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## Investment incentives in Rwanda: profile and effects

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- Tax incentives are a central tool for governments seeking to promote domestic and foreign investment. Over the past two decades the Rwandan government has used corporate income tax (CIT) incentives and adjusted customs duty exemptions to attract investment in priority sectors.
- Investment-related tax incentives in Rwanda are associated with firm growth. Firms receiving CIT incentives experience, on average, higher sales and employment after entering the incentive scheme.
- Incentives are selective. Beneficiary firms are disproportionately large, older, and internationally connected, suggesting barriers to access for smaller and younger firms.
- There is no evidence that incentives undermine tax revenues in aggregate.
- Policy design matters. Future improvements should focus on targeting firm potential rather than size, simplifying and rationalising incentive schemes, and linking benefits to measurable performance.

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## Introduction

Tax incentives are widely used by governments to attract investment, promote exports, and support priority sectors. By reducing the tax burden on selected firms or activities, these policies aim to stimulate job creation, productivity, and firm growth. However, incentives also entail significant fiscal costs and can distort competition if poorly designed.

The Rwandan government has, over the past two decades, relied on a mix of corporate income tax (CIT) incentives and customs duty exemptions as part of a broader industrial policy strategy. These measures have been implemented within a relatively strong administrative framework and can be evaluated using comprehensive firm-level administrative data.

This policy brief summarises evidence from a detailed firm-level analysis covering the period 2013–2023, using administrative records made available by the Rwanda Revenue Authority (RRA). It examines whether firms that receive tax incentives differ systematically from others, how their performance evolves, and what these patterns imply for the fiscal and economic effectiveness of Rwanda’s incentive regime.

## Overview of Rwanda’s incentive framework

Rwanda’s investment incentive regime is based on the country’s Investment Code, first adopted in 2005 and subsequently revised in 2015 and 2021. These laws define eligibility for preferential CIT rates, tax holidays, and related fiscal benefits, and establish the institutional framework for administering investment incentives (Figure 1).

**Figure 1. Timeline of Rwanda’s investment codes**

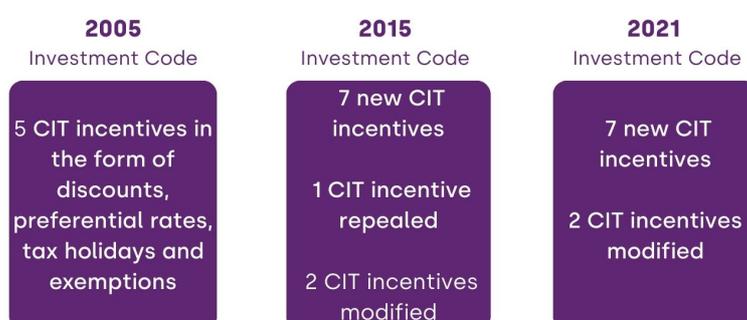


Figure 1 summarises the evolution of the Investment Code. While each revision updated eligibility criteria and priority areas, reforms did not entail a replacement of existing incentives. The 2021 revision largely expanded and complemented the pre-existing framework by adding new priority activities.

Most preferential regimes introduced under the 2005 and 2015 Codes – such as incentives for exporters and firms operating in energy, transport, ICT, financial services, and housing – remained in force after 2021. The main discontinuation occurred earlier, in 2015, with the repeal of CIT rate discounts for large employers.

Alongside CIT incentives, Rwanda makes extensive use of customs duty exemptions on imported raw materials and intermediate goods that fall outside regional trade agreements. These exemptions reduce input costs for firms engaged in manufacturing and other import-intensive activities.

Together, CIT incentives and customs exemptions account for a substantial share (over 50%) of Rwanda's total tax expenditures and are central to the country's investment promotion strategy.

## Results

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### Which firms receive tax incentives?

Between 2013 and 2023, 235 firms received at least one CIT incentive and more than 3,300 firms benefited from customs duty exemptions. This limited uptake reflects eligibility thresholds, application requirements, and the nature of the incentives themselves.

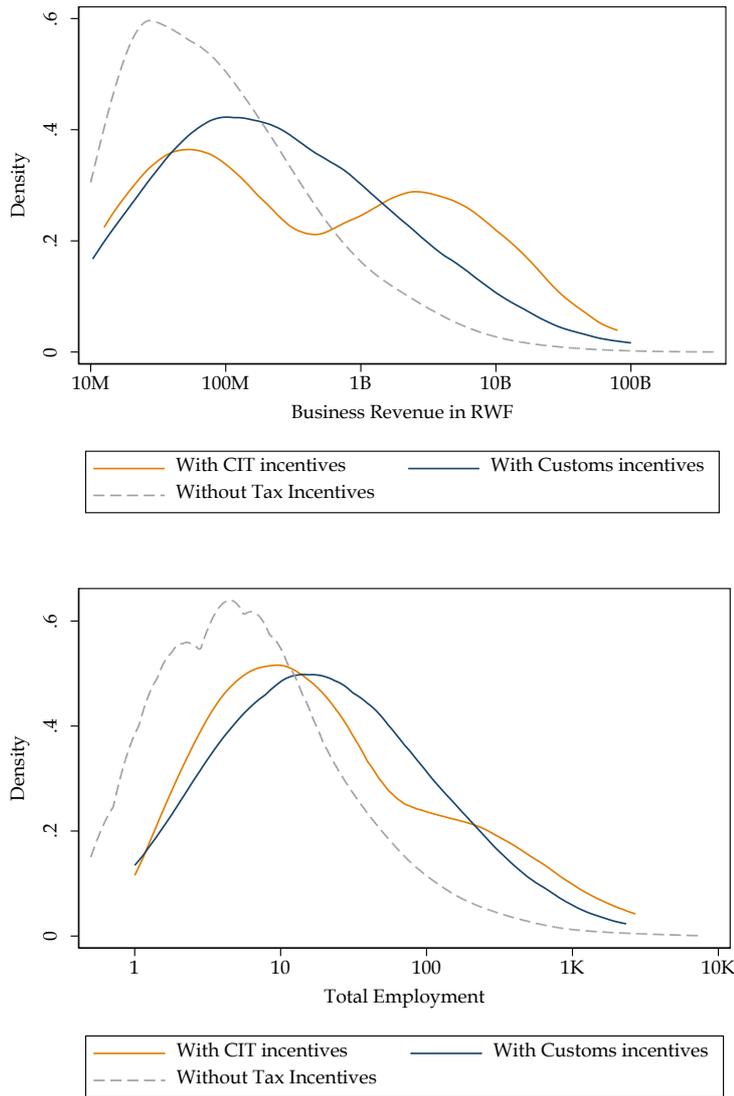
Firms that receive incentives differ systematically from those that do not, even when compared one year before they first receive an incentive:

- **Size:** Incentive recipients are significantly larger in terms of both revenues and employment.
- **Sector:** CIT incentives are concentrated in financial services and manufacturing, while customs exemptions are more common among import-intensive sectors such as wholesale trade and manufacturing.
- **International exposure:** Beneficiary firms are more likely to export, import, or have foreign ownership.

These patterns indicate that access to incentives is skewed toward firms that are already relatively established and internationally connected.

**Figure 2: Distribution of firm size for firms with and without tax incentives**

By revenue and by employment



Notes: The figure plots the distribution of firm size (revenue and employment) comparing firms the year before their first incentive and non-recipients.

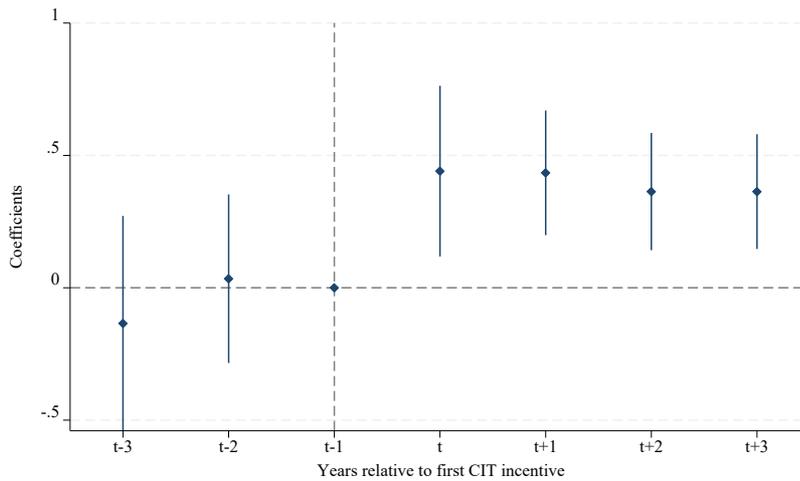
### What happens to firms receiving tax incentives?

Firms that receive tax incentives display stronger performance over time than non-recipient firms, but these patterns should be interpreted with caution. The analysis relies on observational administrative data and does not establish causal effects; incentive recipients differ systematically from other firms, and part of the observed post-incentive growth may reflect selection rather than the impact of the incentives themselves.

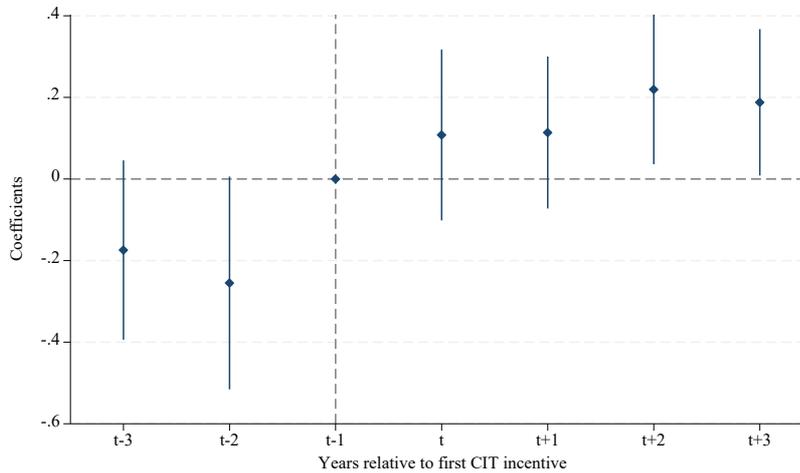
That said, clear regularities emerge. After entering a CIT incentive scheme, firms experience higher sales and employment relative to their own pre-incentive levels. Average revenues rise by roughly 40%, while employment increases by around 15%, with gains materialising gradually.

**Figure 3: CIT incentives and firms' performance**

Revenue and total employment



Note : Coefficients with 95% confidence interval. 99 treated firms with observable revenue received CIT incentives over the period 2013-2023



Note: Coefficients with 95% confidence interval. 102 treated firms with observable employment received CIT incentives over the period 2013-2023.

Firms also show moderate improvements in productivity and profitability, and an increase in export activity following incentive uptake. Evidence on investment in fixed assets is weaker and largely concentrated around the year incentives are first received. In contrast, the results do not seem to show any supply chain effects. That is, we do not find that the expansion or upgrading benefits of firms that receive the incentive get transmitted to their domestic network in terms of greater interactions with buyers and suppliers based in Rwanda. The results, therefore, do not seem to show that firms receiving the incentives alter their domestic network, apart from a slight increase in the number of buyers

Firms benefiting from customs duty exemptions show similar patterns of higher sales, employment, and exports. However, these firms already exhibit strong growth trends before receiving exemptions, reinforcing the need for caution in attributing these outcomes to the incentives themselves.

## What is the fiscal cost of these incentives?

To determine the fiscal cost, we calculate the forgone revenue that the state would have collected without these incentives. We make the simplifying assumption that all the revenues would have been collected at a 100% rate. Based on this, the average CIT forgone per firm throughout our sample period amounts to RWF 158 million (RWF 295 million for 2023). This is the cost of the policy per recipient.

These costs, are, however, mitigated by the increase in revenues and employment. Firms receiving CIT incentives increase their employment by approximately 15% and revenues by approximately 40%. The 15% increase in employment can be assumed to translate into roughly an equivalent increase in PAYE tax payable. Firms receiving CIT incentives pay approximately RWF 84.5 million of PAYE (see Table 1) and thus we can expect an increase in PAYE tax payables of RWF 12.7 million. Similarly, the increase in revenues can be assumed to translate into an equivalent increase in CIT tax payable. Since firms pay on average RWF 835 million of CIT, that translates into an increase in revenues of RWF 334 million. Altogether, assuming no effect on VAT or customs payable, the total benefits in this simplified calculation (RWF 347 million) outweigh the costs (RWF 158 million). However, this is a highly stylised calculation, which does not account for selection effects or the competitive pressure the incentives may pose on non-recipients.

	Total paid	Share
Total tax payable in RWF million	1,928	100%
CIT payable in RWF million	835	43.3%
VAT payable in RWF million	971	50.4%
PAYE tax payable in RWF million	84.6	4.4%
Customs duty tax payable in RWF million	37.7	2.0%

## Conclusion and policy recommendations

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The evidence points to a nuanced conclusion: Rwanda's tax incentives are associated with firm growth and do not appear to undermine tax revenues, but they are narrowly accessed and could be better designed to maximise impact.

- 1. Shift from firm size to firm potential.** Current incentives disproportionately benefit large, established firms. Future reforms could broaden access by focusing on firm potential, such as credible growth plans or export capacity. This would improve inclusiveness while supporting structural transformation. On the one hand, investing in larger and more efficient firms has the advantage of having greater chances of success and a greater capacity to expand the economy. Still, it casts doubts that such selected firms would not have achieved growth even in the absence of the incentives. On the other hand, less structured – or younger – firms would have taken advantage of the incentives, maybe with a larger return in terms of value for money, even if at a larger risk of failure.
- 2. Link incentives to measurable performance.** Moving from entitlement-based incentives to performance-based schemes would strengthen accountability. Eligibility and renewal could be tied to clear benchmarks such as job creation, export growth, or R&D spending.
- 3. Rationalise and simplify incentive schemes.** The current system includes numerous incentive types, many with very limited uptake. The number of unique firms that received an investment incentive under the investment code provisions (235 during the period 2013-2023) represents a small fraction of the potential pool of recipients, which could be indicative of constraints for firms to meet the conditions to receive the incentive. Consolidating incentives into a smaller number of function-based categories, such as export promotion, investment support, and innovation, would reduce complexity and improve transparency.
- 4. Set clear sunset clauses.** All tax holidays and rate reductions should include a fixed duration (typically five years) and explicit conditions for renewal based on performance. Automatic expiration improves fiscal predictability and can limit rent-seeking behaviour by firms. Measuring the conditions should be tractable, exploiting existing available data.
- 5. Strengthen monitoring and evaluation.** Regular, data-driven evaluation should be institutionalised. Annual reporting on incentive uptake, fiscal costs, and firm outcomes would support evidence-based policy adjustments and enhance public accountability.