.

¹⁵ Idem.

¹⁶ B. Kagarama, Taxation reforms: Past achievements and plans for the future, available on www.devpartners.gov.rw/.../index.php?dir...Taxation+reforms

¹⁷ Decree Law of 28/12/1973, related to the property tax, Official Gazette n°7/73.

¹⁸ GoR, Law N° 59/2011 of 31/12/2011 establishing the sources of revenue and property of decentralized entities and governing their management

¹⁹ Article 2, 15^o of Law n° 59/2011 of 31/12/2011.

²⁰ Article 2, 19^o of Law n° 59/2011 of 31/12/2011 defines “fixed asset” as a property that has a fixed location and cannot be moved elsewhere and include parcels of land, buildings and improvements thereto.

²¹ R. Cyan Musharraf, C. Karuranga, Fr. Vaillancourt, Local Government Revenue Potential in Rwanda, International Center For Public Policy, November 15th 2013, p. 63.

²² Article 6 of Law n° 59/2011 of 31/12/2011.

After adopting Law n° 59/2011 of 31/12/2011, the government promulgated Presidential Order N°25/01 of 09/07/2012 establishing the list of fees and other charge levied by decentralized entities, including the threshold levels.²³ This order serves as the main legal guide for establishing land-related revenues. Article 3 of the order sets the fees and other charges which may be collected by a decentralized entity including land-based revenues. The full list is composed by:

- Annual land lease fees;
- Land lease fees to be collected annually on land used for agriculture and livestock activities;
- Fees charged annually on land reserved for quarries exploitation;
- Fees based on land services rendered to citizens, including fees charged on official documents authenticated by the public notary and fees charged on the issuance of land certificates;
- Fees charged on public cemeteries; and
- Parking fees.

According to Article 9 of this order,²⁴ land property registered by the competent authority with a lease certificate may be subject to pay an annual lease fee. This fee applies to commercial, industrial and residential lands, while parcels of land less than two hectares that are used for agriculture and livestock activities are exempted from paying lease fees. The law also exempts land reserved for construction of houses in rural areas, but where no basic infrastructure has been installed. The order also gives the District Council the authority to exempt any other land.

The Presidential Order provides for minimum and maximum tax rates, but states that the exact amounts of taxes should be fixed by the council of the decentralized entity. For land lease fees, the council of a concerned decentralized entity “*shall determine the fees to be paid annually on land lease based on the infrastructure on the area where the land is located and its use. Every four (4) years, the concerned decentralized entity shall publish a document indicating annual fees paid on land lease certificate in each village of the decentralized entity.*”²⁵ The order also provides that the fee may vary depending on the use of land and its location. However, councils’ autonomy to charge what they please is curtailed by the set ranges established in the order. The range for urban lands is between 30 and 80 Rwf per square meter; for a place considered as a trading center (e.g. market) the range is between 10 and 30 Rwf; in a rural area that is developed and equipped with basic infrastructure the range is 5 to 10 Rwf. Within these ranges, the district councils have the discretion to set rates annually.

²³ Presidential Order n ° 25/01 of 09/07/2012 establishing the list of fees and other charges levied by decentralized entities and determining their thresholds, OG, no Special of 27/07/2012.

²⁴ Ibid.

²⁵ As 2 above

For all types of land where lease fees are required, the Order stipulates that “*title lease deeds*” issued by the registrar of land titles shall be used as the basis for calculating the required fees, calculated in square meters or hectares.

In addition, Article 16 of the Presidential Order lists fees for all services related to the documents of immovable property including, for example, registration, cancellation, and review of land certificates.

In terms of how and where all such fees can be paid and/or collected, this is provided for by the Presidential Order and includes the option to pay fees in instalments.

Analysis of Key Informant Interviews

The information and data presented below were gathered from 33 interviewees who represent 15 districts in Rwanda (Gasabo, Kamonyi, Muhanga, Ruhango, Nyanza, Huye, Rwamagana, Ngoma, Rulindo, Gakenke, Musanze, Burera, Nyabihu, Rubavu, Kayonza) and several government ministries and agencies (Ministry of Local Government, Ministry of Finance, Rwanda Revenue Authority (RRA), Rwanda Natural Resources Authority (RNRA) and Rwanda Association of Local Government (RALGA)).

Although interviews did not take place in all districts in the country, the fact that half of the rural and urban districts in Rwanda were interviewed should yield a sound picture of the broader situation in Rwanda on the link between land reforms and land-based government revenues.

Fixed asset tax

According to District Land Officers we interviewed,²⁶ fixed asset taxes are only collected on registered land property and buildings with a title deed, even though the law does not stipulate that a title deed is required to levy this tax. Moreover, we found substantial disparities in how fixed asset taxes are collected.²⁷ Among the districts we visited, Gasabo and Kicukiro districts were found to have collected substantial fixed asset revenues. Seven other districts (Huye, Kayonza, Muhanga, Musanze, Ruhango, Rwamagana and Nyabihu) have collected all expected fixed asset tax revenues, while Gakenke, Kamonyi and Rulindo districts collected no fixed asset tax revenue because they claim not to have any property that is subject to it.²⁸ Moreover, some districts land officers reported that they have a very large number of properties liable for the tax,²⁹ while other districts reported that they had only a few

²⁶ Interviews with District Land Officers, October-November 2014

²⁷ Interviews with District Land **two** Officers, October-November 2014

²⁹ Gasabo had more than 1400 taxable properties in 2012, Musanze more than 180, Huye around 100.

properties that were liable.³⁰ Officers in Rwamagana and Kayonza reported that their districts only had two properties subjects to the fixed asset tax.³¹

Through our interviews we also found significant differences in how district councils set their tax rates within the minimum and maximum ranges established by Presidential Order n° 25/01 of 09/07/2012. For instance, the districts of Kamonyi and Rwamagana set their rates at the minimum level,³² while Muhanga District has set rates approaching the maximum³³ and the rates for Gasabo District reach the maximum.³⁴

Other land-related fees

Fixed asset taxes and lease fees are not the only revenues that districts generate from land. Other types of revenues that districts levy on land include fees charged for services related to processing of immovable property documents such as issuance titles for land and other types of immovable property. All district officials that we interviewed³⁵ reported collecting revenue from the local population for services related to changing ownership of immovable property; property registration, cancellation of ownership, review or assignment of a mortgage, authorization for repair, rehabilitation of houses, or erection of a fence around a house. Fees are collected when land owners merge their plots, when they change land use, during any land transfer, or when a subdivision of land is done. Citizens also pay fees when they seek first registration and when they apply for building permit. Some districts reported land-related fees from subleasing swamps (e.g. Gakenke) and other districts collect fees from leasing public land, cemetery plots, and parking spots.

Presidential Order n° 25/01 of 09/07/2012 fixes the fee amount for each of these services. For example, Rwf 10,000 is charged for each cadastral fiche if an individual wants to subdivide their land. The cost of issuing a first registration certificate is Rwf 5000.

All districts we visited reported having collected land service based revenue. For instance, the district of Huye has collected Rwf 1,899,685 on issuance of cadastral fiches; Rwf 5,303,000 on building permits; and Rwf 5,805,000 for other transactions. As showed in a recent study, Musanze District managed to collect around Rwf 89.5 million from land and plot related services, while Kamonyi District collected total land service revenue of about Rwf 70.1 million.³⁶ Many districts have mixed land-based

³⁰ Muhanga has around 20 properties while Nyabihu has registered 13 properties.

³¹

³² In 2014, urban commercial land is 30 Rwf per square meter; trading center land is 10 Rwf per square meter.

³³ In 2014, urban commercial land can reach 60 Rwf per square meter; while trading center land can also be levied at 25 Rwf per square meter

³⁴ Up to 80 Rwf and 30 Rwf as set by the thresholds in the Presidential order.

³⁵ Interviews with District Land Officers, October-November 2014

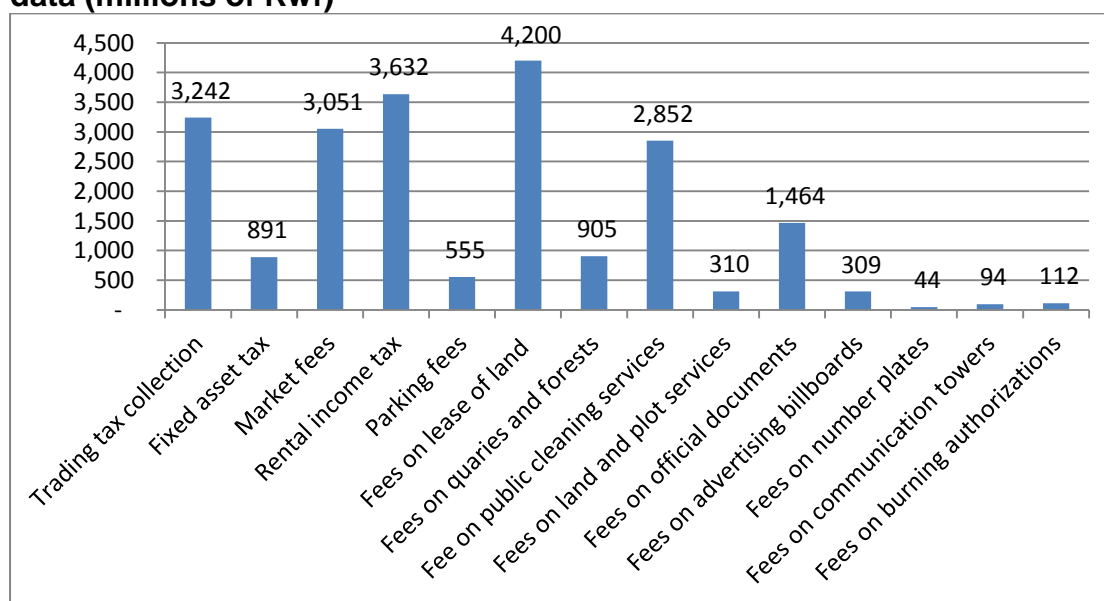
³⁶ R. Cyan Musharraf, C. Karuranga, Fr. Vaillancourt, op.cit, p.95.

revenues in with all other district revenue,³⁷ such that all data given to us indicating the fees collected could not be properly analyzed.

Level of revenue collection

There is considerable diversity among districts when it comes to the types and amounts of land revenues they collect. Some districts do not collect fixed asset taxes due properties in those districts not meeting the criteria for assessment.³⁸ In some districts, the amount of land-based revenue collected is high, whereas in other districts the amounts are meagre. For instance, total collections by the district of Gakenke amount to only 2 percent of the district budget.³⁹ Poor collection might be due to lack of information about properties where land lease fees are required. In 2012, the most recent year for which consolidated figures of actual collections across all districts are available, land-lease revenues totalled Rwf 4,200,000,075. The total of fixed asset taxes, fees on lease of land, fees on quarries and forests and fees on land and plot services constituted a significant percentage of districts' combined budgets. As Figure 2.1 illustrates, land lease fees assumed the higher share of the 14 revenue sources collected by districts in 2011-2012.

Figure 0.1 Total Collection by Districts under the 14 Revenue Heads, 2011-2012 data (millions of Rwf)



Source: District survey conducted by R. Cyan Musharraf, C. Karuranga, Fr. Vaillancourt, December 2012-March 2013.

The level of collection registered in all districts in 2012 on land and plot services varies depending on the district.⁴⁰ In some districts like Musanze and Kamonyi,

³⁷ Interviews with District Land Officers, October-November 2014.

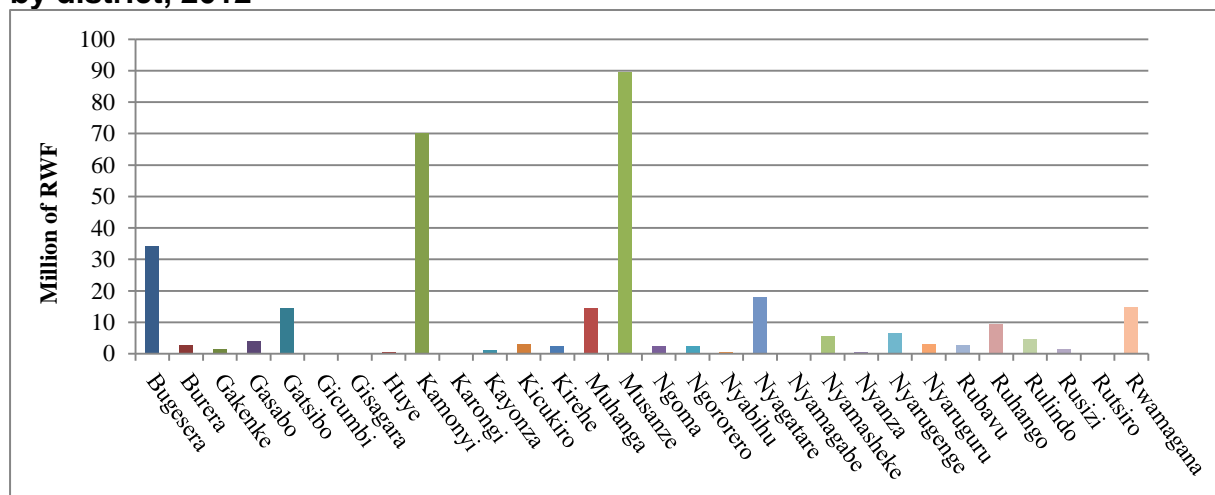
³⁸ Interviews with District Land Officers, October-November 2014

³⁹ Interviews with District Land Officers, October-November 2014

⁴⁰ Interviews with District Land Officers, October-November 2014

collection was very high. In other districts like Huye, Kayonza and Nyabihu, land and plot services it was very low.⁴¹

Figure 2.2. Total revenue (millions of Rwf) from fees on land and plot services, by district, 2012



Source: District survey conducted by R. Cyan Musharraf, C. Karuranga, Fr. Vaillancourt, December 2012-March 2013.

In many districts we visited, officials can only report the amount collected and lack information on the amount owed.⁴² Except in Kigali districts where an accurate database on land taxes owed exists, it is surprising to note that most districts we visited lack information on the exact number of properties owing taxes and fees. During our interview with RNRA Officials,⁴³ they admitted to delays in handing the needed data to districts, the reasons for which relate to the involvement of the Rwanda Revenue Authority (RRA) in revenue collections. In the meantime, Kayonza district has developed an Excel database that relies on property information gathered by the RNRA's offices in Eastern Province and is operated by the district land officer.⁴⁴ The table below shows the collection of land bases revenues by Kayonza district over the last two years.

Types of Land Revenue	2012/2013 targeted amount in Rwf	2012/2013 collected amounts in Rwf.	2013-2014 targeted amount	2013-2014 collected amounts in Rwf
Fixed Asset Taxes	1,524,818	1,524,818	1,524,818	1,524,818
Annual Land Lease Fees	110,848,000	33,973,323 (30.06 %)	182,342,675	76,000,353 (41.6%)

Source: Interviews with District Land Officers, October-November 2014.

During our interview with key informants in Huye District, we were given some figures reflecting the targeted collection amount and the actual collected ones, but when we asked the source of the targeted amount we were told that it was purely an

⁴¹ Interviews with District Land Officers, October-November 2014

⁴² Interviews with District Land Officers, October-November 2014.

⁴³ Interview with Francois Ntaganda, Director of Land Administration, November 2014.

⁴⁴ Interviews with District Land Officers, October-November 2014.

estimate done by the district finance department based on previous collection results.

Challenges and Opportunities in Collecting Land-based Revenues

Availability of land records

Many problems are reported about the administration system for land taxes and fees. The LTR enabled the RNRA to gather data on all land parcels and created land records, including a reliable cadastre with comprehensive land information to identify and assess properties. Through the LTR system, each plot's size is now recorded together with information on the plot's owner and use. Such information can be used by local authorities to maximize property revenue collection. However, except in the three Kigali City districts,⁴⁵ most of the district land officers interviewed claim they cannot access the RNRA database to capture the needed information to establish tax and fee liability and facilitate collection.

Challenges to the collection of land lease fees

District land officers pointed to problems in assessing land lease fees. They see the fee rate structure as complex given that rates vary on the basis of different types of land use and size of the land. As a result, citizens residing in neighbouring locations are sometimes subject to different rates because someone's land has been assigned a residential land use. Furthermore, the level of taxes is tied to the land's physical location which sometimes does not correspond to its market value. Among other problems mentioned is the fact that land registration data written on land lease contracts created some other problems. All land registered as being used for agriculture and less than 2 hectares are exempted from paying lease fee. Officials claim that many plots located in urban areas were mistakenly assigned agriculture use with their land certificate indicating exemption from land lease fees. This was mainly observed in the three districts of Kigali. Based on the Prime Minister's request, districts were required to distinguish between rural and urban cells. As a result, certain cells that were initially classified as urban (and therefore subject to pay lease fees) were instead identified as rural, such that the land lease contracts were changed from residential to agriculture use. This resulted in only those parcels that measured more than two hectares having to pay lease fees in these cells.

The Director of Land Administration at RNRA reported that new land lease certificates omitting the amount of the lease fee are now being issued. This should prevent contradictions with Presidential Order N°25/01 of 09/07/2012 which allows district councils to fix the amount of lease fees on annual basis.

Challenges to assessing value of taxable property

Efficient collection of fixed asset taxes requires some technical information that is not easily available in most of the districts visited. According to Article 19 of Law n° 59/2011 of 31/12/2011 the rate of fixed asset tax is set at one thousandth (1/1000) of the market value of the property and assessed annually. The market value is an amount of money for which a property should be sold on the date of its valuation in the open market by a willing buyer. In districts where fixed asset taxes are levied, getting up to date information of market values of property is seen to be too costly.

⁴⁵ Interviews with District Land Officers, October-November 2014.

Charges by private certified land valuers are high and property owners do not want to assume the cost. In most cases, revenue collection officers only rely on the value reported by the taxpayer. As reported by our key informants, in many cases, the value given by taxpayer refers only to the value of the land when it was acquired and does not take into account the value of improvements. Regular property valuation and robust verification measures are needed to accurately assess property market values and determine the appropriate tax rates.

Role of the Rwanda Revenue Authority in land-based revenue collection

Almost all districts we visited reported having a very limited tax collection capacity and lacking appropriate collection systems. Respondents reported unknown millions of francs in arrears that are yet to be collected in their districts. According to many district land officers, their districts fail to collect a huge amount of land lease fees every year.

After noticing the lack of capacity in almost all districts to effectively collect local taxes and fees, the Government of Rwanda assigned the Rwanda Revenue Authority the role to collect certain local taxes, including fixed asset taxes, rental income taxes, and trading license fees. The decision was based on the RRA's extensive experience managing the national revenue system and ensuring that taxpayers comply with relevant legislation. A Memorandum of Understanding was signed between the RRA and each district and RRA assumed its role in March 2014. Respondents reported that transferring tax collection responsibilities to Rwanda Revenue Authority has shown some positive results. People afraid of RRA enforcement measures have taken a proactive step to declare and pay their taxes. However, exact figures attesting to the improvement are not yet available. It should be noted that tax collection capacity issues faced by districts cannot be resolved by simply transferring the collection power to the RRA. Some respondents complain that part of the revenue collected by RRA will also be taken by them to cover the collection cost and that tax revenues leftover for the districts will be relatively small compared what will be retained by the RRA.

Interviews conducted with the current Acting Commissioner in charge of Regions and Decentralized Taxes Department dismissed these worries. He disclosed to us the strategy they are planning to implement in order to boost local taxes collection. The strategy includes the creation of a local taxpayer registry, design of software to facilitate local taxes collection, and recruiting and empowering local revenue staff.

Conclusions and Key Policy Recommendations

This research brief was suggested by land sector stakeholders in order to assess the impact of land tenure reforms on land-based revenues and to provide policy recommendations that build on existing efforts developed to ease the process of paying and collecting various land revenues. Our findings show that districts differ significantly in term of their land-related revenue level and collection potential. Many districts were not able to report the number of properties for which land lease and property tax are required, nor were they able to generate the amount of revenue owed due to lack of information and an automated data management tool. Only a few districts were able to provide figures on their land-based revenue collections.

Lack of a land records data system is a serious challenge to revenue collections and prevents districts from benefiting fully from the LTR. There are other challenges, notably those related to: the collection of land lease fees, valuation of the market value of property for tax purposes, and the intervention of the RRA in collecting land based revenue.

Some districts have shown aggressive efforts to acquire from the RNRA the list of all properties where land lease fees and property tax are required.⁴⁶ Although data from RNRA may contain some inaccuracies due to fee updates not having been captured in the LAIS, the list from RNRA would serve as a helpful basis to provide districts with the approximate number of properties subject to paying lease fees and property tax.

The following are recommendations to Government of Rwanda and other stakeholders involved land tenure reform and land-based revenue.

- 1. Make land data available to districts.** Given the difficulty districts face in accessing plot information necessary to assess lease fees and property taxes, a facility to enable RNRA to share land data with districts is highly recommended. Among the data to be shared are information on land lease parcels and on properties subject to pay fixed asset taxes. RRA should also be involved due to its present role in local revenue collection. There is also a need to review the current data sharing strategy between districts and the RNRA with regard to cadastral data. This could be made possible through the updated land administration and information system (LAIS 2) once it is up and running and operational in all districts.
- 2. Institute coordination mechanisms between actors concerned with land-based revenues.** Improving the land-based revenue collection in local entities requires strong collaboration and coordination mechanisms between various actors, including RNRA, district governments, the RRA, Ministry of Finance, Ministry of Local Government to play their respective roles and communicate with one another.
- 3. Finalize updates to land certificates and remove lease fee amounts on certificates.** There is a need for RNRA to finalize outstanding corrections and updates to the land registry and land certificates so that they accurately reflect plot information and land uses stipulated in the District Master Plans. This will help to clarify who is liable to pay land leases fee and the correct amounts to pay. In order to reduce the load imposed on the RNRA provincial land registries to carry out this exercise, key informants suggested that district land officers be allowed to update land uses in line with the master plans and register all changes arising from land transactions. However, implementation of this recommendation has to consider the security of the national land registry. RNRA should consider removing lease fee amounts on lease contracts since district councils are authorized to update them on an annual basis. This would avoid the confusion many people suffer from having to pay a different lease fee from what is written on their lease contracts.
- 4. Recruit and train mores district staff to carry out revenue collections.** There is an urgent need to solve chronic understaffing of district land offices,

⁴⁶ Gakenke and Musanze districts have written letters to RNRA but no positive feedback was given (Interviews with District Land Officers, October-November 2014) .

and particularly staff in charge of revenue collection. Only one or two people are involved in tax collection and inspection in each district, which is. In all districts, recruitment of a tax/fee collector in the One Stop Center is recommended to help make collections more efficient. Where staff is in place, training should be provided and cover the following topics: taxable assets, property valuation, local tax procedures, ethics, and the use of information technology systems in revenue collection.

5. **Develop IT solutions to facilitate revenue collections.** The LTR provided essential data to serve as a foundation for land-based revenue collection. However, it can only improve collection of taxes if proper software exists to link the data available at RNRA to local governments. Manual management systems need to transition to IT-based management. The development of this software could capture some aspects covered in the current system used by the three districts of Kigali (DISTAX) and that used by RRA. A link between the software and the LAIS is also necessary. During its development, options of submitting a tax/fee declaration and payment using cell phones (mobile money) should be assessed.
6. **Educate citizens on paying taxes and fees.** Given the impact of tax education programs on tax compliance behavior, taxpayers' education is one of the key strategies in improving local tax collection. This strategy will help the population to understand the tax laws and land regulation fees. If well designed and implemented, this strategy will encourage voluntary compliance amongst taxpayers.
7. **Revise legislation to reflect RRA's new role.** All tax matters are established by laws. Current legislation needs to be revised to legally assign a role to Rwanda Revenue Authority for collection of local taxes. The collection role given to Rwanda Revenue Authority by merely an MOU is not legally sound.
8. **Sensitize landowners to collect their land certificates.** Failure of landowners to collect their land certificate hinders effective land-based revenue collection. Therefore, a sensitization campaign aimed at encouraging the population to collect their land certificates is needed.
9. **Exempt impoverished landholders from payment of land lease fees.** Respondents recommended data on land lease fees be linked to available information on *ubudehe* (poverty) status in order to exempt categories 1 and 2 of *ubudehe* (the poorest) from payment of lease fees.

Annex 1. Questionnaire for key informants

1. Do you collect any type of land revenue in your district? If so, what types? (specify all that apply)
 - Lease fees
 - Property tax for land under freehold
 - Land transaction fees
 - Other (please specify)

2. What is the proportion of each type of revenue in your district? (Note whether this is based on actual records consulted by the informant, or merely a guess/estimate)

Type of revenue	Proportion (%)
Lease fees	
Property tax	
Transaction fees (notary fees)	
Other	

3. How many parcels in your district require lease fees/property tax to be paid? (Note whether this is based on actual records consulted by the informant, or merely a guess/estimate)

Revenue type	Number of parcels
Lease fees	
Property tax	

4. What is the legal basis for each type of land revenue you collect in your district? Please provide a reference (if applicable).

5. For the last three years, how much money did your district collect for each type of land revenue? (Note whether this is based on actual records consulted by the informant, or merely a guess/estimate)

Types of land revenues	July 2011-	July 2012-	July 2013-
	June 2012 (Frw)	June 2013 (Frw)	June 2014 (Frw)
Lease fees			
Property tax			
Other (specify)			

6. Do you consider your district to have an adequate and functional revenue collection system in place? That is, are you able to collect all owed revenues and on time?
 - 6a. If not, what constraints or challenges do you face?

7. Are there factors that facilitate land revenue collection in your district? If yes, please describe.

8. Have you put in place any measures to ensure that all revenue due is collected successfully and on time? If yes, please describe. If not, why?

9. Are you aware of landholders' general perceptions towards land revenue which they are required to pay in your district? (e.g. fees are reasonable, excessive, don't understand why they have to pay etc.)

10. Has land revenue collection affected other land-related services in your district (i.e. land registration process, collection of land certificates of registration or registration of various land transaction)? If so, how?

11. Do you think there is anything that could be changed or improved in the existing policy, legal or institutional framework to ensure that land revenues are collected effectively and landholders are incentivised to pay?

Most of the questions above are addressed to districts respondents. For other KIs such as ministries or other government agencies, the questions should focus on:

- **Organization/agency/ministry's role in land-based revenue;**
- **Organisation/agency/ministry's support in determining, establishing and collecting land based revenue;**
- **Organization/agency/ministry's role in reforming policy, legal and institutions to ensure effective land-based revenue policies and laws are established;**
- **Any current organisation/agency/ministry's initiatives or plans towards improving land-based revenue?**
- **This will be supplemented by figures on lease fees that I am currently collecting form LAIS.**

Annex 2. List of key informants' interview

Organization		Responsible Staff/department
Ministries	<ul style="list-style-type: none"> • MINALOC 	(Jacques Karangwa, Fiscal decentralisation expert and Francine Rutagengwa)
	<ul style="list-style-type: none"> • MINECOFIN 	(Jonathan Nzayikorera, Director of Fiscal decentralization department)
Government Agencies	<ul style="list-style-type: none"> • RALGA 	(Enock, Finance Manager)
	<ul style="list-style-type: none"> • RNRA 	(Francois Ntaganda Director of Land Administration)
	<ul style="list-style-type: none"> • RRA 	(Gakwerere Jean Marie, Acting Commissioner Local government taxes and fee).
Districts⁴⁷	<ul style="list-style-type: none"> • Gasabo • Kamonyi • Muhanga • Ruhango • Nyanza • Huye • Rwamagana • Ngoma • Rulindo • Gakenke • Musanze • Burera • Nyabihu • Rubavu • Kayonza 	Director of Finance and District land Officers, Revenue collector officer, Revenue Inspector and where possible we met the Vice Mayor in charge of Finance.

⁴⁷ All districts listed above include rural and urban districts and are easily accessible-they are all on the main tarmac road. The district in bold have been selected as priority districts (secondary cities in EDPRSII) so they present a particular interest