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THE IMPACT OF TAX INCENTIVES IN EAST AFRICA - RWANDA CASE STUDY REPORT

Avoiding Tax Competition and the “Race to the Bottom”

June 2011

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Institute of Policy Analysis and Research-Rwanda

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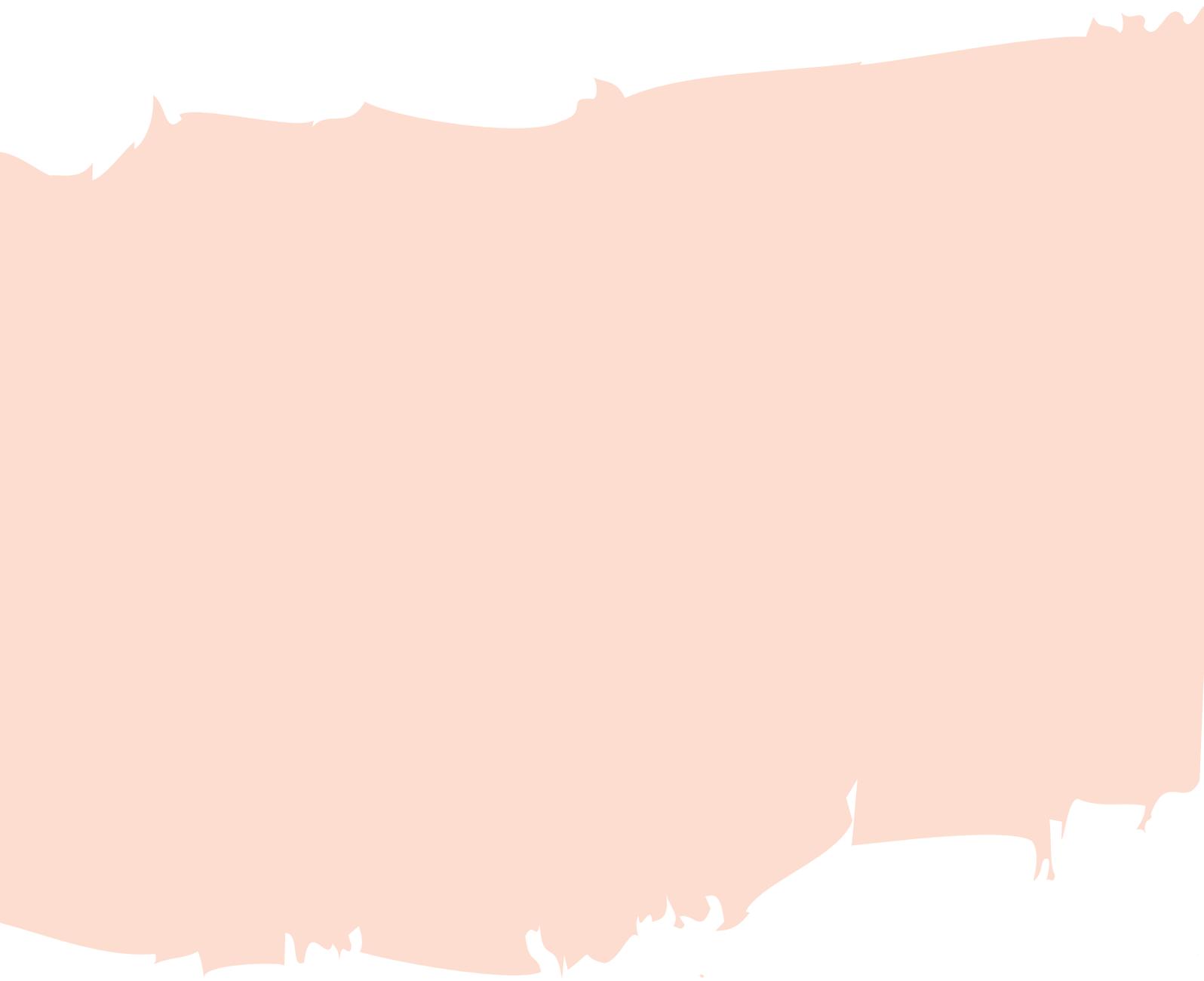
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We alone remain responsible for the content of the report. No omissions or errors should be attributed to anyone who provided information for the project. The opinions expressed in the report are ours and should not be attributed to the funding agencies who may not necessarily share them. Although all reasonable care has been taken in compiling information on tax rates and tax exemptions and incentives, it should not be taken to be authoritative.

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Executive Summary

Taxation is essential for sustainable development; it supports the basic function of a sustainable state and sets the context for economic growth. It is also essential for responsive government. Yet Rwanda foregoes a significant (and unknown) amount of tax year each year amounting to what are in effect hidden expenditures. Rwanda is the most generous of the EAC countries in providing tax incentives for FDI and domestic investment, foregoing about a quarter of its potential revenue each year in tax incentives from businesses alone, 14 per cent of its potential budget. The revenue foregone would be sufficient to more than double spending on health or nearly double that on education.

Tax exemptions and concessions given to business in Rwanda are seen as an integral element of government policies for developing an economy led by the private sector, part of a package of policy measures to attract local and foreign direct investment, but the amount 'spent' is not considered as part of the budget expenditure. There has been no systematic monitoring and evaluation of the extent to which they are working and the government has not systematically discussed the recommendations of external experts recommending that they be reviewed.

The main purpose of this report is to raise the issue of tax incentives and exemptions. Are they too generous for a country like Rwanda that is struggling to raise money to fund its development strategy? Are they targeted at the right groups? Are they achieving the government's objectives for them? Would the money be better spent on other policy priorities like education or health? Why are the amounts foregone not made publically available? Why is there no monitoring and evaluation of their effectiveness and why has there been no cost benefit analysis of tax incentives for attract investment? Should the amount foregone be considered as part of the Government's budget so that it becomes transparent expenditure?

As a member of the East African Community, the government is committed to removing or at least harmonising 'harmful taxes'. The expert review of taxes undertaken for the EAC concluded that there was a need to review all tax exemptions and concessions in member states, to harmonise them and to remove a number. There was a danger, the report warned, of a 'race to the bottom'.

Rwanda has in place a complex system of tax incentives and exemptions and there is evidence of a significant increase in private sector investment following the introduction of the revised tax code in 2005. This has resulted in the creation of new jobs. Exports have increased and there is some evidence of a beginning of export diversification into areas prioritised by the government as well as an increase in revenues from tourism. However, the government remains dependent on ODA for about half its budget.

It is difficult to evaluate the effectiveness of tax incentives and exemptions, especially those aimed at attracting investment, because of a number of confounding factors making it difficult to do a cost-benefit analysis. Rwanda has been investing in: ensuring the rule of law and the absence of systematic corruption; improving the 'soft' business infrastructure; the physical infrastructure; and the availability of skilled workers. All of these are said to have more influence on business investment decisions especially foreign investors than the availability of tax incentives and exemptions. The latter are, it is argued, at best a second-order consideration. It is not possible to disentangle the impact of these from tax incentives and exemptions.

Exempting a range of essential goods and services from VAT (a regressive tax) benefits everyone and especially the poor. The exemption of agricultural inputs from VAT is also of benefit to a large percentage of the Rwandan population, and by keeping prices lower than they would otherwise be, supports the government's efforts to get farmers to use more agricultural inputs to improve production and reduce poverty. Tax exempt status for registered NGOs and religious organisations is a way for the government to support from public funds social goods that are of benefit to society generally or to specific groups. Often the services provided by these organisations would be provided by government if they were not provided by the NGOs. Nevertheless VAT exemption and zero rating is still tax foregone and there needs to be explicit criteria for determining what goods and services are exempt or zero rated.



The exemption of a proportion of income from taxation so that the poor are exempt from paying tax is also a widespread practice. However, exempting the first 12 million of turnover from taxation for farmers may be considered over-generous. Non-farm small enterprises have to start paying tax when their turnover exceeds 1.4 million RWF and a proportion with incomes below this threshold pay local taxes from which farmers are also exempt. The same arguments for bring farmers into the tax net applies as for other small businesses, developing a culture of tax compliance and holding government to account for the expenditure of public (tax payers) money.

More controversial are the tax incentives and exemptions given to businesses. These include businesses registered with the RDB as investors. The main beneficiaries are big businesses, many of which are foreign owned although domestically owned businesses can benefit from some of the incentives and exemptions. The largest amount is exemptions on imported goods amounting to 84 per cent of the total while only 0.17 per cent is for employing Rwandans. The latter is generally regarded as a preferable type of incentive as it rewards output. Our analysis of the costs of benefits of providing tax incentives for businesses including attracting FDI and domestic investment is inconclusive, but there is a growing consensus that tax incentives may not work, or to the extent they do they have to be used selectively and for a limited. The government needs to balance supporting investment by providing a competitive tax environment and ensuring that investors pay an appropriate share of the fiscal revenue. There is a need to protect the tax base against sophisticated tax planning, that is, businesses avoiding taxation by taking advantage of incentives and then moving when they are no longer entitled to them. It should also be noted that once they are introduced, it is difficult to remove tax incentives.

Whether tax incentives and exemptions work or not, there is a need for transparency, public scrutiny and dialogue, equity and bargaining are essential to building a culture of tax compliance. Accountability of government to citizens is essential and taxation encourages citizens to make claims on governments and hold them accountable for public expenditure.

The report recommends that the government:

1. develops an efficient and effective personal and corporate tax system that is transparent and fair to all;
2. publishes comprehensive information on all tax exemptions in an annex to the annual budget giving details of the amount of revenue foregone due to tax incentives and exemptions;
3. puts in place mechanisms to monitor and evaluate tax incentives;
4. carries out a cost-benefit analysis of tax incentives for business
5. reviews the tax incentives that it offers and the list of goods that are exempt from VAT;
6. works with the other members of the EAC to harmonise taxes including tax incentives and exemptions.



Acronyms

AfDB	African Development Bank
AGOA	African Growth and Opportunity Act (US)
CIT	Corporate Income Tax
COMESA	Common Market of East and South Africa
EAC	East African Community
EBA	everything but arms
EDPRS	Economic Development and Poverty Reduction Strategy
EPZ	Export Commodity Processing Zone
EU	European Union
FEZ	Free Economic Zone
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
KPMG	Klynveld, Peat, Marwick, Goerdeler
NBR	National Bank of Rwanda
NUR	National University of Rwanda
PAYE	Pay As You Earn
PIT	Personal Income Tax
PWC	Price Waterhouse Cooper
RDB	Rwanda Development Board
RWF	Rwandan Franc
RRA	Rwanda Revenue Authority
SEEPZ	Single Enterprise Considered as Export Processing Zone
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax

A poverty. Together.



1. Introduction

Providing tax exemptions and incentives is seen as a central element of the Government's policy of providing a competitive environment for economic growth and poverty reduction (Ministry of Finance and Economic Planning 2007). Attracting domestic and foreign direct investment (FDI) is seen as essential for private sector led economic growth through creating employment, building the skills base and increasing exports in agriculture, manufacturing and services. At the same time the Government see it as essential to widen and deepen the tax base, to reduce reliance on Official Development Aid (ODA) and borrowing to fund government expenditure. Also as a member of the East African Community it has to harmonise its taxes with other members states and eliminate any that provide unfair competition. The policy of widening the tax base and the policy of providing tax incentives could be seen to be in tension (Perry 2011a) and the question needs to be asked if the policy of providing tax incentives and exemptions is providing the intended outcomes. Is the money well spent or would Rwanda be better off spending more money on education, health or other areas of government expenditure? In other words are tax exemptions and incentives attracting domestic investment and FDI and do the benefits outweigh the costs – the tax foregone¹.

However, tax concessions and exemptions are more broadly based than those designed to attract FDI and domestic investment. A whole range of goods and services are, for example, exempt from VAT, there is a reduced rate of excise duty on diesel, those with an income below 360,000 RWF do not pay tax and nor do non-farm businesses with a turnover of less than 1.4² million RWF or farms with a turnover less than 12 million pay profit tax. There are a range of motivations for this including encouraging private sector growth and job creation, keeping the price of essential goods and services lower than they would otherwise have been and supporting philanthropic endeavours. Whilst some of these may be seen as investing in a public good, nevertheless the non-collection of taxes represents a public expenditure.

Every year the Parliament scrutinises the Government's budget but tax incentives and exemptions do not receive the same attention, effectively making them hidden expenditure. Without transparency Parliament, tax payers and citizens do not have the information to hold the government accountable (Prichard 2010a & b). Nor is the government able to monitor and evaluate the policy (e.g. UNCTAD 2006). The government has now agreed, however, that it will report each year on the amount of tax foregone through incentives and exemptions (IMF 2011).

Tax incentives grant preferential tax treatment to specific taxpayer groups or types of investment. Tax exemptions granted to rich and powerful potential taxpayers place more tax burden on people with less economic influence and political clout and /or increase reliance on Official Development Aid. Corporate income and other taxes are essential to invest in the infrastructure, education and good governance all of which are important in influencing investment decisions and essential for economic growth (International Bank for Reconstruction/World Bank 2008). Tax preferences are difficult to target, may not yield the intended outcomes and may result in significant loss of revenue (African Economic Outlook 2011).

Taxation experts argue that tax incentives need to be well designed, implemented and monitored (Easson and Zolt 2010). Governments need to balance supporting FDI by providing a competitive tax environment with ensuring that they collect an appropriate amount of tax from multinationals (OECD 2011). The Commission on Growth and Development (International Bank for Reconstruction/World Bank 2008) indicated that tax exemptions should be only a temporary measure, they should be evaluated and abandoned quickly if not working and they should be targeted at export promotion. Furthermore they should not be seen as a substitute for investment in education, health, infrastructure or good governance which are all essential for creating an attractive business environment.

¹ It is beyond the scope of this paper to discuss whether and how public policies more generally can increase competitiveness and thereby long term economic growth, job creation and poverty reduction. Suffice it to say that the recent report of the Independent (Spence) Commission on Growth (2008) concludes that the balance of evidence suggests that the general efficacy of selective industrial policies has not been established but that some policy interventions have yielded positive results in some individual countries.

² Some non-farm businesses with a turnover below 1.4 M RWF pay local taxes.



Removing tax incentives and exemptions can be difficult to remove once they are in place (Petersen Ed) 2010; Uwazi 2010). Reports on the tax regime in Rwanda have recommended that the policy of granting tax incentives and exemptions be reviewed (AfDB 2010a; FIAS 2006; IMF 2007; Petersen *et al* 2010; UNCTAD 2006). In 2006, for example, the Foreign Investment Advisory Service (part of the World Bank Group) made a number of specific recommendations relating to tax incentives and UNCTAD in a report made in the same year recommended a general review. There is clearly a need to determine which incentives and exemptions are harmful and which are effective and necessary. However, there has been no published review or discussion and providing tax incentives to local and international investors continues to be a central plank of government policy (Ministry of Finance and Economic Planning 2007).

This Report examines the position of the Rwandan government on tax incentives, concessions and exemptions, including the role that the government sees for them in its overall development strategy. It raises questions about the extent to which they are meeting the Government's objectives and are providing good value for the money invested. The report is divided into eight main sections including this introduction.

- Section Two describes the methods used to carry out the research which used a combination of desk research and field work.
- Section Three examines the regional context in the light of Rwanda's accession to the East African Community and the community's commitment to harmonise taxes and do away with harmful ones.
- Section Four describes the country context and the role the government sees for tax incentives in its overall development strategy.
- Section Five considers the policy framework the government has put in place to implement its strategy to attract FDI and domestic investment through a fiscal regime that grants tax incentives to some groups of investors.
- Section Six sets out what we know about the amount of tax foregone through tax incentives.
- Section Seven discusses the extent to which the policy of granting tax incentives is meeting the government's objectives.
- The final section summarises the conclusions from the research and makes recommendations to the Government.



2. Methodology

The desk research involved key-word searches using google and searches of relevant web sites including Rwanda Government web sites (see Reference List). All the source material accessed was indexed and notes made on the information relevant for this project. Materials accessed included all the Tax Laws in force in Rwanda, relevant policies, the Rwanda Revenue Authority Annual Reports, recent research on tax policy in Rwanda and literature on tax incentives more generally.

The fieldwork involved agenda interviews with key stakeholders in government, Parliament, the East African Legislature, international accountancy firms, inward investors and representatives of Official Development Partners (see Appendix 1). We also collected statistical data from RAA and RDB. A number of organisations declined to be interviewed including most of the accountancy firms, the World Bank and some Official Development Partners. The World Bank said that they never answer questions on a country's taxation policy and the ODPs who declined said they did not have an expert in post on taxation. The Private Sector Federation nominated one of their member companies, Bralirwa, to respond to the questionnaire. In total we interviewed 32 people representing 23 organizations. We visited RRA and EDB on a number of occasions to collect additional data and interview officials.

Agenda interview schedules were developed to ensure coverage of key topics and comparability of responses while enabling respondents to give detailed answers. A set of core questions were asked of all respondents with additional questions for different organisations. Interviews were carried out face to face by trained interviewers and answers were recorded and subsequently transcribed for analysis. Interviews were conducted in English and informants were requested to give oral informed consent. The interview data were analysed for themes.

3. The Regional Context

The East African Community, with an estimated population of 126 million and a gross domestic product of \$44bn, has a strong potential to participate effectively in the world economy and thereby support the social and economic development of the region.

Rwanda joined the EAC in 2007. Although Rwanda's accession to the EAC is expected to bring considerable economic benefits in the medium to long term, membership also imposes fiscal constraints. Rwanda is already experiencing a reduction in customs revenue (RRA 2011). Article 032(e) of the EAC Treaty requires that member states harmonise their tax policies and reform them to remove distortions and promote investment. The Customs Union, a common tariff for trade with the rest of world and a Common Market were introduced in 2010. A Monetary Union and a political federation are planned.

At present the member states have huge differences in their tax systems and these differences sometimes result in unfair tax competition and unequal treatment of taxpayers, goods and services which if not addressed will distort the functioning of the Common Market (Appendix 2 Table A2.2) (EAC 2009). Harmonisation of tax policies and laws on domestic taxation is therefore an essential aspect of microeconomic convergence and is one of the benchmarks to be attained for the effective functioning of the Common Market.

The member states of the East African Community have committed themselves to eliminate harmful tax competition (East African Community 2010). Article 83(2)(e) of the *Treaty for the Establishment of the East African Community* commits the member states to harmonise tax policies with a view to remove tax distortions in order to bring about a more efficient allocation of resources. This stance is informed by the research findings, which suggest that providing tax incentives and exemptions can be self-defeating and result in a race to the bottom. In a study specially commissioned to look at issues of tax harmonization or tax coordination in the



EAC (Petersen 2010 ed.) the authors conclude that there is a need for tax harmonization and coordination and the elimination of harmful tax competition.

The Protocol on the Establishment of the EAC Customs Union provides for the establishment of export promotion schemes, special economic zones and exemption regimes. However, at present the incentive and exemption fiscal regimes differ between the member states both in terms of the provisions in place and the generosity of the schemes (Mukibi 2010; Mbyamkono 2010). Also the focus of member states revenue authorities is to maximise revenue while at the regional level the focus is on trade facilitation as a means of increasing revenue collection in the longer term (Mukibi 2010).

At an extraordinary meeting of the EAC Sectoral Council on Trade, Industry, Finance and Investment in 2009 the members noted the need for the member states to remain competitive at the international level whilst recognising that tax competition could result in harmful tax practices and unfair competition between member states. The *Draft Code of Conduct Against Harmful Tax Competition in the East African Community* defines harmful tax competition as including:

---the competition created within an economic block as a result of preferential tax regimes that offer tax advantages to particular entities at the detriment of other entities operating in the same country or other countries thereby putting other entities at a disadvantage (p 6).

It further defines harmful tax practices as meaning:

Tax measures by tax havens and /or preferential tax regimes that affect the location of financial and other service activities, erode the tax base of other countries, distort trade and investment patterns and undermine the fairness, neutrality and the broad social acceptance of systems (p 6).

If adopted the *Code* would require the member states not to introduce any new tax measures which are harmful within the meaning of the code and to amend existing laws and practices with a view to eliminating harmful measures within three years of the signing of the *Code*. It explicitly requires that in order to eliminate potentially harmful practices:

- any provisions for the negotiation of the tax rate or the tax base be reviewed;
- any tax laws which exempt foreign-source income from residency country taxation be reviewed;
- with respect to VAT, that an EAC common VAT model be developed and that zero-rated regimes and exempt transactions harmonised;
- with respect to income tax that initial capital allowances of more than 50 per cent are abolished, that all tax incentive regimes in the corporate income tax system, especially export processing zones and special economic zones, are reviewed and harmonised, that the treatment of losses and withholding taxes on dividends, interest payments, royalties and services are also harmonised and that capital gains from capital sales be treated as normal profit;
- with respect to excise duty that a harmonised legal base be developed which defines the categories of taxable goods, defines taxable items in a uniform way, replaces *ad valorem* rates with specific rates and defines the lower and upper ceilings for national tax rates. Tax rates should be defined in the national excise duty laws and discriminatory rates for imported goods should be abolished.

The *Code* provides for special consideration to be given to tax measures that are designed to support the economic development of a particular region, including paying special attention to the particular features and constraints of the partner states which are geographically disadvantaged. Rwanda along with Burundi both suffer from being small countries, landlocked and a long distance to ports. They are also disadvantaged by the high non-tariff costs of exporting and importing goods (Ministry of Trade and Industry and Private Sector Federation 2010). It should, however, also be noted that in marketing the proposed Kigali Free Trade Zone the government of Rwanda emphasises the access to a large market accessible from the location that is not easily served by other trade routes in the region.

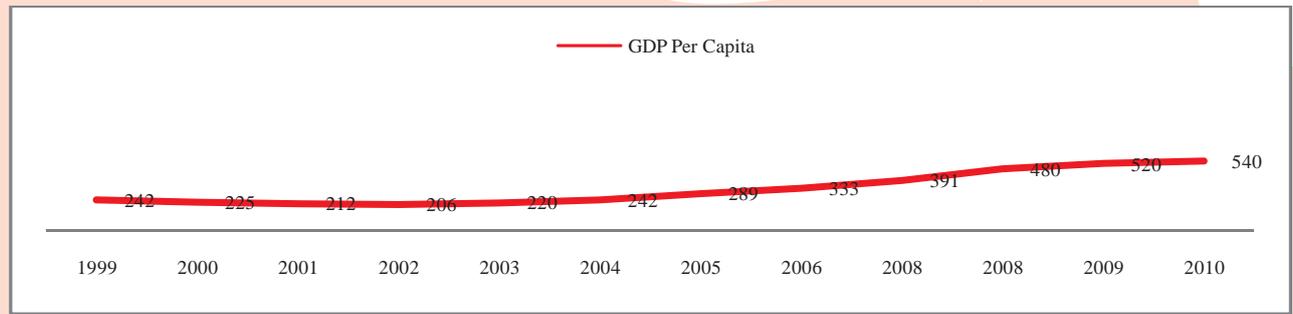


4. Country Context and Government Policy

4.1. Country Context

Rwanda is one of the best performing countries in Africa and an example of success in post-conflict reconstruction (Bigsten and Isaksson 2008). Its GDP per capita has increased from less than \$200 in 1994 (AfDB 2010a) following the Genocide against the Tutsis to \$540 US 2010 (Figure 1). The average annual growth rated in GDP was 8.8 per cent between 2005 and 2009, 5.2 per cent for the primary sector, 9.3 per cent for the secondary sector and 11.6 per cent for the tertiary sector (NBR 2010, Appendix Table 1). It has been widely acclaimed for the progress it has made in fighting corruption and promoting gender equality. It has made dramatic progress in creating a soft business environment in recent years becoming one of the most improved countries in the world in the annual *Doing Business Index*, published annually by the World Bank and International Finance Corporation..

Figure 1: GDP Per Capita 1999-2010



(Source: GDP National Account 2009³; NISR 2011)

Rwanda remains, however, one of the poorest and most aid-dependent countries in the world and faces enormous development challenges. With an estimated population of just over 10 million, it is the most densely populated country in Africa and one of the most densely populated countries in the world with about 57 per cent of the population living below the national poverty line. The economy is mainly dependent on rain-fed agricultural production based on small, semi-subsistence and fragmented farms with about 77 per cent of the population living in rural areas and dependent on mainly subsistence agriculture. There are few relatively well trained workers and there is environmental degradation, poor quality infrastructure, high business operating costs, limited proved natural resources and difficulties in economic management. It has the highest electricity prices in the world (Abbot and Rwirahira 2010; AfDB 2010a; United Nations 2006). Around 50 per cent of the government budget comes from official development aid. Whilst domestic revenues have increased dramatically since the beginning of the 21st century they fund only around half the government budget and have grown only marginally as a proportion of GDP, up from 11,1 per cent in 2009 to 12.4⁴ per cent in 2009 (data supplied by RRA April 2011).

There are signs of economic transformation with the proportion of the population employed in agriculture declining from 90 per cent in 2000 to 77 per cent in 2006 and those employed in non-farm jobs or running non-farm enterprises increasing (Cichello and Sienaert 2010). The agriculture proportion of GDP declined from a high of 39 per cent in 2004 to 32 per cent in 2010 and that of the service sector increased from 41 per cent in 2004 to 47 per cent in 2010. There has been little change in the contribution of manufacturing which was 15 per

³ <http://statistics.gov.rw> last accessed 04/04/2010

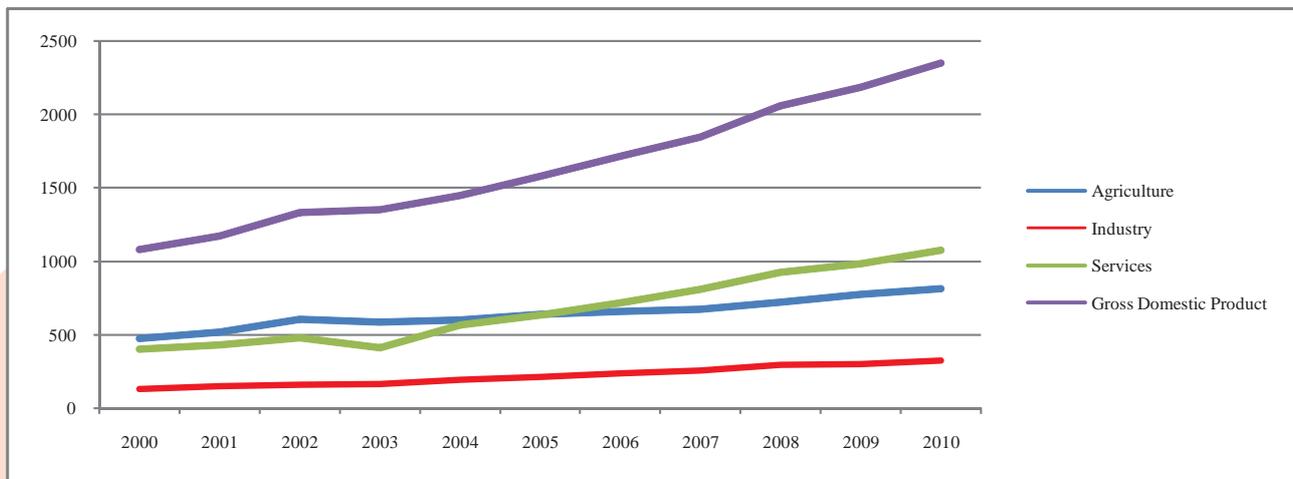
⁴ This compares with an average of 16 per cent in sub-Saharan Africa excluding South Africa and 32 per cent for OECD countries in 2005 (Gayi 2007)



cent in 2010⁵ (NISR 2011a) (Figure2). However, the formal sector's share of the GDP was only 22 per cent in 2010, with the monetary informal sector's being 47 per cent, the informal non-monetary sector's 20 per cent⁶ and the Government's 11 percent (NISR 2011b). While the high levels of export growth and relative share of manufacturing in GDP are positive the major challenge is to increase the level of technology in production.

There is over-reliance on resource based goods, low technology, a narrow basket of export goods and limited export market. FDI remains low despite Rwanda having established a sound investment climate and the private sector is still nascent. The binding constraints to growth are lack of economic infrastructure, expensive and unreliable infrastructure, the limited skills base and high non-tariff barriers, such as delays at border crossings and weighbridges (Byiers 2009; Hansl 2011; Newfarmer 2010; PSF 2008; World Bank 2007).

Figure 2: Gross Domestic Product by Activity at Constant 2006 Prices



(Source: NISR 2011)

4.2. Government Policy

Rwanda's vision is to build a knowledge-based economy and to become a private sector led middle income country by 2020. Rwanda's ambitious programme for development is encapsulated in *Vision 2020*. The *Economic Development and Poverty Reduction Strategy (EDPRS)* is the mid-term framework for implementing the Government's long-term development agenda (Ministry of Finance and Economic Planning 2007).

The *EDPRS* is based on three pillars designed to accelerate economic growth and promote human development:

1. Sustainable growth for jobs and exports - investing in improving the climate for business investment, thereby achieving private-sector growth. In the shorter term the priority is reinforcing the productive and export potential of the agricultural sector, but in the longer term the goal is to diversify the economy by promoting the non-farm sector.
2. *Vision 2020 Umurenge* is a pro-poor rural development and social protection programme. It includes public works, credit packages and direct support and is implemented at village level using participatory methods;
3. Good economic governance is seen as a precondition for poverty reduction and development by creating a comparative advantage in 'soft infrastructure' (good governance and institutional arrangements important

⁵ Adjustment on the trade figures is 6 per cent.

⁶ The formal sector is defined in Rwanda as taxpayers, the informal monetary sector is made up of business that have financial transactions but are not registered to pay national taxes and the informal non-monetary sector includes production for immediate consumption and barter.



5. Taxation Policy

5.1. Introduction

Taxation Policy in Rwanda is focused on widening the tax base to increase fiscal revenues especially focusing on registering the informal sector, simplifying procedures and providing tax incentives to encourage both FDI and domestic investment. Although as we have noted above fiscal incentives are discussed in *EDPRS* as part of a basket of measures to encourage private sector growth the person we interviewed for this project nominated by the PSF suggested that: *The government focuses more on revenue collection than on business promotion. We feel that there is not a tax policy linked to EDPRS or Vision 2020 that promotes business.* This is in line with the findings of the PSF (2009) *Business and Investment Climate Survey* that concluded that corporation tax was seen as an impediment to growth by businesses.

The income tax base in Rwanda remains narrow, however, with 80 per cent of workers being engaged in mainly subsistence agriculture. Although tax revenues have increased in recent years, tax as percentage of GDP has not increase significantly. In 2008 it was 12.8 per cent and in 2009 12.1 per cent of GDP). This compares with 10 per cent in 1998.

5.2. General Structure of the Tax System and the Composition of Tax Revenue

There are three main categories of domestic tax revenue, taxes on goods and services (VAT and excise duty), direct taxes (including PAYE, corporation tax, personal income tax and tax imputed on turnover) and tax on international trade

In recent years around half of all domestic tax revenue has come from tax on goods and services with VAT accounting for around a third of all tax revenues (RRA 2006, 2007, 2008, 2009, 2011). In 2009 the proportion of tax revenue from direct taxes exceeded that from taxes on goods and services for the first time (Table 1). There has been a decline in taxes on international trade since Rwanda joined the East African Community and an increase in the contribution of direct taxes. The increase in direct taxes has come mainly from increasing revenues through the Small and Medium Taxpayers Office due mainly to the drive to bring more of the informal sector into the tax net (RRA 2011). However, the largest share of revenue continues to come through the Large Tax Office although the share of taxes from corporation tax remains low, with most of the income tax coming from PAYE.

Table 1: Tax Collected 2009 in Billion RWF

Total Tax Revenue	392.7	% of Tax Revenue ¹
Tax on Goods and Services	174.7	44.5
Excise Duty	49,606,50	12.6
VAT	125,054,60	31.9
International Trade	37,818,90	9.6
Income and Profit	135.3	34.5
Large companies	27.4	7.0
Small companies	17.2	4.4

(Source: Data Provided by RRA April 2011)



5.2.1. Value Added Tax

VAT was introduced in Rwanda in 2001. Law No 6 of 2001 has been supplemented by a 2003 Ministerial Order, Commissioner General Rules of 2001, 2002 and 2005, the 2005 Tax Law and Law No 29/20010 modifying the 2001 Law. The VAT rate is 18 per cent the same as in the other EAC countries except Kenya where it is 16 percent. There is a range of goods that are exempted at least in part to reduce the regressive nature of the tax (see below). There is a limited number of zero-rated goods including goods sold on aircrafts, inclusive tourist tours, goods imported for diplomatic missions and diplomats and supplies for ODPs and government funded projects.

5.2.2. Excise Duty

Excise duty is levied in accordance with the *2010 Law No 28/2010* which modifies the *2006 Law No 26/2006*. The tax on imports is based on the cost including insurance and freight on arrival in Kigali and on local products on the selling price exclusive of taxes. In 2010 the rate of tax on fuel was changed to a fixed one with diesel being taxed at a lower rate than premium petrol to support economic activities.

Table 2: Excise Duty

Goods	Tax Rate
Beer	60%
Spirits and Wine	70%
Fruit juices	5%
Powdered Milk and Mineral Water	10%
Soft Drinks	39%
Cigarettes	150%
Fuel - Premium (excluding Benzene) and Diesel	283 RWF/litre on premium 250 RWF/litre on diesel
Lubricants	37%
Motor Vehicle up to 1500cc	5%
Motor Vehicle up to up to 2500cc	10%
Motor Vehicle over 2500cc	15%
Telephone	8%

5.2.3. Income and Profit Taxation

Profit and income tax rules and rates are set out in the 2005 Law (Law 16/2005) and regulations relating to the implementation of the Law by the Minister and the Commissioner General Any resident who earns an income from domestic and foreign sources as well as non-residents who have income from a source in Rwanda are liable to pay personal income tax. The lower tax threshold is 360,000 RWF and the marginal tax rates are 20 per cent and 30 per cent (for a taxable income of above 1.2 million RWF). Small non-farm business owners with an annual turnover of between 1.4 and 20 million RWF a year pay a presumptive tax of 4 per cent. Farmers are exempt from taxes until they have an annual turnover of 12 million RWF a year. A withholding tax of 15 per cent is levied on dividends, interest payments, royalties, service fees and performance payments.

Contributions made by employers to the state social security fund and qualifying pension fund are exempt. Non-residents who receive income from an employer not based in Rwanda are exempt from income tax. Payments for diplomatic personnel and payment related to services for international organisations on the basis of international agreements are also exempt.



A withholding tax of five per cent the value (cost, insurance, freight) of imported good for commercial use is paid to customs before the goods are released from the bonded warehouse.

5.2.4. Taxation Rates

The tax rates are set out in the 2005 Law (Table 3). The tax regime for personal income tax payers is regressive with a low threshold for paying the top rate of tax, just under a third of the threshold in Kenya and Tanzania and even they are regarded as regressive (AfDB 2010a; PWC 2011). Corporate income tax by contrast is the same as in the other EAC countries at 30 per cent and lower than the OECD average of 44.5 per cent and Sub-Saharan Africa of 67.5 per cent (Appendix 2, Table A2.2) (World Bank 2010; PWC 2011). There is no defined capital gains tax, they are treated as profit and charged at the CIT rate of 30 per cent.

Table 3: Taxation Rates

	Tax Rates in the 2005 Code
Corporate Income Tax Rate	30%
Withholding Rate Dividends, Non-Residents	15%
Withholding Rate on agency Fees and Interests	15%
VAT - Standard	18%
VAT - Exports	0%
PAYE	20%, 30%
Turnover Tax on Turnover Between 1.4 and 20 Million RWF ² for Non-Farm Small Businesses	4%

(Source: Law 16/2005)

Our respondents said that the general perception in Rwanda is that taxes are too high and are high compared with other countries in the region. A few argued that this was a perception but that tax rates were not out of line with regional rates and that it was necessary to collect taxes to pay for services. One inward investor said that domestic personal taxes were too high but that corporation tax was set at an appropriate level. However another complained about hidden taxes and a number remarked on the aggressive attitude of RRA. The respondent nominated by PSF told us that businesses fear tax audits (see also PSF 2009).

5.2.5. Local Taxes

There are three local taxes, property tax charged on the value of a property, Pantente (trading licence) and a tax on rental income from property or land. NGOs, religious groups and government are exempt from property tax.

5.3. Tax Exemptions in Rwanda

5.3.1. The Country's Objectives

Before considering in more detail the impact of the policy of providing tax incentives and exemptions in Rwanda it is worth considering what we mean by tax exemptions and incentives, why governments offer them and the extent to which they are seen to work,

Tax exemptions are given for the following reasons:

- To reduce the regressive nature of VAT by lowering the price of goods and services consumed by the poor by exempting from VAT goods consumed by the poor such as water service;



- lowering the price of certain goods that are deemed to have a direct benefit for society such as medicines, health care and education by exempting them from VAT;
- tax exemptions for NGOs and religious groups whose activities are of direct benefit to society;
- where the foreign or official nature of the activity does not warrant taxation, for example items sold in duty free shops or internationally bound aircrafts or goods consumed by the armed forces.
- to stimulate the transformation of agriculture by exempting farm-household enterprises from income tax until they have a turnover of 1.4 RWF a year and exempting agricultural inputs and products for all agricultural enterprises from VAT;
- providing incentives to stimulate economic growth to domestic and foreign investors. These incentives are expected to result in increased investment, employment, output growth and exports. These include incentives such as the favourable treatment of profits through reduced corporation tax and reduction in import duties,

5.3.2. Public Debate/Studies to Inform Tax Incentives

Taxation under the *Rwandan Constitution (Republic of Rwanda 2003)* has to be approved by Parliament. Article 81 of the *Constitution* says that no taxation can be imposed, modified or suppresses except by law and that no exemption from or reduction of tax may be granted unless authorised by law. Under Article 79 of the *Constitution* every year the Chamber of Deputies have to adopt the Finance Law (budget) and before the final adoption of the Budget, the President of the Chamber of Deputies seeks the opinion of the Senate on the Finance Bill. However, the amount of revenue foregone as a result of tax incentives and exemptions is not reported even though this is in effect government expenditure to achieve policy objectives. Furthermore the Law gives the Cabinet the right to negotiate incentives with individual investors without recourse to Parliament. This means that incentives can be given without any form of public scrutiny. It is unclear if the information will be formally presented to Parliament for public scrutiny in future year although the government has signalled an intention to publish the information (IMF 2011).

The extent to which there has been public debate/consultation about taxation in general and incentives in general is unclear. The government representatives, including ministries, RRA and RDB we interviewed said there had been consultations. The representative of RDB, one of the academics we interviewed and the interviewee nominated by PSF said there had been a consultation in 2009. However, the Member of Parliament we interviewed, representatives of ODPs the TU leaders, the representatives of foreign investors and the other three academics all said they were unaware of any consultations. The TU officials were strongly of the view that there should be a public debate about taxes in general and tax incentives in particular. We can find no records of any meetings. There are, however, consultative meetings held by RRA with taxpayers to discuss service delivery.

There have been no studies carried out by the Rwandan authorities into the effectiveness of tax incentives and exemptions in supporting policy objectives. There seems to be no regular calculation of the amount foregone through tax incentives and exemptions⁷ and information on registered foreign and domestic investors has not been published for several years. The representative of the Ministry of Finance and Economic Planning we interviewed told us that the failure to carry out monitoring and evaluation was due to lack of planning.

A number of international agencies have recommended that the government review tax incentives and exemptions arguing that Rwanda would do better in tax revenue generation if it did not have in place the tax incentives and exemptions introduced in 2005 (IMF (2007)). Tax incentives for FDI may be counterproductive

⁷ The failure to report the amount of revenue foregone through tax incentives and exemptions seems to be the norm with very few countries reporting the amount (Kransdorff 2010).



or ineffective because they distort the investment climate, and what Rwanda fails to tax may be taxed in the investors domicile.

Two studies carried out in 2006 one by UNCTAD and one by FIAS, both recommended a review of policy. UNCTAD argued that the government needed to develop a clearer vision as to how fiscal incentives could achieve the national development goal (see also UNCTAD 2010a). They recommended that tax incentives be made available to all investors irrespective of size of investment, as Rwanda was more likely to attract SMEs. They should also be output driven and focus on employment creation and knowledge transfer with deductions for personnel training expenses and targeted incentives to attract foreign skills and entrepreneurship.. They argued that reforms to the taxation system, including lowering the corporation tax rate to 25 percent and the dividend withholding rate to 10 percent, allowing a faster rate of depreciation on durable assets and unlimited loss carry-forward, setting up a comprehensive claw-back scheme for exporters and improving RAA administration including minimising the impact of taxation on companies' cash flow, would better enable the government to meet its objectives.

FIAS (2006) recommended: reviewing and eliminating as many fiscal incentives as possible and ensuring that any that remain are not overly generous; investigating ways of bringing farmers into the tax net and specifically halving the tax exemption threshold; reviewing the VAT exemption status of agriculture; imposing VAT on gorilla permits issued by OPTPN; providing investment allowances for all investors irrespective of size; evaluating the impact of the 0 per cent corporate income tax on micro-finance institutions; and allowing VAT exemption on imports of international services that are not available locally.

We have found no evidence that these recommendations had been systematically considered or debated. The only changes in taxation that have taken place relating to the recommendations is that Gorilla permits are now subject to VAT and VAT exemption on imports of international services that are not available locally has been granted.

5.3.3. Tax Incentives, Concessions and Exemptions in Rwanda

We can consider tax incentives, concessions and exemptions as falling into three main types (Table 5). Those:

1. available to all residents or those who fall in a given category - e.g. exemption from VAT on certain goods and services such as water, exemptions from profit tax (see Table 4);
2. available to all business or other organisations that fulfil the criteria e.g. - exemption of VAT on manufacturing equipment, medical-equipment for use in health facilities (see Table 4);
3. specifically designed to attract domestic investment and FDI and which require the investor to hold an Investment Licence issues by RDB (see Section 5.3.5 below).

There is some overlap between 2 and 3; for example, all businesses can benefit from tax reductions for exporting goods above a certain value. This can be seen as something that may be attractive to foreign and domestic investors but it is a concession given to all business operators.



Table 4: General Tax Incentives, Concessions and Exemptions

Excise Duty

Reduction of 33 RWF a litre on gas oil.

Customs Duty

- goods contained in the personal luggage of a traveller, and goods brought in on setting up residency.
- goods imported for diplomatic missions, consulates, international organisations and charities
- educational, scientific and cultural materials.
- pharmaceutical products, instruments and apparatus intended for medical purposes, pesticides, agricultural inputs and tools and fishery equipment.

VAT – Exempt

For all Residents

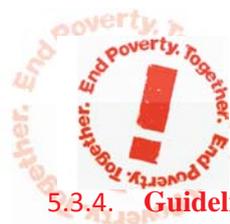
- Water Supply and Sewage Treatment Services
- Goods and Services for Health Purposes including medical treatment, drugs and medical equipment and equipment for people living with disabilities.
- Educational Material and Services provided for/used by government education institutions and those run by NGOs
- Print Media and Electronic Equipment used for Educational Purposes
- Transport Services including air, boat and road travel and the transport of goods by road and boat
- Sale and Lease of Land and Property for Residential Purposes
- Financial and insurance Services including premiums on health and life insurance, charges on operation of current account, transfer of shares, capital market transactions for listed securities
- Funeral Services
- Energy supplies
- Trade Union subscriptions
- Leasing of Exempt goods
- Agricultural and Livestock Products except for those Processes (locally processed milk is exempt)
- Agricultural Inputs and Equipment
- ICT Equipment
- Mobile Phone Handsets and SIM Cards

For all Investors

- Machinery for Industry
- Medical Equipment, Medical Products, Agricultural, Livestock, Fishing Equipment and Agricultural Inputs
- Tourist Charter Planes
- Transfers of Market Shares

Income Tax

- Farm enterprises are exempt from tax with turnover up to 12 million RWF a Year.
- Non-Farm Enterprises are exempt from tax with a turnover up to 1.4 million RWF a Year.
- Those with annual earnings/profit below 36,000 RWF a year are exempt from tax.
- Premiums paid by employers and employees to recognised pension funds.
- Government, NGOs, religious organisations, donor funded projects exempt.
- Taxpayers who export commodities or service in a tax period to a value
 - of between three and five million US\$ are entitled to a tax discount of three per cent;
 - more than five million US\$ are entitled to a tax discount of five per cent.
- Income accruing to registered collective investment schemes and employee share schemes is exempt from tax
- Exemption of secondary market transactions for listed securities from capital gains tax
- Listed companies are taxed at 20 per cent, 25 per cent and 28 per cent respectively for a period of five years if they sell 40 per cent, 30 per cent or 20 per cent of their shares
- A venture capital firm is exempt from corporate income tax for five years from the date of registration with the capital market authority.
- The withholding tax is reduced from 15 per cent to five percent on dividends and interest income on listed securities and interest arising from investments in listed bonds with a maturity period of three years and over when the person who withholds is a resident of Rwanda or the EAC.
- Exemption from withholding tax on imports and public tenders for taxpayers who have a tax clearance certificate issued by the Commissioner General of Rwanda Revenue Authority who have complied with tax requirements
- interest on investment income is taxed at a flat rate of 15 per cent
- income from dividends is taxed at a flat rate of 15 per cent
- royalty income is taxed at a flat rate of 15 per cent
- tax on rental income (excluding buildings and houses) is reduced to 10 per cent.



5.3.4. Guidelines used to Determine Tax Incentives for Investors

Law N° 26/2005 of 17/12/2005 *Relating to Investment and Export Promotion and Facilitation* sets the framework for the policy for encouraging DFI and domestic investment through fiscal incentives. Law No16/2005 reformed the previous Law (Law8/97) and incorporating all fiscal incentives in the income tax code (Table 6). However, UNCTAD (2006) while recognising that the 2005 Law improved the structure, administration and efficiency of the tax system argued that the code still suffered from a number of weaknesses including:

- a complex and administratively burdensome structure of incentives;
- an insufficiently clear vision as to how fiscal incentives can support the achievement of national development goals.

Table 5: Legal and Regulatory Framework for Promoting and Incentivising Investment

Name	Area	
Constitution of Rwanda 2003	The Constitution Guarantees Private Property Rights	
Rwanda Investment and Export Promotion Act 2005	Law on Investment, Trade and Export	Provides for Registration of Investment Projects
Value Added Tax 2001	Law Imposing VAT	Provides for Exemptions for Domestic and FDI
Income Tax Act 2005	Law governing Taxation of Income	Provides for Incentives for domestic and FDI
Customs and Excise Act 2006	Law on Import and Export duties	Provides for Exemptions for Domestic and FDI
2007 Law Establishing the Rwanda Commercial Registration Services Agency	Register trading companies and for intellectual property rights	
2008 Law Establishing Rwanda Development Board	Government Agency to fast track development activities, to promote domestic and FDI and to promote exports to regional and international markets.	Provides an Information Hub and advice to investors including a One Stop Centre for Starting a Business and support with business implementation.
2008 Law Establishing Arbitration and Conciliation in Legal Matters	Applies to domestic and international commercial arbitration and conciliation.	

5.3.5. Targeting of Incentives and Eligibility Criteria

There are no restrictions in Rwanda on domestic investment or FDI or the types of business that can be started. RDB registers all businesses and the business operator has to also meet the sector-specific requirements. Details of these are provided in the *Investor Info Pack* (RDB 2010).

However, to be eligible for a range of fiscal incentives and exemptions (see Table 6 below) investors (FD and domestic) must hold an Investment Certificate issued by the RDB⁸. A foreign investor must invest a minimum of \$250,000 and a domestic investor or one from COMESA \$100,000. The criteria used to evaluate the project proposal include: level of investment; non trading activity; creation of quality jobs; transfer of skills and technology; use of local raw materials; potential for exports; potential to create forward and backward linkages; and innovation and creativity (*Law N016/2005 on Direct Tax on Income*). The priority sectors for investment are: ICT; tourism; energy; agriculture; and agro-based industries; manufacturing; re-export trade; mining; research; human resource development; and, infrastructure. The main criteria used in evaluating a proposal are the level of investment, jobs to be created and transfer of skills and technology (interview May 2011). There are four areas of investment where more detailed criteria are given in the Law to be eligible for a Certificate of Investment Registration.

⁸ This is in addition to the general requirements of registering as a company or business with RDB and registering for tax with RRA.



1. **Construction Projects.** The project has to be worth the equivalent of one million and eighty thousand USD, completed within 24 months, use quality local materials when available, sub-contract to local companies that employ Rwandan workers, make optimal use of the allocated land and be environmentally friendly.
2. **Foreign Head Headquarter Status.** The company must invest the equivalent of two million USD in movable and fixed assets, employ Rwandans and provide training for them, make international financial transactions of at least five million USD a year through a licensed commercial bank in Rwanda, spend at least the equivalent of one million USD a year in Rwanda and set up its actual physical administration in Rwanda. In addition it must perform at least three qualifying services for its offices or companies outside of Rwanda: general management and administration; business planning and coordination; procurement of raw materials, components and finished products; technical support and maintenance; marketing control and sales promotion planning; data/information management services; treasury and fund management services; corpora and financial advisory service; research and development work; and, training and personnel management.
3. **Free Economic Zones (Kigali Free Tax Zone).** Eighty per cent of goods and/or services have to be exported. A local firm has to invest a minimum of \$50,000 and a foreign firm \$100,000. Products sold locally (up to 20%) attract local duties and taxes (Law No 26/2005 of 17/12/2005). RDB has to ensure that the business will: create high quality jobs; make substantial new investment in productive activities; transfer technology and skills; diversify and expand exports; use locally produced raw materials; create backward and forward linkages in the economy; and be environmentally friendly. The first planned FTZ is the Kigali Free Tax Zone (FTZ) which is intended to provide a trade, logistics and service hub to serve the northern Great Lakes Region including Rwanda itself, Burundi, western Uganda, western Tanzania and eastern Congo. It will be open to distribution and manufacturing companies including those engaged in professional, financial and technical service with the targeted industrial sectors being agro-processing, ICT/shared services, cold storage/horticulture, textiles/clothes, petroleum storage, dry goods warehousing, high value trading and crafts. It is proving difficult to attract investors due to the high cost of land (interview RDB May 2011).
4. **Scarce Resources.** Investors who wish to invest in scarce resources (including methane gas) have to be given permission by RDB (*2005 Law on Investment Promotion and Facilitation*). Those whose proposals to invest in exploiting the resource have the same entitlement to tax incentives and exemptions as other licensed investors in Rwanda. The methane gas in Lake Kivu is an important natural resource for Rwanda which can potentially be exploited to provide electricity to the national grid and to manufacture liquid fuels and fertilizers. There are no plans to provide incentives beyond those generally available (Interview with RDB Official April 2011).

5.3.6. The legal Instruments and Tax Policies Providing Incentives for Investors

The general framework for encouraging private sector investment in investment in Rwanda is Law N° 26/2005 of 17/12/2005 *Relating to Investment and Export Promotion and Facilitation*. The Laws that set out the tax incentives available for investors register with RDB are:

- *Law N° 06/2001 of 20.01.2001 On the Code of Value Added Tax as amended by Law N° 29/2010*
- *Law N° 25/2002 OF 18/07/2002 Fixing the Import Duty Tariff on Imported Products.*
- *LAW N° 16/2005 of 18.08.2005 on Direct Taxes on Income as amended by Law n° 73/2008 Law N° 24/2010*
- *Law No 26/2010 Governing the Holding and Circulation of Securities.*
- *Law n° 26/2006 of 27.05.2006 Determining and Establishing Consumption Tax on Some Imported and Locally Manufactured Products as amended by Law No75/2008 Law N° 19/2009 and Law No 28/2010.*



In addition to the fiscal incentives for businesses set out in Table 5 above there are a number of incentives for holders' of Investors Certificates, targeted at foreign investors with some also available to domestic investors. Incentives are given that effectively reduce corporation tax and give exemption to/reduce VAT, Custom Duties and withholding Taxes. Additional incentives are given for those operating in a FTZ or a foreign company that locates its headquarters in Rwanda. The reduction on corporation tax for employing more than a 100 Rwandans is output driven and the ability to deduct training and research expenses is designed to encourage investment in capacity building (Table 6). The goods exempt from VAT are all inputs that are in line with the priority areas for private sector investment identified by the Government.

Table 6: Tax Incentives for Holders of an Exemption Certificate

Direct Taxes on Income

- An investment allowance of forty per cent of the invested amount (50% outside the City of Kigali or for priority sectors as determined by the *Investment Code of Rwanda*) may be depreciated provided the amount invested is equal to or more than 30 million RWF and the business assets are kept at the businesses premises for three tax years following the first one.
- Training and research expenses are deductible from taxable profits.
- Losses may be carried forward and deducted from business profit in the next five tax years – earlier losses being deducted before later ones; loss carry forward.
- A company that operates in a Free Trade Zone and foreign companies that have their headquarters in Rwanda, invest at least two million US dollars, provide employment and training for Rwandans, make international financial transactions that need equivalent of five million US Dollars and pass through a local bank and spend at least the equivalent of one million US Dollars a year in Rwanda are entitled to pay corporate income tax at zero per cent, are exempt from the 15 per cent withholding tax on interest, and can repatriate profits tax free abroad.
- A profit tax discount of:
 - two per cent if the investor employs between 100 and 200 Rwandans;
 - five per cent if the investor employs between 201 and 400 Rwandans;
 - six per cent if the investor employs between 401 and 900 Rwandans;
 - seven per cent if the investor employs more than 900 Rwandans.
- Microfinance institutions are zero rated for five years renewable on a Ministerial Order.

VAT, Customs Duty³ and Withholding Tax

- Machinery and Raw Materials
- Building and finishing Materials provided that the project is worth at least one million eight hundred thousand UD dollars and the materials are not available in Rwanda of international standard as specified by the developer.
- Private education institutions importing materials and equipment.
- Specialised vehicles.
- Medical equipment, medical products, agricultural equipment and input
- Equipment for tourism/hotel industry
- Foreign investor or an expatriate employee of a registered enterprise is exempt from duty on one car, personal property and household effects

RDB may request the Cabinet to give additional incentives and facilities to investors. Such decisions will take account of the importance of the investment to Rwanda, the location and the amount to be invested.



6. Tax Foregone Due to Tax Incentives

6.1. Tax Foregone

The representatives of the Ministry of Finance and Economic Planning and the RRA we interviewed told us that the amount of tax foregone is calculated but not reported. However, an official we were referred to in the RRA had to calculate the tax foregone for us. He informed us that he could not provide information easily on the amount of tax foregone for all tax exemptions⁹. And he was only able to find the necessary data to provide us with figures for 2008 and 2009. Table 7 shows the information that that RRA was able to provide us with. It basically shows the revenue foregone due to incentives to investors. The RRA were unable to provide any information on revenue forgone through other tax exemptions such as revenue lost through VAT exemptions or the non-taxing of NGOs and religious institutions and government institutions.

In 2006 according to the International Monetary fund the amount of revenue foregone in Rwanda to tax incentives was three per cent of GDP. Our calculations suggest that by 2008 this had risen to 3.6 per cent and 4.7 per cent by 2009. This compares with 2.8 per cent of GDP in Tanzania in 2008/9, one per cent of GDP in Kenya and 0.4 percent in Uganda (Maliyamkono *et al* 2009)¹⁰ (see Table A2.1).

Exemptions on imported goods provide by far the largest category, 84 percent of the total. By contrast the percent of the total tax foregone for providing employment for Rwandans was 0.17 per cent.

Table 7: Tax Foregone Due to Tax Incentives 2008 and 2009¹¹

Tax	2008 Tax Foregone	2009 Tax Foregone
Investment Allowance		21,826,890,607
Tax Reduction Based on Number of Employees	259,265,691	237,037,365
Corporate Income Tax at 0% for 5 Years (Micro Finance)	529,065,477	61,512,331
Import Tax Exemptions (VAT, Customs Duty, Withholding Tax)	92,211,995,534	118,193,608,019
Domestic Tax Exemptions resulting from contracts based in bilateral agreement e.g. COMESA	1,378,873,200	536,700,600
Total	94,379,199,902	140,855,748,922
As % Total Tax Revenue	34%	38%
As % Total Potential Tax Revenue	25.5%	30%
As % Total Government Revenue	29%	33%
As % Total Potential Government Revenue	22.5	24.7
As % of Government Budget	14%	17%
As % Total Potential Government Budget	12.3%	14%
Total as % of GDP	3.6%	4.7%

(Source: Calculation Provided by RRA April 2011)

The informants we interviewed were generally unaware of how much was foregone in tax revenue through tax exemptions and incentives, suggesting that there has been little discussion of the issue. The exception was the representative from KPMG who provided figures for 2009 virtually identical to those calculated for us by RRA. Yet the amount of revenue foregone is not insignificant and it is in Budget.

⁹ This can be compared with Tanzania where all revenue foregone due to tax incentives and exemptions is calculated and reported (Mahyamkono *et al* 2010).

¹⁰ We should note that the figure for Tanzania includes all tax forgone including VAT, NGOs, donor funded projects and other exemptions other than those given as investment incentives.

¹¹ We noticed that the data in this table does not match exactly to types of taxation in Rwanda. We checked the information with RAA and were assured it was accurate.



What could the government have spent the foregone tax revenues on if they had been collected? The government budget is funded from three sources, domestic revenues (479.7 b. RWF) ODA (409.2 b. RWF) and borrowing (95 b RWF) (*Law No 30/2010 of 3006/2010*). So the government could have eliminated the need to borrowed or relied on less foreign aid. Alternatively it could have increased spending on priority areas. In terms of *EDPRS* priorities in the 2010/11 Budget 24.6 per cent was allocated for infrastructure, 14.2 per cent for productive capacity, 33.9 for human development and social sectors 30.1 per cent got governance and sovereignty, 4.5 per cent for defence and 5.1 per cent for public order and safety (www.minecofin.gov.rw). It could have increased spending on the human development and social sectors by 31.5 percent. It could for, example, have increased spending on health by over a 100 per cent or increased that on education by nearly a 100 per cent. It could have increased spending on industry and commerce by about 300 per cent.

Another way of putting it is to consider how much the government *is* spending on industry and commerce if we take account of the budgetary allocation and the revenue foregone. The percentage of government spending is 17.7 per cent per cent compared to 5.9 per cent in the budget – Over three times what the government reports.

6.2. Systems Put in Place for Monitoring Compliance

RDB has an office (the Aftercare Team) to provide ongoing support for those given investors' certificates. This office also monitors the implementation of the business plan and proposal submitted to RDB that provided the basis for the certificate being issued (interview with RDB May 2011).

6.3. EAC Impact

The country gives a range of incentives for both domestic and foreign investment which could potentially be seen as harmful taxes, distorting competition in the EAC. Rwanda has the most generous provision of incentives in the EAC as we have already discussed. (see Table A2.2) (Mayambono *et al* 2010). The EAC Treaty requires harmonisation of taxes although this does not necessarily mean that the member states would have to have identical incentives and exemptions as there needs to be agreement as to which taxes would be agreed at a Regional level and where the principal of subsidiary would apply. Rwanda could claim that giving more generous incentives compensates for a disadvantaged geographical location thus levelling up the playing field with the other member states. Although Burundi and Uganda are both landlocked.

Although the general view of our respondents was that Rwanda would benefit from EAC membership there was unease that if there were harmonisation of tax incentives and exemptions Rwanda would be disadvantaged because of her geographical location. The representative of RRA thought there should be an evaluation of current practices but the representative of the Ministry of Finance and Economic Planning said that member states would have to harmonise taxation and compete by means other than tax competition. The representative of one of the ODPs voiced the view that if there was not harmonisation there would be a race to the bottom and another that there would be uneven regional development.

In the context of the East African Community and the creation of a common market tax incentives distort fair competition, are contrary to economic integration and cause unfair tax and state aid compensations. There could be a race to the bottom in which all the member states are losers as they compete to give ever increasing incentives at the expense of decreasing tax revenues. Attention also needs to be given to harmonising VAT exemptions to avoid the potential for fraud.

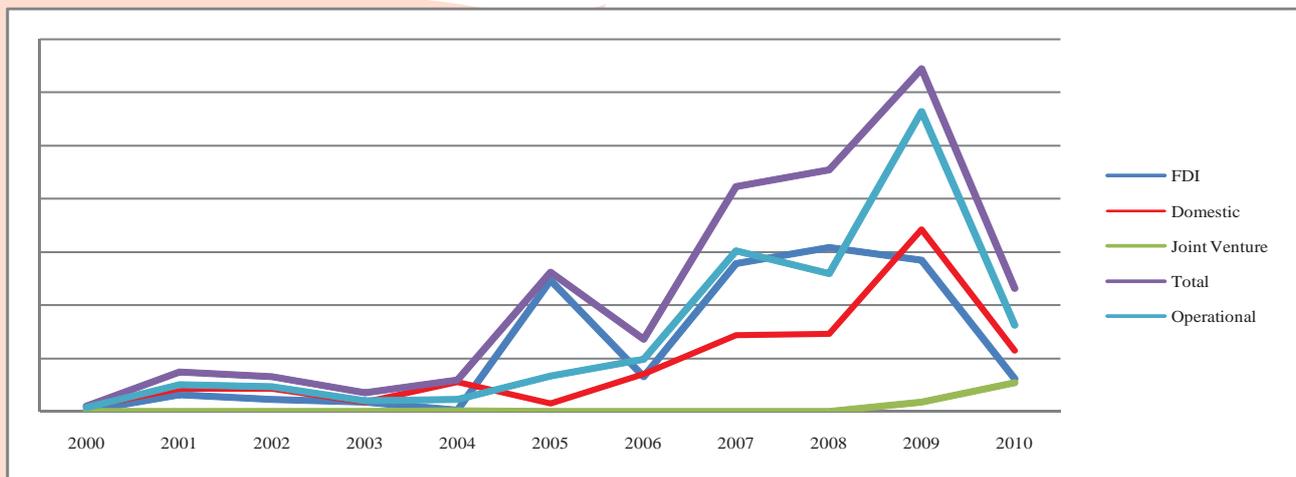


7. Evaluating the Tax Incentive Policy

7.1. The Extent to Which Tax Incentives Attracted Domestic and Foreign Investment

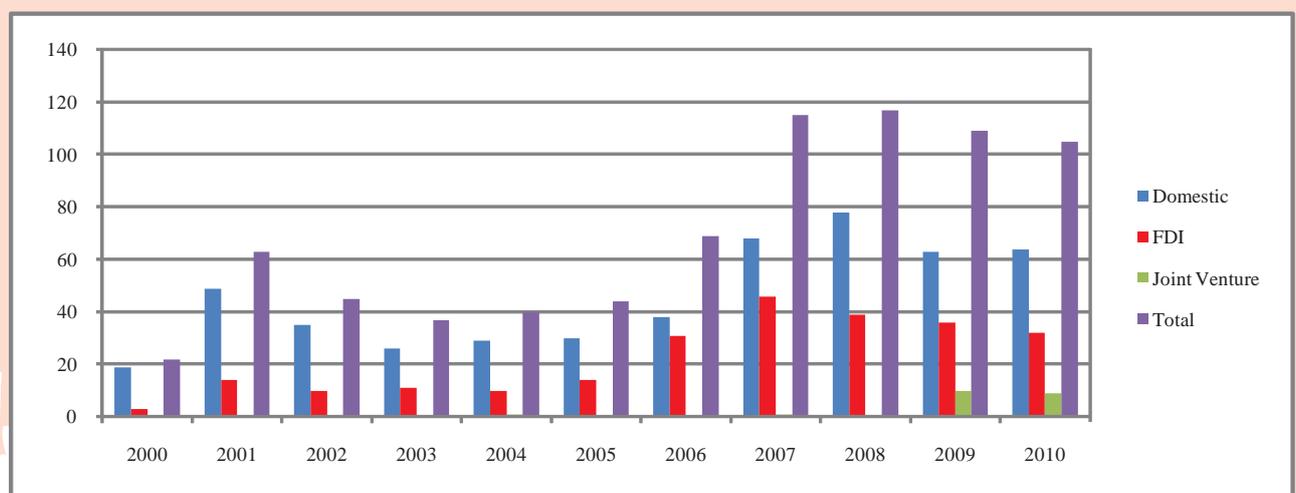
The increase in FDI has been dramatic since 2006 when the new fiscal regime came into force (Figures 3 & 4). FDI increased from \$14million in 2005 to \$173 million in 2010. FDI as a percentage of gross capital formation grew from 3.2 per cent in 2005 to 12.7 per cent in 2008. The growth in the latter is a sign of confidence in the economic development of Rwanda as it suggests that investors are confident of a future return on their investment (see Tables A2..3 & 2.4 for detailed information on registered investors). However, the increase is not necessarily due to the tax incentives and exemptions. Correlation does not prove causation.

Figure 3: Investment by Registered Investors 2000-2010 in RWF



(Source: Data supplied by RDB))

Figure 4: Number of Investment Projects Registered by RDB 2000-2010



(Source: Data Supplied by RDB)



7.2. Types of Firms and Investment Attracted

The leading examples of foreign investment in Rwanda as of 2009 were mainly in the finance sector, energy, hotels, tourism and telecommunications (Table 8). In 2009 Contoor Global LLC pledged a substantial investment in Methane Gas. Foreign investors included both regional and international investors. Kenyan investors such as banks and hypermarkets are increasing their regional presence but some may be attracted by the more generous incentives for investors in Rwanda compared to other EAC member states. It was beyond the scope of this project to investigate that.

Table 8: Leading Foreign Registered Direct Investors in Rwanda 2006-10 (10 Billion RWF+)

Company	Country	Sector	Investment in RWF
Kenya Commercial Bank	Kenya	Finance	128,421,421,361.00
Dubai World	UAE	Hotel & Real Estate	126,500,000,000.00
Star Communications Network	China	Telecommunications	10,893,135,000.00
CCDTHA	Canada	Hotel	11,275,000,000.00
Convention Centre	Libya	Hotel & Tourism	82,500,000,000.00
Kivu Watt Ltd	USA & Netherlands	Energy	171,000,000,000.00
Tigo	Luxembourg	Telecommunications	68,000,000,000.00
New Century/Marriott Hotel	25% Rwanda/75% China	Hotel	39,330,000,000.00
Falcon Oil Storage Ltd	Mauritius	Petroleum	16,520,000,000.00

(Source: Data Supplied by RDB)

If we look at Table 9 we can see that Kenya is the leading country of domicile of foreign investors followed by the USA, China and Belgium (the former colonial power). The EAC community accounts for 37 and Sub-Saharan Africa for 51. The EU accounts for 43 in total. Of the countries targeted for attracting FDI from the USA was the leading one with 24, China second with 16, Belgium third with 14, India fourth with 12, and the UK last with six in the five years period.

Table 9: Countries of Domicile of Registered FDI 2006-10¹²

Sub-Saharan Africa	North Africa	Asia	North America	Europe	Middle East	Australasia
Kenya (29)	Libya (2)	China (16)	USA (24)	Belgium (14)	Israel (4)	Australia (1)
South Africa (8)		India (12)	Canada (8)	Netherlands (6)	Lebanon (2)	
Tanzania (5)		Pakistan (3)		UK (6)	Saudi Arabia (1)	
Mauritius (3)		Japan (3)		Germany (5)	UAE (1)	
Uganda (2)		South Korea (3)		Italy (4)	Iran (1)	
Somalia (2)		Kazakhstan (1)		Switzerland (4)		
Burundi (1)				France (3)		
Togo (1)				Russia (2)		
				Cyprus (1)		
				Ireland (1)		
				Spain (1)		
				Bulgaria (1)		
				Slovakia (1)		
51 (37 EAC)	2	38	32	49 (EU 43)	9	1

(Source: Data Supplied by RDB)

Table 10 shows the sectors of investment of the leading local investors. They are in a range of the priority areas for investment, but with half being in construction/property/real estate.

¹² Includes those involved in joint ventures.

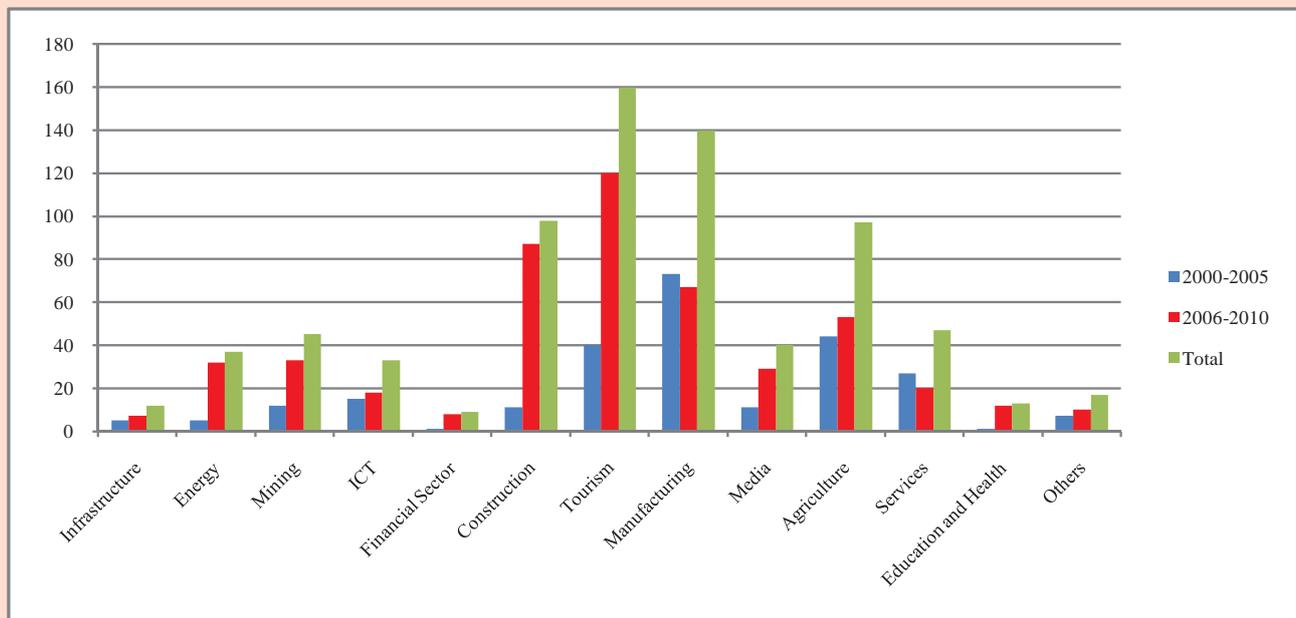
Table 10: Leading Registered Domestic Investors in Rwanda 2006-10 (10 Billion RWF+)

Company	Sector	Investment in RWF
Rwanda Energy Company	Energy	58,297,398,850
EPCHER	Agribusiness	14,822,527,500
Kigali Limousine VIP Tours Travel	Transport	1,421,263,757,86
Rwanda Free Zone Company Ltd	Construction	36,978,461,800
Ultimate concepts LTD	Real Estate	11,660,000,000
Rwanda Investment Group/KIP	Finance	27,763,979,100
CIMERWA	Construction Manufacturing	30,800,000,000
Real Contract	Property	227,327,955,620
Market shopping Centre	Property	12,028,000,000
Caisse Sociale/Kagugu Project	Real Estate	17,400,000,000
4G Networks	ICT	11,600,000,000

(Source: Data Supplied by RDB)

Figure 5 shows the investment projects by sector from 2000 to 2010 for business with investors' certificates, and separately from 2000 to 2005 and 2006 to 2010. 2006 was when the 2005 Tax Law came into force together with the Law on investment promotion. Investment was highest in tourism, manufacturing and construction over the 10-year period. The increase since 2006 has been high compared with the numbers in the previous 5 years in tourism, construction, energy and mining all priority areas for private sector growth. However, in manufacturing and agriculture, two other priority areas for investment there was little change in the number of investment projects between the two periods.

Figure 5: Investment Projects by Sector Registered Foreign and Domestic Investors 2000-2010



(Source: Data Supplied by RDB)



7.3. Are Tax Incentives and Exemptions Working?

The main question that needs to be considered is if the benefits of giving tax incentives and exemptions outweigh the costs. Is the tax revenue foregone or to put it a different way the money spend by government on attracting private sector investment, compensated for by other factors. In other words, is the money being well spent? In order to try and evaluate the impact we need to understand what the Government's objectives are. They are economic growth, growth of the private sector, an increase in tax revenue, employment creation and a diversification in exports as well as an increase in the value of goods exported. The government also wants to leverage foreign investment in the private sector to transfer technology and skills.

Measuring whether tax exemptions and incentives work and are working (achieving the desired objectives) is difficult. It is virtually impossible to determine the full costs and even harder to tell what is responsible for attracting inward and domestic investment (Klemm 2009). There are five main factors in Rwanda that may account for increased investment other than tax incentives: the investors would have invested without incentives; post-conflict recovery; improved infrastructure and training; anti-corruption; and, the Doing Business reforms (see Table A2.1). Furthermore even if an investor was attracted by tax incentives and exemptions there may well have been other investors who would have invested without the incentives. This crowding out is an unknown. On the other hand increased investment by or start up of firms not getting tax incentives may be due to the increased demand created directly and indirectly by firms in receipt of incentives.

The Views of Our Key Informants

Given that there has been no monitoring and evaluation of the impact of tax incentives and exemptions the views of our respondents are subjective and few had a comprehensive knowledge of the range of incentives. Respondents representing government institutions thought that incentives for large businesses were working and some thought incentives for new businesses were as well. A number pointed to the growth in business as evidence to support their views. However, the respondent from RDB thought that there needed to be more incentives for local investors and the respondents from RRA and RDB said that more tax concessions are being considered. However, others were less certain. Two of the large businesses interviewed said that tax incentives were important and one thought they were important for attracting new investment but not of benefit to existing businesses. One agreed with the view of the academics that factors like infrastructure are more important and one said they had had no influence on their decision to invest. The representative of KPMG thought that tax incentives do not attract investment and do not work for existing large businesses and the IMF representative said that he and the IMF were opposed to tax incentives. ODPs generally did not know.

Performance in Attracting FDI

Table 11 shows Rwanda's relative performance (rank in attracting inward investment) and its potential for attracting inward investment. We can see that its performance has improved significantly since 2006. Between 2006 and 2009 it moved from being ranked 123rd in the world to being ranked 68. However, its rank for potential has remained virtually unchanged. This suggests that Rwanda is performing better in attracting inward investment than would be predicted from the economic structural variables that are used to measure investment potential. This may be related to post-conflict recover and the stable government that has been created with a reputation for fighting corruption but this is only speculation.

Table 11: Rwanda Ranking UNCTAD FDI Performance Index and Potential Index 2000-2009¹³

Rank out of 141 countries	2000	2005	2006	2007	2008	2009
Performance Rank ⁴	121	128	123	105	97	68
Potential Rank ⁵	138	130	136	140	139	

(Source: UNCTAD www.unctad.org/sections/dite_dir/docs last accessed 1.05.2011)

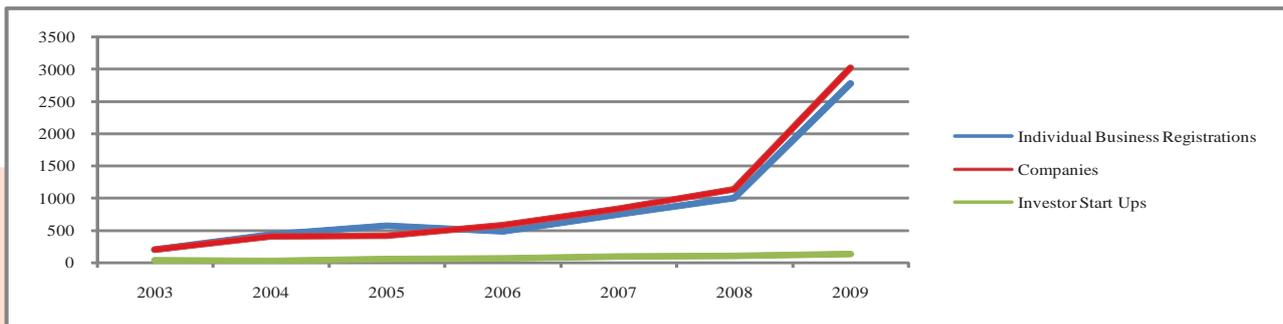
¹³ The FDI Potential Index is a composite measure of a country's attractiveness to FDIs and is made up of 12 economic and structural variables including measures of the size of the market, openness, ICT, energy use, education, country risks and investment in research and development.



Economic Growth

We have already discussed above the impressive growth in GDP between 2000 and 2010 and especially since 2008. We have seen above that there has been a large growth in the number of projects started by those issued with investors' certificates. However as Figure 6 shows the number of new business registrations by both companies and individuals greatly exceeds the number of projects stated by investors issued with certificates. The pattern of increase follows much the same for new company registrations as the starting of new projects by those issued with an investor's certificate.

Figure 6: New Business Registration and Investment Certificates Issued for New Start-ups – FDI and Domestic Investment

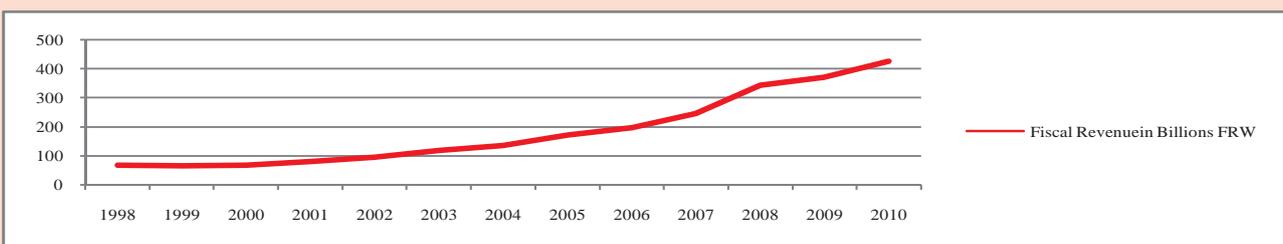


(Source: Data supplied by RDB May 2011)

Increase in Tax Revenues

Fiscal revenue has increased every year since 2000 (Figure7). It stood at 68 billion RWF in 1998 and by 2010 had risen to 426 billion RWF, a 626.5 per cent increase in revenue. However, while the amount collected in taxes has risen, the proportion of revenue to GDP has increased only marginally. It stood at 11.1 per cent of GDP in 1999 and 12.4 per cent in 2010. The proportion of taxes contributed by direct taxes and taxes on goods and services increased sufficiently to compensate for the decline in customs duty as a result of EAC harmonisation between 2007 and 2010.

Figure 7: Fiscal Revenue (Including TCCs) 1998-2010 in Billions RWF



(Source: Data supplied by RRA)

A number of our respondents argued that the tax foregone through tax incentives to investors was compensated for by the increase in PAYE revenue. It is difficult to determine which types of businesses are contributing to increased tax revenues. The number of new large taxpayers registered with RRA has been very modest and the main increase in numbers has come through the increase in small and medium companies paying profit tax and the increase in the number of tax payers. The growth in the number of tax payers is likely to have come mainly from new business not in receipt of investors' certificates and from the RRA drive to register businesses in the informal sector. The number of people paying PAYE doubled from just under four and a half thousand to just under nine thousand but it is not possible to tell how much of this increase was due to a growth in the labour market because of new investment by those with investors' certificates, new start ups by those without certificates or due to the successful drive by RAA to register firms previously in the informal sector (Table 12).



Table 12: Growth of Registered Taxpayers

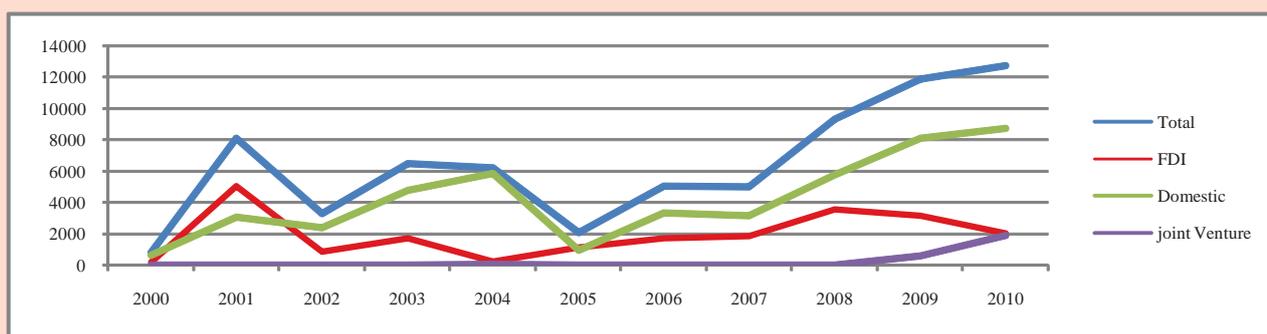
Registered for	2006	2007	2008	2009	2010
VAT	2,637	3,741	4,644	6,811	8,173
PAYE	4,495	9,285	8,929	13,687	17,508
Profit Taxes	4,205	11,842	20,676	29,900	40,604
Large Taxpayers	284	289	311	334	339

(Source: RRA 2007, RRA 2008, Data supplied by RRA)

Employment Creation

Figure 8 shows the number of jobs created by investment projects¹⁴ since 2000. It shows a dramatic increase. It also shows that domestic investment projects have created more jobs than FDI although the latter have invested more money in projects. In total 44,048 new jobs were created by investors between 2006 and 2010, an average of 8,810 a year. This is an impressive figure but has to be seen in the context of Rwanda needing to create around 143,000 jobs each year just to absorb new labour market entrants (UNCTAD 2006). Investment projects have created only about six percent of the jobs needed a year on average

Figure 8: Number of Jobs Created by Registered Investors 2000-2010



(Source: Data supplied by RDB)

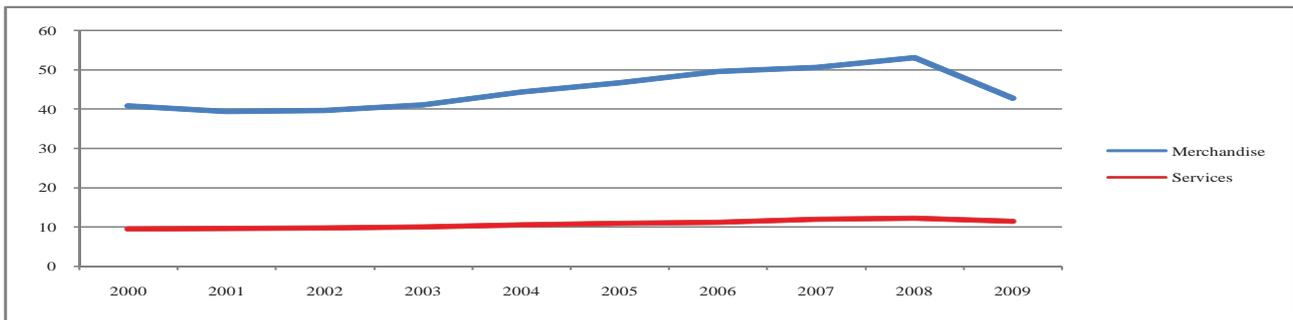
Exports and Balance of Trade

There was a growth in exports between 2003 and 2008, but with a decline in 2009 due to the world economic crisis. Rwanda's merchandised exports as a per cent of GDP increased from 40.8 per cent in 2000 to 53.1 per cent in 2008 but fell back to 42.8 per cent in 2009 (Figure 9). Over the same period the trade in services increased from 5.5 per cent of GDP to 12.3 per cent falling back to 11.5 per cent in 2009. Rwanda's exports are dominated by three products - tea, coffee and base metal accounting for 71.9 per cent of commodity exports by value in 2008, down from 94.4 per cent in 2001. There is some evidence of export diversification, although of the twenty top exports by value in 2008 seven were primary, eight were resource based, three were low technology, and one was medium technology and there was one other transaction (UN Comtrade). Tea (36.2%), coffee (15.6%) and metals (27.3%) continue to dominate. The highest growth rate between 2001 and 2008 for other products was 126 per cent for alcoholic beverages, 235 per cent for vegetables and 138 per cent for non-alcoholic beverages, but these only accounted for 5.4 per cent, 3.7 per cent and 3.7 per cent of exports in 2008. Of areas prioritised by government for growth the export value of vegetables and hides and skins, both in the top twenty of exports by value grew by 138 per cent and 17 per cent respectively.

¹⁴ RDB records the number of jobs investors plan to create not the number they actually provide.



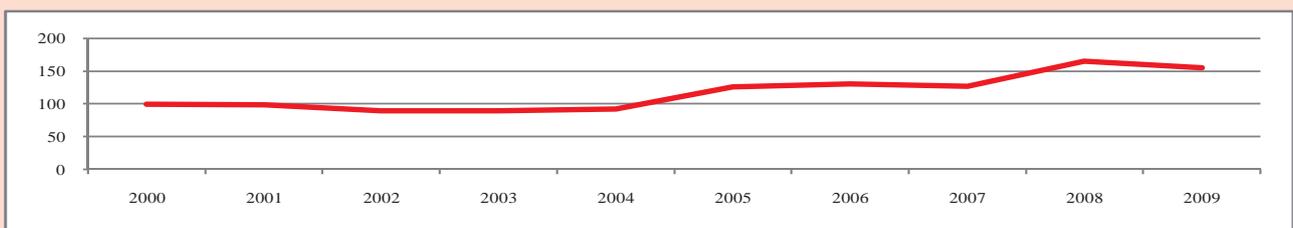
Figure 9: Merchandised Trade and Trade in Services as Per Cent GDP 2000-2009



(Source: World Bank Data <http://data.worldbank.org/topic/private-sector> last accessed 03.05.2011)

Although there has been a growth in exports the balance of trade has worsened as imports have also increased significantly. Exports grew from 71 billion RWF in 2000 to 245 million RWF in 2010 while at the same time imports grew from 270 billion RWF in 2000 to 718 billion RWF in 2010, in constant 2006 prices. The trade deficit worsened as a consequence from -199 billion RWF in 2000 to -476 billion RWF in 2010 (NISR 2011a) (Figure 10).

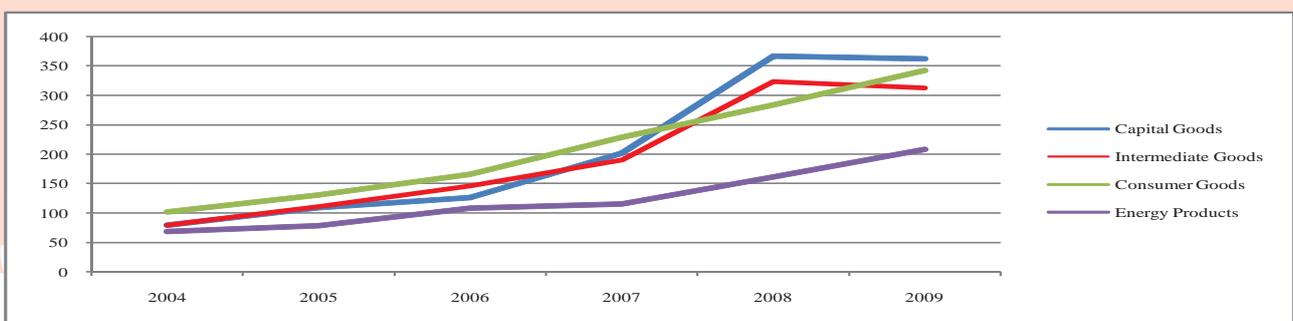
Figure 10: Net Barter Terms of Trade Index 2000-2009 (2000=100)



(Source: World Bank Data <http://data.worldbank.org/topic/private-sector> last accessed 03.04.2011)

It is worth noting that rate of increase in imports of capital goods and intermediary goods (measured by value) has gone up at a marginally faster rate than has that of consumer goods, although there was a decline in the growth in 2009 while the imports of consumer goods and fuel continued to increase (Figure 11). The growth in capital and intermediary goods could be seen as the initial requirements for investing in the manufacturing and service sectors but the continuing growth in imports also indicates that growing demand is driving an increase in imports. Domestic production is not able to neither absorb this increased in demand nor increase exports to match the growth in imports.

Figure 11: Growth in Imports in US\$ Million



(Source: NBR 2010, P54)



Conclusions

Our analysis has shown a strong correlation between the introduction of a number of tax incentives for foreign and domestic investors, as well as some more broadly targeted at the private sector and process in achieving government objectives. There has been economic growth, an increase in investment in new businesses, an increase in employment in the formal sector, an increase in tax revenues and a diversification and increase in exports. However, we cannot demonstrate causation. The increase in investment may not be due to the availability of incentives but to other factors making Rwanda a more attractive country in which to invest. Most notable is the dramatic improvement in Rwanda's rank in the *Doing Business Index* (see Table A2.1 and e.g. Esson and Zolt 2010; Groh and Wich 2009; IMF2006; Krugell and Matthe 2008; Perry 2011b).

However, we have been able to show that registered investors only account for a small proportion of newly registered business, that the increase in taxes is due to RRA's drive to formalise the informal sector and the growth more generally in enterprises. Employment created by registered investors is at best only six per cent of the new jobs required to absorb new entrants to the labour market. Even then domestic investors have created more jobs than foreign ones. There has been investment by registered investors in the sectors prioritised by the government but it has been uneven. The number of registered projects in tourism and construction increased significantly between 2006 and 2010 compared to 2000-0 and 2005 but the number in manufacturing registered a slight decline and remains low in total. Yet investment in the manufacture of high value goods like pharmaceuticals for export is essential for export diversification and the sustainability of increasing exports.

There is clearly a need for further analysis, although as we have pointed out it is difficult to carry out a cost benefit analysis. The cost is clearly the amount of tax foregone and the benefits are the extent to which the money invested has brought an adequate return in terms of meeting the government's objectives for the investment. Such an analysis would require collecting data at the level of the firm on a range of factors including: jobs created for Rwandans and the quality of the jobs; taxes paid including PAYE; the goods or services produced; the value of exports; the importing countries; the training and research and development budget; local purchasing; and local subcontracting.



8. Conclusions and Recommendations

Taxation is essential for sustainable development; it supports the basic function of a sustainable state and sets the context for economic growth. It is also essential for responsive government. The OECD countries have an average domestic resource mobilisation of 35 per cent of GDP (Prichard 2010b) compared with 13 per cent in Rwanda. Yet Rwanda foregoes a significant (and unknown) amount of tax year each year without considering the costs and benefits of doing so or having any public discussion. They are in effect hidden expenditures. Rwanda is the most generous of the EAC countries in providing tax incentives for FDI and domestic investment. The government foregoes about a quarter of its potential revenue each year in tax incentives from businesses alone.

The main purpose of this report was to raise the issue of tax incentives and exemptions. Are they too generous for a country like Rwanda that is struggling to raise money to fund its development strategy? Are they targeted at the right groups? Are they achieving the government's objectives for them? Would the money be better spent on other policy priorities like education or health? Why are the amounts foregone not made publically available? Why is there no monitoring and evaluation of their effectiveness and why has there been no cost benefit analysis of tax incentives for attract investment? Should the amount foregone be considered as part of the Government's budget so that it becomes transparent expenditure?

We have shown that the amount foregone just in incentives and exemptions to businesses is significant, amounting to 25 per cent of potential government revenue and 14 percent of the potential government budget. It could be used to reduce reliance on ODA or external borrowing or increase spending on health or education. The tax exemptions and incentives are generous relative to those given in the other EAC member states.

Exempting a range of essential goods and services from VAT, (a regressive tax) benefits everyone and especially the poor. The exemption of agricultural inputs from VAT is also of benefit to a large percentage of the Rwandan population, and by keeping prices lower than they would otherwise be, supports the Government's efforts to get farmers to use more agricultural inputs to improve production and reduce poverty. Tax exempt status for registered NGOs and religious organisations is a way for the government to support from public funds social goods that are of benefit to society generally or to specific groups. Often the services provided by these organisations would be provided by government if they were not provided by the NGOs. Nevertheless VAT exemption and zero rating is still tax foregone and there needs to be explicit criteria for determining what goods and services are exempt or zero rated.

The exemption of a proportion of income from taxation so that the poor are exempt from paying tax is also a widespread practice. However, exempting the first 12 million of turnover from taxation for farmers may be considered over-generous. Non-farm small enterprises have to start paying tax when their turnover exceeds 1.4 million RFW and a proportion with incomes below this threshold pay local taxes from which farmers are also exempt. The same arguments for bring farmers into the tax net applies as for other small businesses, developing a culture of tax compliance and holding government to account for the expenditure of public (tax payers) money.

More controversial are the tax incentives and exemptions given to businesses. These include businesses registered with the RDB as investors. The main beneficiaries are big businesses, many of which are foreign owned although domestically owned businesses can benefit from some of the incentives and exemptions. The largest amount is exemptions on imported goods amounting to 84 per cent of the total while only 0.17 per cent is for employing Rwandans. The latter is generally regarded as a preferable type of incentive as it rewards output. Our analysis of the costs of benefits of providing tax incentives for businesses including attracting FDI and domestic investment is inconclusive but there is a growing consensus that tax incentives may not work, or to the extent they do they have to be used selectively and for a limited period (AfDB 2010; Klemm 2009; Petersen 2010, OECD 2011, UNCTAD 2006). The government needs to balance supporting investment by providing a competitive tax environment and ensuring that investors pay an appropriate share of the fiscal revenue. There is a need to protect the tax base against sophisticated tax planning, that is businesses avoiding taxation by taking advantage of incentives and then moving when they are no longer entitled to them. Also to be aware that once introduced it is difficult to remove tax incentives.



Whether tax incentives and exemptions work or not, there is a need for transparency, public scrutiny and dialogue, equity and bargaining are essential to building a culture of tax compliance. Accountability of government to citizens is essential and taxation encourages citizens to make claims on governments and hold them accountable for public expenditure (Brautigam 2008, Prichard 2010a; see also Petersen ed. 2010).

Recommendations

The government:

1. develops an efficient and effective personal and corporate tax system that is transparent and fair to all;
2. publishes comprehensive information on all tax exemptions in an annex to the annual budget giving details of the amount of revenue foregone due to tax incentives and exemptions;
3. puts in place mechanisms to monitor and evaluate tax incentives;
4. carries out a cost-benefit analysis of tax incentives for business
5. reviews the tax incentives that it offers and the list of goods that are exempt from VAT;
6. it works with the other members of the EAC to harmonise taxes including tax incentives and exemptions.



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International Monetary Fund	www.imf.org
Ministry of Finance and Economic Planning	www.minecofin.gov.rw
Ministry of Trade and Industry	www.minicom.gov.rw
National Institute of statistics Rwanda	http://statistics.gov.rw
Rwanda Development Board	http://www.rdb.rw
Rwanda Revenue Authority	http://rra.rw
Transparency International	www.transparency .org

Data Bases

OECD International Development Statistics Database	http://www.imf.org/external/data.htm
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World Bank Trade Restrictiveness Index	http://info.worldbankorg/etools/wti
International Trade Centre	http://investmentmap.org
World Trade Organisation	http://stat.org/CountryProfile/WSDBCcountryPSView.aspx?



Appendices

Appendix 1 Institutions and Individuals Interviewed

Rwanda Revenue Authority (4)

Rwanda Development Board (3)

Ministry of Trade and Industry

Ministry of Finance and Economic Planning

Ministry of East African Community

Ministry of Infrastructure (2)

Trade Unions (2)

Parliament

AfDB

GTZ

DfID

IMF

EC

KPMG

Gender Monitoring Office

NUR (3)

SFB

UN Women

Bralirwa (nominated by PSF)

Investors

TIGO (telecommunications)

KCB (financial services)

Ameki Colour



Appendix 2 Additional Tables

Table A2.1: Location F actors Ranked by Importance for Investing in Sub-Saharan Africa

Rank	Factor	Score
1	Economic stability	4.11
2	Political stability	4.08
3	Physical security	3.96
4	Local market	3.93
5	Skilled labour	3.83
6	Quality of infrastructure	3.79
7	Legal framework	3.68
8	Presence of key clients	3.65
9	Labour costs	3.65
10	Transparency of investment climate	3.61
11	Quality of life	3.49
12	Raw materials	3.41
13	Incentive package	3.3
14	Local supplier	3.23
15	Existence of foreign investor	3.12
16	Government agency support services	3.10
17	Regional market	3.08
18	Double taxation treaties	2.74
19	Bilateral trade agreements	2.74
20	IPA assistance	2.72
21	Acquisition of existing assets	2.63
22	Availability of export processing zones	2.55
23	Specific investment project proposal	2.23
24	Presence of JV partner	2.23
25	Taking advantage of AGOA	2.03
26	Taking advantage of EBA	1.94

(Source UNIDO 2007)

This score reflects the mean value of the 5-point Likert Scale (1=not important, 2=helpful, 3=important, 4= very important, 5= crucial) in a survey of 1,216 foreign affiliates in sub-Saharan Africa undertaken in 2005.



Table A2.2: Summary of Taxes in the EAC

Tax	Burundi	Kenya	Rwanda	Uganda	Tanzania
Corporation	35%	30% (non-resident 37.5%)	30%	30%	30%
Reductions/Exemptions	<p>Zone Franche – tax relief on certain conditions.</p> <p>Export non-traditional products -17.5%</p> <p>Certain enterprises exempt for 10 years and then taxes at 15%</p> <p>10% reduction enterprises meet conditions who employ more than 100 Burundians</p> <p>Leasing and hire purchase enterprises exempt for 3 years and the 20% for next 4 years.</p>	<p>EPZ -10 years 0% 10 years 25%</p> <p>Newly Listed Companies Listed under the Capital Markets Act 20% issued shares listed 1st 3 years – 27% 30% issued shares listed 1st-5 years – 25% 40% issued shares listed 1st 5 years – 20%</p> <p>Non resident Shipping operators- 2.5% of gross Transmission of messages – 5%</p> <p>Capital Allowances Qualifying investment exceeding 230m US\$ outside /Nairobi/ Mombassa/Kismu. 150% Other qualifying investment 100% Hotels/education building 50%, qualifying residential/commercial building 25%, other qualifying building 10% (all once only)</p> <p>Farms works – 100% (once only)</p>	<p>FTZ – 0% indefinitely (exempt from withholding tax and can repatriate profits tax free)</p> <p>Registered Investors Profit tax discount of 2% if employs 100-200 Rwandans 5% if employs between 201-400 6% if employs between 401-900 7% if employs over 900</p> <p>Export Tax Discount Bring to country revenue US\$3m-5m 3% US\$ 5m + 5%</p> <p>Investment Allowance Registered Investor Kigali – 40% Outside Kigali – 50%</p>	<p>Exporters of 80+ finished consumer r +capital goods out of EAC exempt for 10 years</p> <p>Agro-processing for consumption in Uganda – exempt.</p> <p>Operators of aircrafts – exempt Education institutions- exempt.</p> <p>Capital Allowance Industrial buildings/hotels (20% initial + 5% annual write down allowance) Plant/machinery (50%/75% initial⁶ + annually on reducing balance 2030/35/40%) Commercial buildings (straight line 5%)</p>	<p>EPZ/SEZ- 10 years tax holiday</p> <p>Newly listed company -25% for 3 years</p> <p>Capital Deductions Buildings (straight line) (agriculture/livestock/fisheries 20%. other 5%) Plant/machinery (initial allowance) (agriculture 110%, manufacturing 50%) Plant/machinery (reducing balance Class 1 37.5%, Class 2 25%, Class 3 12.5%)</p> <p>Mining exploration/development -100% Agriculture- improvements/research and development 100%</p>
Capital Gains	35%	Suspended June 1985	Taxed as business profit (none on private property)	30%	30% (individual 10% for Tanzania asset)
Presumptive Tax on Small Businesses		3% (Turnover below 58,000 US\$)	less than 2,400 US\$ - 0% 2,400 US\$ - 34,000 US\$ - 4%	Less than 2,100 US\$ - 0% 2,100 US\$ - 21,000 US\$ - 1%	Less than 16,000US\$ - graded from about 1.1% to 3.3%
PAYE - Taxable Income and rate - month	Top rate 35 %	<p>Tax free income 130 US\$ 119⁷</p> <p>Tax Bands</p> <ol style="list-style-type: none"> 1. 119 US\$ - 10% 2. 231 US\$ - 15% 3. 348US\$ - 20% 4. 455US\$ - 25% 5. Over 455US\$ - 30% 	<ol style="list-style-type: none"> 1. 1.51US\$- 0% 2. 119US\$- 20% 3. over 119US\$ -30% 	<ol style="list-style-type: none"> 1. 56US\$ - 0% 2. 97US\$ -10% 3. 172 US\$ - 20% 4. Over 172US\$ – 30% 	<ol style="list-style-type: none"> 5. 84US\$- 0% 6. 234US\$ - 14% 7. 351US\$ - 20% 8. 468US\$ - 25% 9. Over 468US\$ - 30%
VAT	18% Zero rated supplies Exemptions and tax relief for certain persons	16% 12% supply and import of electricity supply and fuel oils Zero rated supplies Exemptions and tax relief for certain persons	18% Investors qualify for exemption on imported capital goods Zero rated supplies Exemptions and tax relief for certain persons	18% Zero rated supplies Exemptions and tax relief for certain persons	18% Zero rated supplies Exemptions and tax relief for certain persons
Registration Threshold – Turnover a Year		0.6mUS\$4	0.34US\$	0.21mUS\$	0.26mUS\$
Withholding Tax		Yes	Yes	Yes	Yes
Excise Duty		Yes	Yes	Yes	Yes
Stamp Duty		Yes	No	Yes	Yes
Environmental Levy		No	No	Yes	No

(Sources: Mutsotso 2010; Petersen (ed) 2010; PWC 2011)

Table A2.3: Registered Investors RDB, Foreign and Domestic, 2000–2010 in FWF

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Domestic											
No of projects	19	49	35	26	29	30	38	68	78	63	64
Estimated Value of investment in RWF	9,139,334,697		42,968,682,394	18,300,799,586	55,147,876,305	15,705,360,023	70,180,157,996		146,098,494,209		114,534,552,950
Jobs Created	629	3,060	2,414	4,796	5,883	962	3,356	3,143	5,781	8,153	8,765
FDI											
No of projects	3	14	10	11	10	14	31	46	39	36	32
Estimated Value of investment in RWF	1,299,100,000		22,891,266,096	17,138,506,135	2,601,435,840	246,745,210,540	66,093,501,667		308,613,780,813		63,387,105,904
Jobs Created	200	5044	866	1,712	259	1,144	1,709	1,874	3,548	3167	2058
Joint Venture											
No of projects	0	0	0	0	1	0	0	1	0	10	9
Estimated Value of investment in RFE	0	0	0	0	1,755,000,000	0	0	125,019,300	0	17,370,129,162	54,066,557,856
Jobs Created	0	0	0	0	60	0	0	0	0	581	1913
Totals											
No of projects	22	63	45	37	40	44	69	115	117	109	105
Estimated Value of investment in RWF			65,859,948,490	35,439,305,721	59,504,312,145	262,459,570,563	136,273,659,663		454,703,275,022		
Jobs Created	829	8,104	3,280	6,481	6,202	2,106	5,065	5,017	9,329	11,901	12,736
Operational	7,386,815,538		46,606,144,357	20,525,020,699	21,945,169,958	66,814,310,562	97,678,383,498		259,519,946,738		
Non Operational	3,051,619,159		19,253,804,133	14,914,285,022	37,559,142,187	195,636,260,000	38,593,276,165		195,183,328,284	80,065,176,153	69,433,682,614

(Source: Data Supplied by RDB)

Table A2.4: Registered Investors RDB, Projects by Sector, FDI and Domestic 2000-2010

Sector	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Infrastructure/ Transport	No 0	1	2	0	1	1	0	1	2	4	0
Energy	Value No 0	28801500 0	1588829481 0	0	2942443795 1	68432280 4	0	1685600000 6	1784100126 5	4628945950 9	0 10
Mining	Value No 0	0 5	0 2	0 1	18135000000 1	120570292600 1	3639350707 5	62220750574 7	9336080200 11	195969113753 2	36547194602 8
ICT	Value No 0	2633437884 6	2299500000 4	97588461 2	29000000 2	2697600000 1	30585520000 4	9591632944 8	26899559650 1	6768750000 2	7188413025 3
Financial Sector	Value No 0	9426861218 0	14290710850 0	4941039140 0	6933000000 0	11200000000 1	3016104800 1	111518304800 2	550000000 4	68239400000 1	15209000000 0
Construction	Value No 1	0 5	0 0	0 0	0 1	1500000000 5	3292800000 15	7574249000 13	158733550461 18	5534680846 24	0 17
Tourism	Value No 5	1232369338 11	7249265140 6	0 6	13700000000 7	83346747962 5	30900883362 18	20875067279 31	33205478965 35	270718950722 32	53022899149 24
Manufacturing	Value No 10	3533326778 16	7684328079 13	4021964000 18	14897556185 8	2689268377 8	30021551011 4	153576348955 16	155042333484 12	26788499573 19	62067323103 16
Media	Value No 1	3937725102 2	4537943469 2	6518437481 0	5581970500 3	32545800000 3	5669221828 3	6950113456 9	9580724682 9	38011535121 3	7491323500 5
Agriculture	Value No 3	2500000000 9	774017000 6	0 4	343093355 11	581660000 11	6670161258 9	2622344600 13	2058435432 10	72406283 6	1724631209 15
Services	Value No 2	281693400 4	9467678948 10	5972701600 5	4010352858 4	2600376044 2	16355919447 3	31762366108 5	3751077508 7	23520465946 3	41136989326 2
Education and Health	Value No 0	1203320079 0	1931475825 0	33399293326 0	13807875039 0	1678536230 1	606524000 2	3411893000 3	48143109546 2	1957669158 1	1659502610 4
Others ¹	Value No 0	0 4	0 0	0 1	0 1	266321440 1	622707250 3	10530495814 1	1218824968 1	228000000 3	5752325186 1
Total	Value No 22	22360277174 63	0 45	79700000 37	141259222 40	35806955540 44	4892916000 69	573773332 115	4400000000 117	1439072024 109	188615000 105

(Source: Data Supplied by RDB)

¹ Beverage, Textiles, Hides and Skins, Fishery, Leather,

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