

Investors' performance and tax incentives in Rwanda

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Abstract

This report analyses the role and effectiveness of investment-related tax incentives in Rwanda between 2013 and 2023, updating and extending an earlier mapping exercise by the IGC (Steenbergen, 2018). Using firm-level administrative data from the Rwanda Revenue Authority, it documents the uptake, fiscal cost, and performance implications of investment incentives. Two main instruments are examined: (i) CIT incentives, such as preferential tax rates, holidays, and exemptions, and (ii) customs duty exemptions on imported capital and intermediate goods. Over the decade studied, 235 firms received CIT incentives and more than 3,300 benefited from customs exemptions. Firms receiving incentives show a strong association with higher sales and employment, alongside moderate gains in productivity and profitability. Overall, the findings suggest that Rwanda's incentive regime has supported firm-level expansion without compromising tax collection, but remains narrowly accessed.

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1. Introduction

Industrial policies have recently re-gained popularity as an increasingly common tool for promoting structural transformation and private-sector growth (Juhász et al., 2024). Among them, tax incentives such as corporate income tax reductions and customs duty exemptions are among the most widely used. Tax incentives are a central tool for governments seeking to promote domestic and foreign investment (Klemm & Van Parys, 2012; Steenbergen, 2018). Proponents argue that these measures stimulate economic activity by reducing the tax burden on investors, creating employment opportunities, and fostering export-led growth through a more competitive business environment. However, tax incentives come with significant trade-offs. They result in substantial revenue forgone for governments, limiting resources available for public spending and essential services (Kronfol & Steenbergen, 2020). Understanding these dynamics is essential for policymakers seeking to design tax regimes that effectively attract investment while maintaining adequate public revenues.

Yet despite their important cost in terms of foregone revenue and their prevalence, credible evidence on their effectiveness remains limited, particularly in developing economies where data on firm performance and fiscal outcomes are often incomplete. Rwanda offers an exceptional case for studying these dynamics, combining an active industrial policy agenda with unusually rich administrative data. Over the past two decades, the government has repeatedly revised its investment laws and tax frameworks, expanding eligibility for corporate income tax (CIT) incentives and adjusting customs duty exemptions to attract investment in priority sectors. This report takes advantage of a comprehensive firm-level dataset provided by the Rwanda Revenue Authority (RRA), covering the universe of formal firms from 2013–2023, to analyze (i) the evolution and uptake of investment-related tax incentives, (ii) their fiscal costs in terms of revenue forgone, (iii) the characteristics of the firms receiving incentives, and (iv) their association with firm-level outcomes such as employment, exports, and productivity.

The remaining of the Report is structured as follows. Section 2 provides an overview of tax incentives in Rwanda. Section 3 gives an overview of the data used for the analysis. Sections 4 and 5 include the detailed mapping of CIT and custom incentives, as well as descriptive statistics about the recipients. Section 6 reports results of the empirical analysis linking uptake of the incentives and different dimensions of firms' performance. Section 7 concludes, providing a discussion and some policy recommendations.

2. Definition of tax incentives

Investment-related tax incentives can be defined as the set of tax measures that deviate from an established benchmark tax system and intend to attract investment by reducing the tax burden of qualified investment projects and firms (IMF, 2024). Generally, tax incentives in developing countries focus on reductions or exemptions of corporate income tax, value-added tax, and excise taxes and import tariffs. However, in this report, we follow the three main criteria defined by the IFC (2014) and used in previous studies (e.g. Kronfol and Steenbergen, 2020; Steenbergen, 2018) to identify investment-related tax incentives in Rwanda:

- i. They apply only to a subset of taxpayers according to a targeted set of criteria.
- ii. They are designed to induce a change in firms' economic activity (e.g. encouraging a firm to invest more in R&D).
- iii. They represent an exception and a departure from regional tax conventions and benchmarks established by the law.

Based on this selection criterion, we focus exclusively on tax incentives that stem from corporate income taxes (CIT) and customs duty exemptions. Taken together, these two account approximately for more than half of the total tax revenue in Rwanda, with the custom duties having now become a major source of revenues in the country (MINECOFIN, 2025). Other taxes are not targeted at specific taxpayers either (e.g. capital gains tax exemption) or are mainly aimed at changing consumers' behavior rather than incentivizing firms' production (e.g. VAT-exempted goods).

2.1. CIT incentives in Rwanda

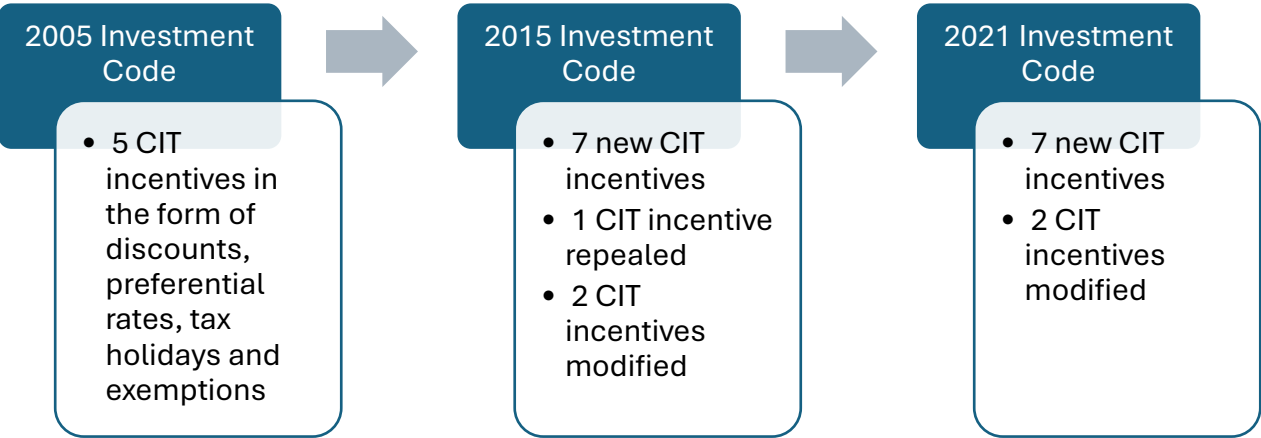
Between 2005 and 2021, Rwanda adopted three successive Investment Codes to establish its investment-promotion legal framework (see Figure 1). The first, Law No. 26/2005 of 17 December 2005 on Investment Promotion and Facilitation, established the foundation of the country's investment incentive system. It introduced several tax-related provisions, including preferential corporate income tax (CIT) rates, tax holidays, and exemptions, as well as non-tax incentives related to land access and work permits. These incentives were structured to support specific activities such as large-scale employment creation, export-oriented production, and strategic sector development. The 2005 Code also set the initial criteria for investors' eligibility—such as minimum investment thresholds and compliance with environmental and employment standards—and designated the Rwanda Investment and Export Promotion Agency

(later integrated into the Rwanda Development Board, RDB) as the body responsible for implementation.

A decade later, the 2015 Investment Code (Law No. 06/2015 of 28 March 2015) replaced the 2005 framework, consolidating Rwanda’s tax incentive regime under the RDB. The 2015 Code simplified application procedures and clarified the range of CIT incentives available, such as preferential rates for exporters and firms operating in identified “priority sectors,” including energy, transport, financial services, ICT, and housing.

In 2021, the framework was again updated through Law No. 006/2021 of 5 February 2021, which broadened the scope of eligible sectors and refined investment certificate categories. The 2021 Code introduced new areas qualifying for preferential CIT rates—such as research and development, manufacturing (including textiles, electronics, and agro-processing), e-mobility, and tourism—and reaffirmed the government’s use of fiscal measures as part of a wider industrial-policy toolkit. Together, these three Codes provide a structured record of Rwanda’s evolving approach to investment promotion through tax incentives between 2005 and 2023.

Figure 1: Investment Codes in Rwanda



Note that, while Rwanda’s Investment Codes were revised in 2005, 2015, and 2021, the reforms did not imply a complete replacement of existing CIT incentives at each revision. In particular, the 2021 Investment Code largely expanded and complemented the pre-existing incentive framework rather than substituting it. Most preferential CIT regimes introduced under the 2005 and 2015 Codes—such as those targeting exporters and firms operating in priority sectors including energy, transport, ICT, financial services, and housing—remained in force after 2021. The 2021 reform primarily broadened eligibility by adding new priority areas (including selected manufacturing activities, tourism, e-mobility, and research and development) and by

refining firm-level qualification criteria. By contrast, incentives that were explicitly discontinued—most notably the CIT rate discounts for large employers—had already been repealed under the 2015 reform.

In addition to the provisions contained in the Investment Codes, several CIT incentives in Rwanda have been introduced or amended through broader tax legislation governing income taxation. Specifically, the laws establishing taxes on income enacted between 2005 and 2023 contain a number of articles that define, modify, or repeal corporate income tax exemptions and preferential rates. These include, for example, provisions granting temporary CIT reductions to newly listed companies on the Rwanda Stock Exchange, exemptions for income derived from agricultural or livestock activities, and incentives linked to collective investment or employee share schemes. A comprehensive review of these legal texts is therefore required to identify the full range of investment-related CIT incentives in force at different points in time. Appendix 1 provides a consolidated list of all such incentives introduced, amended, or repealed during the period 2005–2023, as drawn from the corresponding income tax laws and investment codes.

2.2. Customs duty exemptions in Rwanda

Customs duty exemptions in Rwanda operate within the framework of the Common External Tariff (CET) established by the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). The CET classifies imported goods into four main categories with corresponding duty rates: capital goods and raw materials (0%), intermediate products (10%), finished products (25%), and sensitive goods (35%). Within this structure, exemptions are applied to specific imports according to product type, source, and customs procedure. In practice, exemptions on raw materials and intermediate goods are treated as investment-related because they reduce the cost of inputs used in domestic production and are often associated with manufacturing and processing activities. By contrast, exemptions applied to finished or sensitive goods primarily target consumer affordability and trade balance objectives and are not classified as investment-related within the scope of this analysis.

For the purposes of this report, investment-related tax incentives are defined as measures that apply to a specific subset of taxpayers and are explicitly designed to influence production or investment decisions. Accordingly, customs duty exemptions that deviate from the standard CET structure but apply broadly to all importers—such as general exemptions on consumer goods—are *not* classified as investment-related in this analysis. Instead, the focus is restricted to exemptions granted on imported raw materials and intermediate goods that (i) do not

originate from countries covered by existing trade agreements such as the EAC or COMESA, and (ii) qualify for preferential treatment under Rwanda’s system of Customs Procedure Codes (CPCs). This definition allows a clear identification of fiscal measures that specifically target productive investment rather than general trade or consumption-related objectives.

3. Data

The empirical analysis relies on a set of administrative datasets provided by the Rwanda Revenue Authority (RRA), covering the period 2013–2023. These databases collectively capture the universe of firms operating under the real tax regime, defined as those with an annual turnover equal to or exceeding RWF 20 million (about 14k USD). Together, they provide a comprehensive view of firms’ fiscal, employment, and trade activities, and enable the consistent identification of investment-related tax incentives at the firm-year level.

The **Corporate Income Tax (CIT) database** includes all firms registered under the real regime and reports detailed information on firm-level financial outcomes, including business income, gross profit, total CIT payable, and any applicable tax discounts. The dataset also specifies the type and value of CIT incentives granted—such as preferential rates for exporters, tax holidays for microfinance institutions, and exemptions for agricultural and livestock activities.

The **Customs database** records all import transactions undertaken by registered firms between 2013 and 2023. It provides detailed information on the classification of imported goods, their associated trade agreements, and the Customs Procedure Codes (CPCs)¹ governing each transaction. For analytical consistency, import transactions are aggregated at the firm-year level to align with the structure of the other datasets.

The **Pay-As-You-Earn (PAYE) database** contains monthly records of wage payments made by firms to their employees—both in cash and in kind. It allows for the construction of firm-level indicators related to total employment, employment type (permanent, fixed-term, or secondary), and total wage payments. To facilitate merging with the other datasets, these monthly observations were converted into annual, firm-level aggregates.

The **Business-to-Business (B2B) database** provides aggregated annual data on inter-firm transactions, including total sales and purchases, as well as the number of suppliers and buyers associated with each firm.

¹ CPC codes specify the goods’ trade regime. This includes how goods are handled and, specifically to our purposes, the duties and taxes applied.

Finally, the **Firm Registry** supplements these datasets with detailed geographic identifiers, including the province, district, and sector of operation, classified according to the ISIC Rev.4 classification.

To examine the association between investment-related tax incentives and firm-level performance, the analysis relies on a set of standardized indicators derived from the administrative data described above. These indicators capture key dimensions of firm activity, including employment, wages, productivity, income, trade, and domestic transactions. Specifically, we consider measures of employment composition (total, permanent, fixed-term, and secondary employment), wage levels, business income, labor productivity, import value, and business-to-business transactions (B2B sales and purchases).

The precise definitions and construction details of these variables are reported in Appendix Table A1, along with their corresponding data sources.

4. Mapping of investment-related tax incentives

4.1. CIT incentives

Rwanda's Investment Codes establish several types of corporate income tax (CIT) incentives, including rate discounts, exemptions, and tax holidays. These incentives are systematically reported by firms in their annual tax declarations. Each declaration specifies the firm's total tax liability under the standard regime, the type of incentive for which the firm qualifies, and the corresponding monetary value of the benefit. This reporting framework allows the Rwanda Revenue Authority (RRA) to identify and quantify the fiscal cost of each incentive category at the firm level. The CIT database thus records, for every reporting year, both the gross tax liability and the value of tax reductions granted through eligible incentive schemes such as preferential rates for priority sectors, holidays for microfinance institutions, or exemptions for specific activities.

Table 2. CIT incentives by sector (ISIC 1), 2013 - 2023

Sector	Firms	%
A - Agriculture, forestry and fishing	10	4.3
B - Mining and quarrying	1	0.4
C - Manufacturing	24	10.2
E - Electricity, gas, steam and air conditioning supply	5	2.1

F - Construction	12	5.1
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	22	9.4
H - Transportation and storage	13	5.5
I - Accommodation and food service activities	3	1.3
J - Information and communication	5	2.1
K - Financial and insurance activities	111	47.2
L - Real estate activities	2	0.9
M - Professional, scientific and technical activities	1	0.4
N - Administrative and support service activities	5	2.1
P - Education	6	2.6
Q - Human health and social work activities	3	1.3
R - Arts, entertainment and recreation	1	0.4
S - Other service activities	3	1.3
Missing	8	3.4
Total	235	100

Source: CIT database and firm registry.

The standardized reporting of tax declarations enables a consistent identification of firms benefiting from corporate income tax (CIT) incentives across the Rwandan economy. Based on the CIT database provided by the Rwanda Revenue Authority (RRA), a total of 235 unique firms were identified as recipients of at least one CIT incentive between 2013 and 2023 (see Table 2). The distribution of these firms is highly concentrated in a few sectors: financial and insurance activities account for 111 firms (approximately 47 percent of the total), followed by wholesale and retail trade with 22 firms (about 10 percent) and manufacturing with 24 firms (around 9 percent).

Table 3. Evolution of CIT incentives by sector

Sector	After the 2015 investment code (2016-2021)		After the 2021 investment code (2022-2023)	
	New firms	%	New firms	%
A - Agriculture, forestry and fishing	3	2.3	2	4.3
B - Mining and quarrying			1	2.2
C - Manufacturing	5	3.8	6	13
E - Electricity, gas, steam and air conditioning supply	2	1.5	3	6.5

F - Construction	2	1.5	3	6.5
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	6	4.6	4	8.7
H - Transportation and storage	7	5.3	2	4.3
I - Accommodation and food service activities	2	1.5	1	2.2
J - Information and communication	2	1.5	2	4.3
K - Financial and insurance activities	85	64.9	9	19.6
L - Real estate activities			2	4.3
M - Professional, scientific and technical activities			1	2.2
N - Administrative and support service activities	1	0.8		
P - Education			2	4.3
Q - Human health and social work activities	2	1.5		
R - Arts, entertainment and recreation			1	2.2
S - Other service activities	2	1.5		
Unknown	12	9.2	7	15.2
Total	131	100	46	100

Source: CIT database and firm registry.

The CIT database also makes it possible to track the entry of new firms into the incentive system following the revisions of the Investment Code in 2015 and 2021. As reported in Table 3, 131 firms obtained CIT incentives for the first time in the period 2016–2021, corresponding to the years immediately following the 2015 reform. Most of these firms operated in the financial and insurance sector, even though those are mainly firms using microfinance-related incentives that were originally set up in the 2005 code. A relatively large group of firms were newly recorded in priority sectors such as agriculture, transportation, and manufacturing, consistent with the sectoral expansion of eligibility criteria introduced in 2015.

During the period following the adoption of the 2021 Investment Code (2022–2023), 46 additional firms were recorded as new recipients of CIT incentives. The expansion largely reflects the inclusion of new priority sectors under the revised framework, indicating a diversification of beneficiaries relative to the earlier period.

The encoding structure of the CIT database also makes it possible to estimate the total amount of revenue forgone by the government each year because of the incentives granted to individual firms. As reported in Table 4, the share of corporate tax revenue forgone through CIT incentives declined from approximately 9 percent in 2013 to 6 percent in 2023. In absolute terms, however, the total value of these incentives increased substantially over the same period, rising from

about RWF 4,270 million in 2013 to RWF 28,620 million in 2023 (see column 3). Figure 2 illustrates the evolution of revenue forgone both in aggregate and on a per-firm basis. The data indicate a steady increase in the overall fiscal cost of incentives, accompanied by a parallel rise in the average amount per beneficiary firm over time. Note that such rising trends are following the introduction of the 2015 and 2021 revisions of the investment code.

Table 4. Firms with CIT incentives in Rwanda, 2013-2023

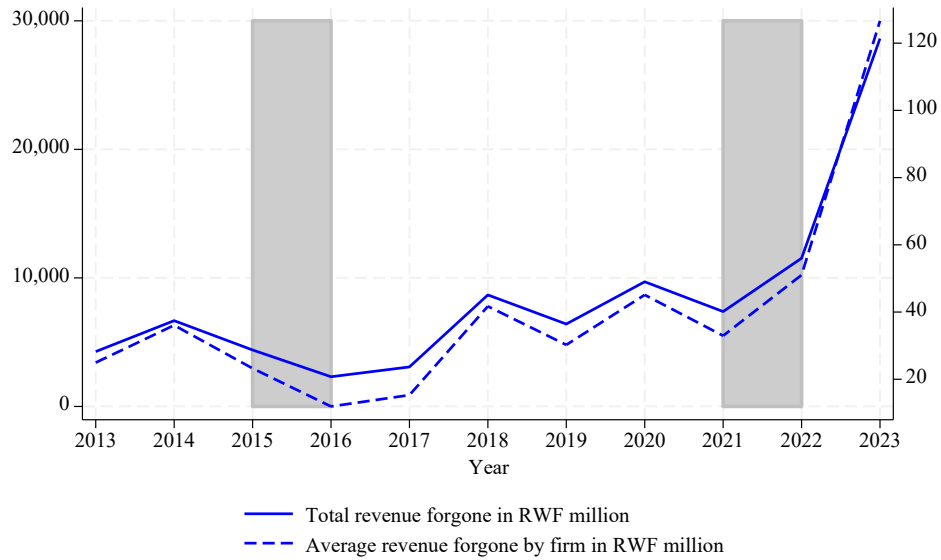
Year	Firms	New firms for the first time in the period under study	Total amount of revenue foregone in RWF million ¹	Total amount of CIT paid in RWF million ²	Share of revenue foregone (3)/(3+4)
	(1)	(2)	(3)	(4)	(5)
2013	43	-	4,270	40,979	9.4
2014	38	9	6,674	83,360	7.4
2015	24	6	4,393	58,720	7.0
2016	102	85	2,312	57,274	3.9
2017	40	13	3,073	80,217	3.7
2018	41	12	8,675	92,036	8.6
2019	40	7	6,410	106,200	5.7
2020	45	10	9,700	116,880	7.7
2021	54	4	7,382	230,426	3.1
2022	66	15	11,531	269,231	4.1
2023	97	31	28,620	456,921	5.9

Notes: ¹ Revenue foregone refers to the amount of tax incentives provided directly by the government and established in the Rwandan investment codes. ² Total amount of CIT paid is calculated using the whole panel of firms. Source: Authors' calculations using the CIT database between 2013 and 2023.

Appendix 2 presents the annual distribution of firms distributed according to each category of corporate income tax (CIT) incentive, together with the corresponding amount of revenue foregone. While the composition of incentive types varies over time, a few key patterns emerge. First, prior to 2015, the most prevalent incentive was the **CIT rate discount for large employers**, which applied to as many as 27 firms. The fiscal cost associated with this measure ranged between approximately RWF 1,160 million and RWF 2,810 million per year. Following the 2015 reform, however, both the number of beneficiary firms and the related revenue forgone declined sharply, falling below RWF 100 million annually and covering no more than six firms—consistent with the discontinuation of this incentive under the 2015 Investment Code. ²

² A small number of large employers (between three and six firms) continued to benefit from this CIT discount for a limited period after 2015, reflecting a progressive phase-out of the measure following its formal abrogation.

Figure 2. Evolution of revenue forgone due to CIT incentives in Rwanda



Second, following the introduction of the 2015 Investment Code, there was a marked increase in the number of firms benefiting from the CIT rate discount targeting priority sectors such as energy, transportation, financial services, and housing. This trend accelerated after the 2021 revision of the Code, which extended the eligibility to additional sectors, including manufacturing. The number of firms receiving this type of incentive rose from just a single firm in 2016 to 35 firms in 2023. Over the same period, the corresponding revenue forgone increased from approximately RWF 150 million to RWF 11,000 million, making it the most fiscally significant CIT incentive (accounting for approximately 40% of the total in 2023) currently in place within the Rwandan economy.

4.2. Customs duty exemptions

In this report, investment-related customs duty exemptions are defined as those applied to imported raw materials and intermediate goods that either (i) do not originate from countries covered by existing trade agreements such as the EAC or COMESA, or (ii) qualify for specific exemptions under Rwanda's Customs Procedure Codes (CPCs). The analysis includes both cases in which imports are fully exempt from customs duties and those subject to preferential rates below the applicable Common External Tariff benchmark.

First, import transactions benefiting from customs duty exemptions between 2013 and 2023 are identified in the customs database. Second, the corresponding revenue cost of each import transaction i in year t is calculated as the difference between the customs duty that would have been payable under the benchmark Common External Tariff (CET) rate and the actual customs

duty paid. This approach yields a transaction-level measure of revenue forgone, which is subsequently aggregated to the firm-year level for consistency with the other datasets.

$$Revenue\ cost_{it} = Customs\ duty\ benchmark_{it} - Customs\ duty\ paid_{it} \quad (1)$$

Third, the revenue costs from all import transactions i are aggregated at the firm-year level, yielding the total customs duty exemption value for each firm j in year t (see Equation 2).

$$Total\ revenue\ forgone_{jt} = \sum_{i=1}^i revenue\ cost_{ijt} \quad (2)$$

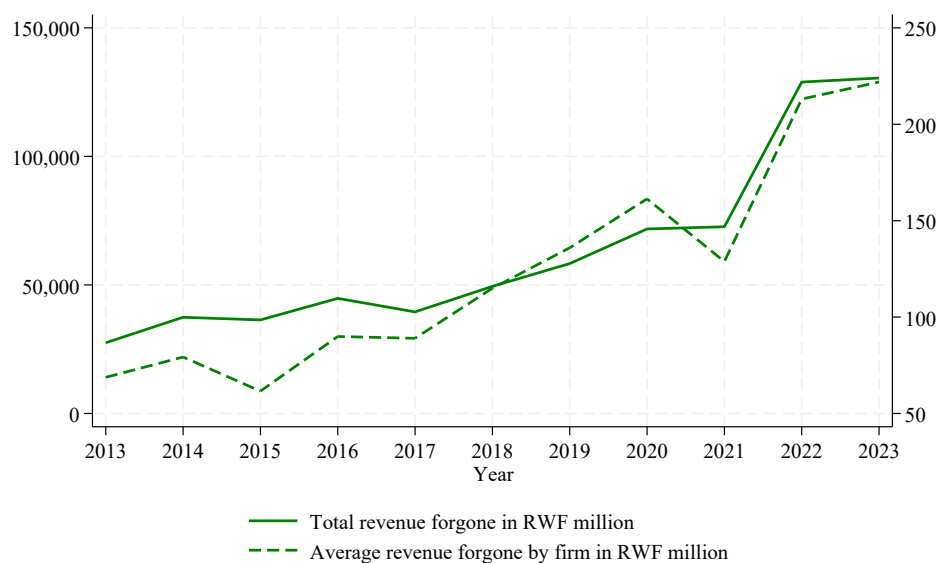
Based on the customs database provided by the Rwanda Revenue Authority (RRA), a total of 3,338 unique firms benefited from customs duty exemptions in Rwanda between 2013 and 2023.

Table 5 reports the number of firms benefiting from customs duty exemptions by year, together with the corresponding amount of revenue forgone. Column (1) indicates that the number of firms with customs duty exemptions increased from about 400 in 2013 to approximately 600 in 2023. The number of firms receiving exemptions for the first time each year varied considerably, ranging between 200 and 400, as shown in column (2). Over the same period, the total fiscal cost associated with these exemptions rose substantially, reaching around RWF 130,000 million in 2023 (see column 3). In relative terms, the share of customs revenue forgone increased from roughly 36 percent in 2013 to 41 percent in 2023 (see column 5), whereas the total amount of duties collected continued to grow steadily (see column 4). Both the aggregate and per-firm value of revenue forgone followed an upward trajectory throughout the period under review, with the exception of 2021, when global trade activity declined sharply due to the COVID-19 pandemic (Figure 3).

Table 5. Firms with customs duty exceptions in Rwanda, 2013-2023

Year	Firms	New firms for the first time in the period under study	Total amount of revenue foregone in RWF million ¹	Total amount of customs duty collected in RWF million ²	Share of revenue foregone (3)/(3+4)
	(1)	(2)	(3)	(4)	(5)
2013	400	-	27,506	48,054	36.4
2014	472	282	37,421	54,986	40.5
2015	591	355	36,396	71,183	33.8
2016	498	260	44,781	77,656	36.6
2017	444	231	39,517	85,200	31.7
2018	430	264	49,441	85,967	36.5
2019	429	268	58,316	111,300	34.4
2020	445	247	71,784	105,206	40.6
2021	564	335	72,642	106,640	40.5
2022	605	377	128,920	136,150	48.6
2023	588	319	130,492	188,333	40.9

Notes: ¹ Revenue foregone refers to the amount of tax incentives provided directly by the government and not as a part of trade agreements. ² Total amount of customs duty collected is calculated using the whole panel of registered firms. Source: Authors' calculations using the imports database between 2013 and 2023.

Figure 3. Evolution of revenue forgone due to customs incentives in Rwanda

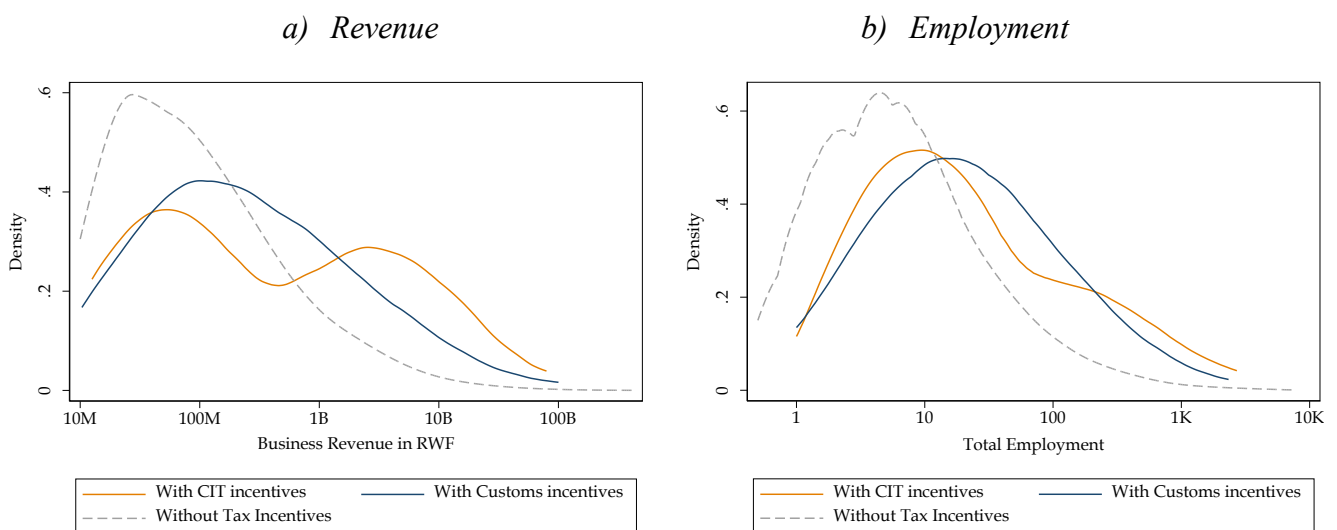
5. Descriptive statistics

This section presents descriptive statistics comparing the characteristics of firms that receive investment-related tax incentives with those that do not. Beyond providing a general overview of the group of beneficiaries, this analysis is essential for identifying potential selection issues—that is, systematic differences between firms that are affected by the policy and firms that are not. Such issues are common in the context of industrial policy (Lane, 2020), where support programs are often designed in ways that make larger or more productive firms more likely to qualify for incentives, or just more likely to have the resources to apply. These pre-existing differences in observable characteristics may in turn affect the interpretation of estimated impacts, as part of the observed performance gap may reflect selection rather than the effect of the incentive itself. The next section discusses this identification challenge in greater detail.

In this context, it is important to note that the descriptive statistics presented below compare firms receiving CIT or customs incentives with non-recipient firms, where recipients are observed one period prior to obtaining the incentive. This to avoid that the comparison is somehow affected by the effects of the incentives.

Figure 4 presents the distribution of firms with and without tax incentives according to their initial size, measured by total revenues (Panel a) and number of employees (Panel b). The distributions reveal a clear hierarchy: firms that subsequently receive either CIT or customs incentives tend to be larger than those that do not.

Figure 4. Distribution of firms receiving tax incentives – By firm size



The median firm with a CIT incentive reports annual revenues of about RWF 450 million, compared with roughly RWF 100 million for firms without incentives. Among firms with customs incentives, the median revenue is around RWF 250 million. Differences become even more pronounced among larger firms: at the 90th percentile, revenues reach RWF 8.7 billion for CIT recipients and RWF 3.9 billion for customs recipients, compared with only RWF 1.2 billion for firms without incentives.

A similar pattern emerges for employment. The median firm with a CIT incentive employs around 11 workers, nearly twice as many as the median non-recipient firm, while those with customs incentives employ about 18 workers. In the upper tail of the distribution, firms with CIT incentives reach about 300 employees compared with 50 among firms without incentives.

Overall, these figures point to a pronounced size premium among firms that receive tax incentives, suggesting that access to investment-related fiscal support in Rwanda tends to be concentrated among relatively large and established firms.

Table 4. Distribution of firms receiving tax incentives – By firm size

<i>a) Revenue</i>						
<i>In M RWF</i>	With CIT Incentives	With Customs Incentives	Without Incentives	Tax		
P5	25.4	27.2	23.7			
P10	33.3	38.5	28.1			
P25	50.7	73.3	45.4			
P50	449.8	248.8	104.8			
P75	3,599.9	1,126.6	324.3			
P90	8,714.5	3,914.4	1,165.5			
P95	16,386.3	7,616.1	2,583.6			
Mean	4,153.1	2,334.3	819.4			

<i>b) Employment</i>						
	With CIT Incentives	With Customs Incentives	Without Incentives	Tax		
P5	4	2	1			
P10	5	3	1			
P25	6	7	2			
P50	11	18.25	6			
P75	91.5	61.5	17			
P90	308	167	52			
P95	607.5	308	110			
Mean	131.1	80.4	34.6			

Figure 5. Distribution of firms receiving tax incentives – By sector and province

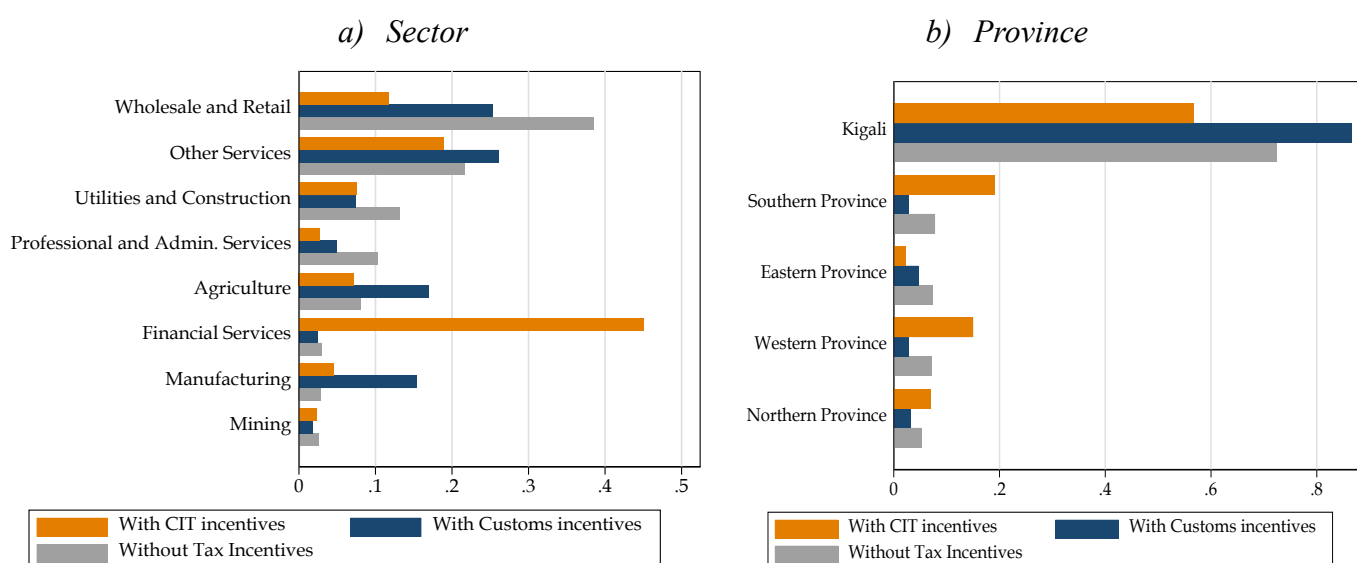


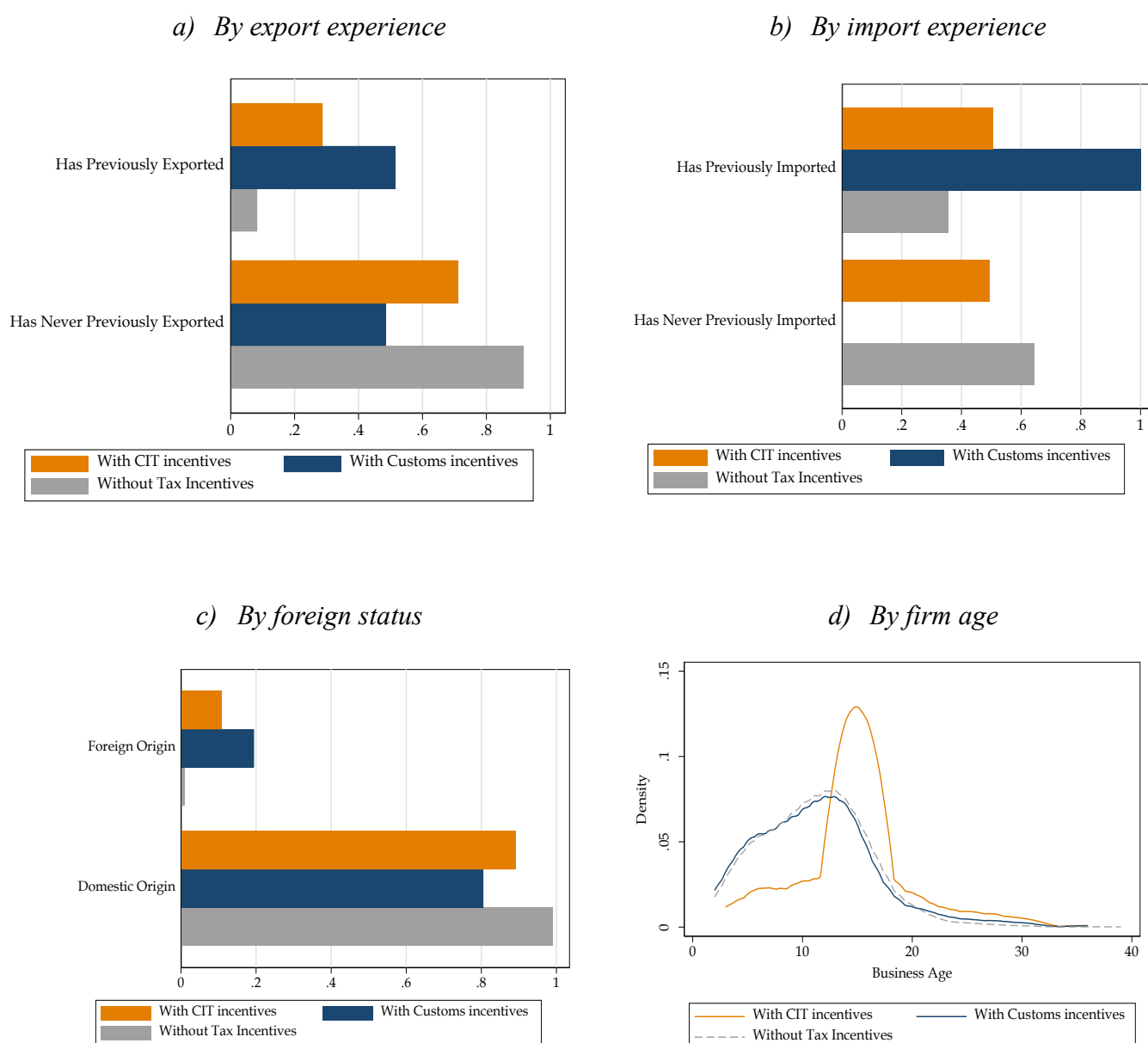
Figure 5 illustrates the sectoral and geographic distribution of firms receiving tax incentives, distinguishing between those benefiting from CIT and customs-related provisions. Across sectors, firms with CIT incentives broadly mirror the overall structure of the Rwandan economy, with a few notable deviations. The most evident concentration occurs in financial services, reflecting the prevalence of microfinance institutions that benefited from CIT holidays prior to their progressive phase-out following the 2015 Investment Code revision. In addition, firms in manufacturing appear slightly overrepresented relative to their share in the wider firm population, consistent with the growing emphasis on productive sectors in subsequent investment codes.

By contrast, the distribution of firms benefiting from customs duty exemptions shows a more distinct pattern, which is expected given that only a subset of firms engages in international trade. These firms are disproportionately concentrated on import-intensive activities such as wholesale and manufacturing. Geographically, firms with customs incentives are more likely to be located in Kigali Province, while CIT recipients are somewhat more dispersed across regions, consistent with the broader sectoral reach of the investment code provisions.

Figure 6 compares firms with and without tax incentives along several structural dimensions, namely export and import experience, foreign ownership, and firm age. The composition of firms indicates that a relatively larger share of those benefiting from incentives—both CIT and customs-related—have previous experience in international markets, either as exporters or importers. This is particularly evident for customs incentives, which are inherently linked to

cross-border trade activities. Similarly, firms with foreign ownership are more frequently represented among incentive recipients compared with domestic firms. Lastly, the distribution by firm age suggests that, on average, firms receiving CIT incentives tend to be older and more established than non-recipient firms, consistent with the broader selection patterns observed in earlier figures.

Figure 6. Distribution of firms receiving tax incentives
By import and export experience, foreign status and firm age



All in all, the evidence presented in this section indicates that firms benefiting from investment-related tax incentives in Rwanda tend to differ systematically from non-recipient firms.

Specifically, (i) they are on average larger in terms of both revenues and employment, (ii) they are more concentrated in specific sectors—particularly financial services and manufacturing—and in Kigali Province, and (iii) they exhibit greater exposure to international markets, either through trade participation or foreign ownership.

6. Econometric analysis

This section examines what happens to firms when they receive an incentive, with a focus on various dimensions of firm performance. The analysis is conducted separately for incentives granted under the Investment Code (Section 6.1) and for those related to customs exemptions (Section 6.2). In both cases, we assess how firm performance evolves in response to the uptake of an incentive, using an event study specification. Controlling for firm and year fixed effects, this framework allows us to trace changes over time for treated firms—those receiving an incentive—relative to a control group consisting of all other firms.

A key assumption underlying this approach is the absence of differential pre-treatment trends between treated and control firms. In other words, the evolution of the outcomes of interest should be parallel prior to the receipt of the incentive. When such parallel trends assumption holds, any subsequent divergence in performance can potentially be attributed to the role of the incentive. However, given the potential selection effects discussed in the previous section, the results presented below should be viewed as descriptive patterns rather than causal estimates

6.1. CIT incentives

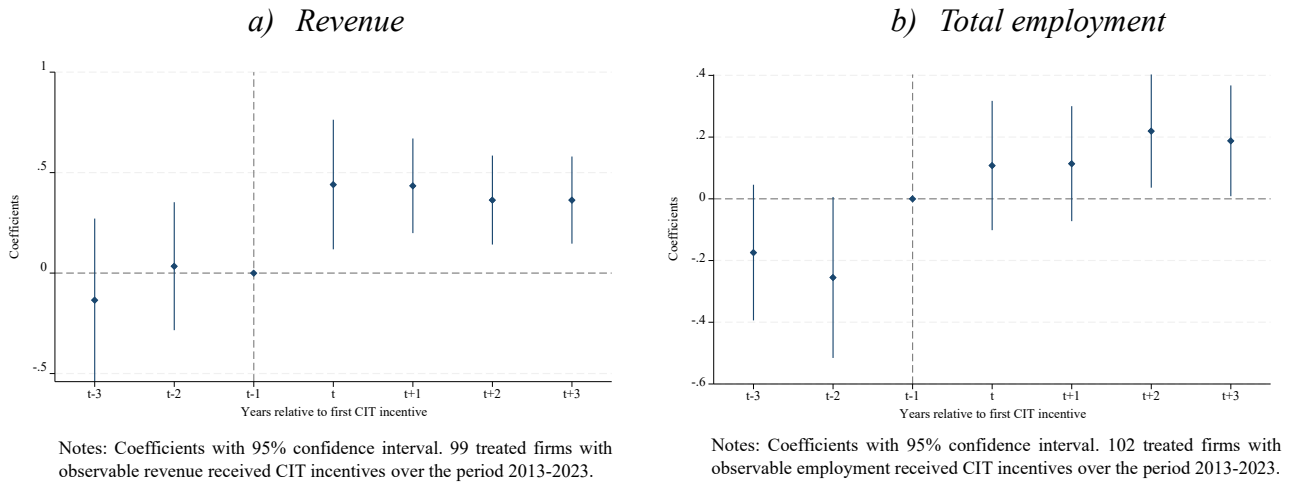
This section presents evidence on the role of corporate income tax (CIT) incentives granted under the Investment Codes. The results are organized into three broad groups of outcomes: firm size, performance, and supply chain integration.

Before proceeding, it is important to note that microfinance institutions benefiting from CIT incentives are excluded from this analysis. Although these institutions represent the largest group of firms with CIT incentives between 2013 and 2023 (approximately 47 percent), they differ structurally from other firms in key respects. As shown in Appendix 3, microfinance institutions tend to employ fewer workers and report significantly lower business income and export values than other incentive recipients. Including them in the estimation sample could therefore obscure the patterns observed among other firms, particularly those operating in productive sectors more directly targeted by investment-related incentives.

6.1.1 CIT Incentives and firm size

Figure 7 presents the estimated association between CIT incentives and firms' employment and sales. In both cases, an upward shift is observed following the year in which the incentive was introduced³. The increase appears more pronounced and persistent for sales, while employment shows a more gradual adjustment, particularly in later periods. Taking the estimates at face value, the results suggest an average increase of roughly 40 percent in sales and around 15 percent in employment relative to the periods preceding the incentive. These patterns indicate that firms receiving CIT incentives tend to exhibit stronger growth trajectories after entry into the incentive scheme. As aforementioned, note that these findings should be interpreted as correlations rather than causal effects.

Figure 7. Event-study - CIT incentives and firms' size



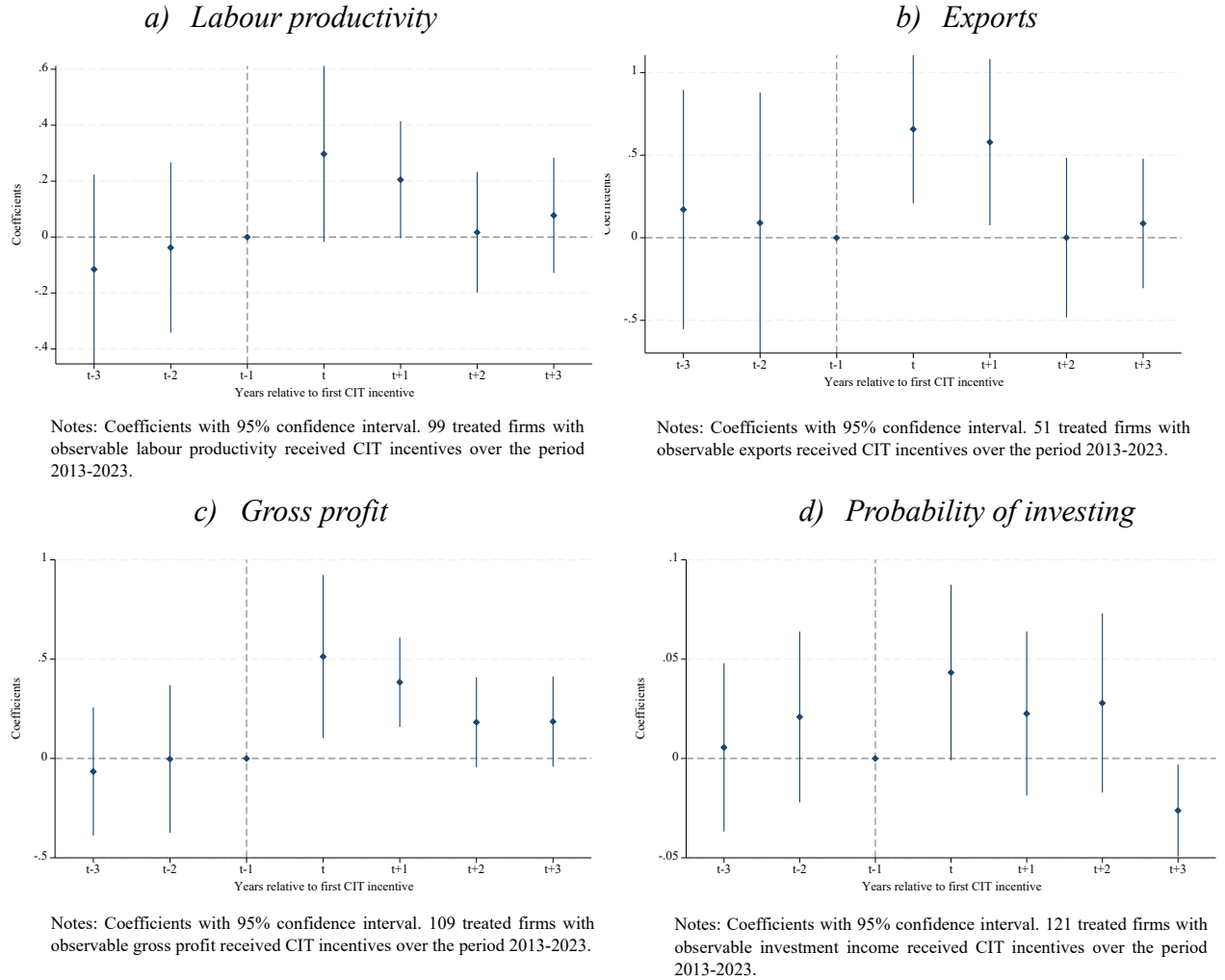
6.1.3 CIT Incentives and firm performance

The following Figures (5-8) report evidence on four different proxies of firm's performance: labour productivity, profitability, export and investment. These results complement the previous evidence pointing to firms' expansion following the introduction of investment incentives by explaining through which channels this might have materialized. First, we see improvements in labour productivity (sales over employment), mostly concentrated in the first two periods. Second, we observe an increase in the profitability of firms. Third, there is evidence of firms increasing their exports following the treatment. Finally, we find weak evidence on the probability for firms to invest in fixed assets after they receive the incentive. If anything,

³ For employment, such results are consistent with the overall evidence of more permanent workers in firms receiving incentives, especially since the introduction of the 2015 investment code (See Appendix 6).

investments happen in the period in which firms receive the incentive, as one might expect, while the probability that new investments are made weakens over time.⁴

Figure 8. Event-study - CIT incentives and firm performance



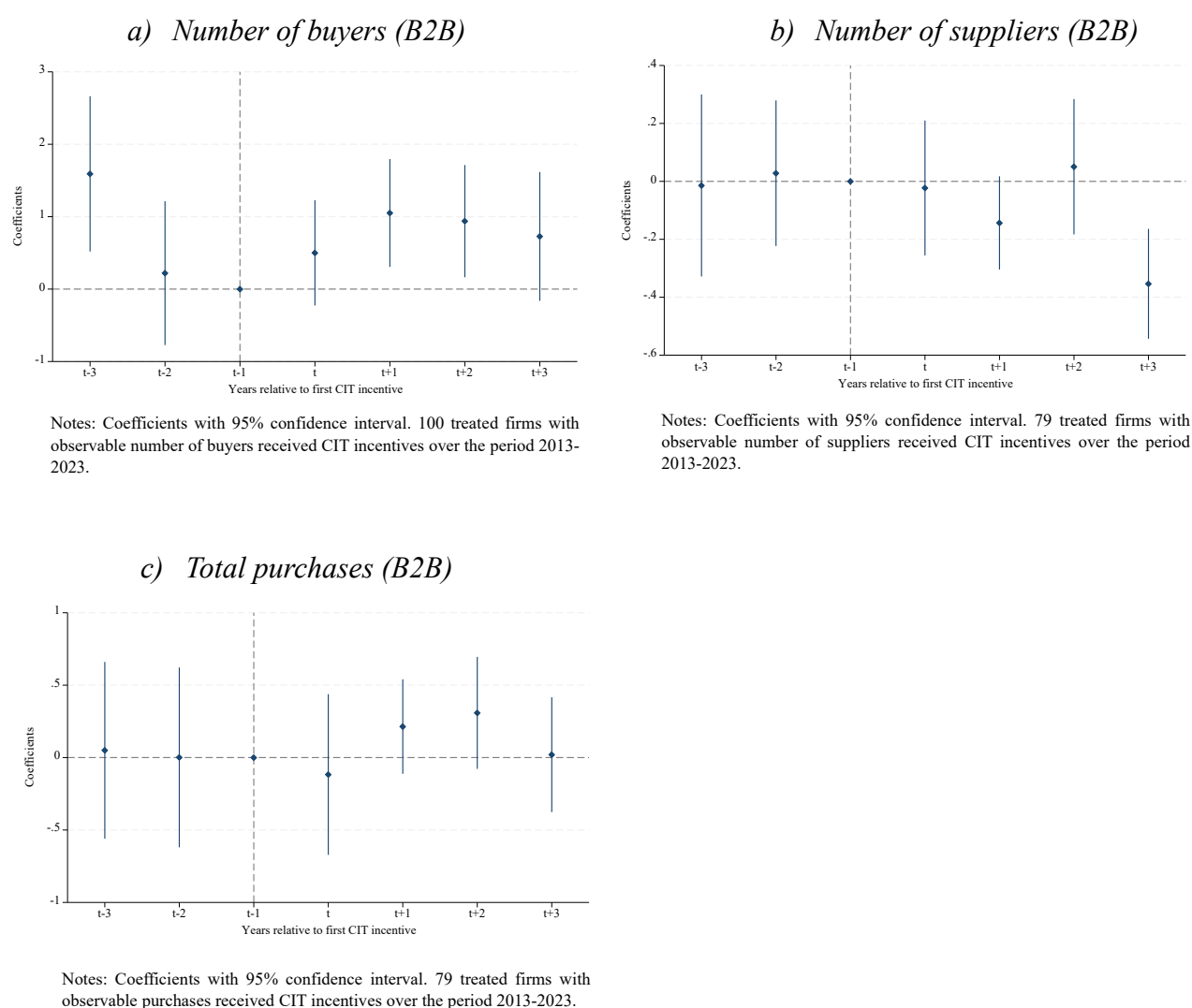
6.1.3 CIT Incentives and the domestic supply chain

In this section we exploit the richness of the information available from the VAT annexes, which reports business-to-business (B2B) transactions from both the sale and purchase point of view. In a nutshell, they allow to map the network of domestic input/output relationship between all firms that report on their VAT. Based on this information, we can explore whether the benefits for firms that receive an incentive in terms of expanding (Section 6.1.1) or upgrading (6.1.2) are also transmitted through their domestic supply chain, in terms for instance of greater

⁴ Note also that only 791 firms invested in fixed assets during the period 2013-2023, which represents less than 0.5% of all the firms operating in Rwanda.

interactions with buyers and suppliers based in Rwanda. These outcomes are reported in Figure 9, in which we can track the evolution of the number of domestic buyers and suppliers before and after the treatment. The results do not seem to show that firms receiving the incentives alter their domestic network, if not for a slight increase in the number of buyers. Neither does the total amount of purchases increase following the incentives, even if the trends are slightly on the rise post-treatment, they are not statistically distinguishable from zero.

Figure 9. Event-study - CIT incentives and domestic supply chain



6.1.4 Cost-benefit analysis: Financial implications of CIT Incentives

In this section, we carry out a preliminary cost-benefit analysis of CIT incentives. We use two alternative approaches, one is a back-of-the-envelope calculation based on the estimated coefficients for the relationship between the timing of the tax incentives and the increase in

employment and revenues. The second one directly uses an event study design around the timing of the CIT tax incentives using as dependent variables CIT, PAYE and VAT tax payables.

(1) Back-of-the-envelope-calculation. For this calculation we first look at the cost of the CIT tax incentives. Based on Table 1, the average CIT foregone per firm throughout our sample period amounts to 158M RWF (295M RWF for 2023). This is the cost of the policy per recipient. These costs, are, however, mitigated by the increase in revenues and in 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 84.5M RWF of PAYE (see Table 5) and thus we can expect an increase in PAYE tax payables of 12.7M RWF. Similarly, the increase in revenues can be assumed to translate into an equivalent increase in CIT tax payable. Since firms pay on average 835M RWF of CIT, that translates into an increase of revenues of 334M RWF. Altogether, assuming no effect on VAT or customs payable, the total benefits in this simplified calculation (347M RWF) outweigh the costs (158M RWF). Importantly, note that this is a highly stylized calculation, which does not account for selection effects or the competitive pressure the incentives may pose on non-recipients.

Table 5. Average distribution of taxes paid by firms receiving incentives, 2003-2013

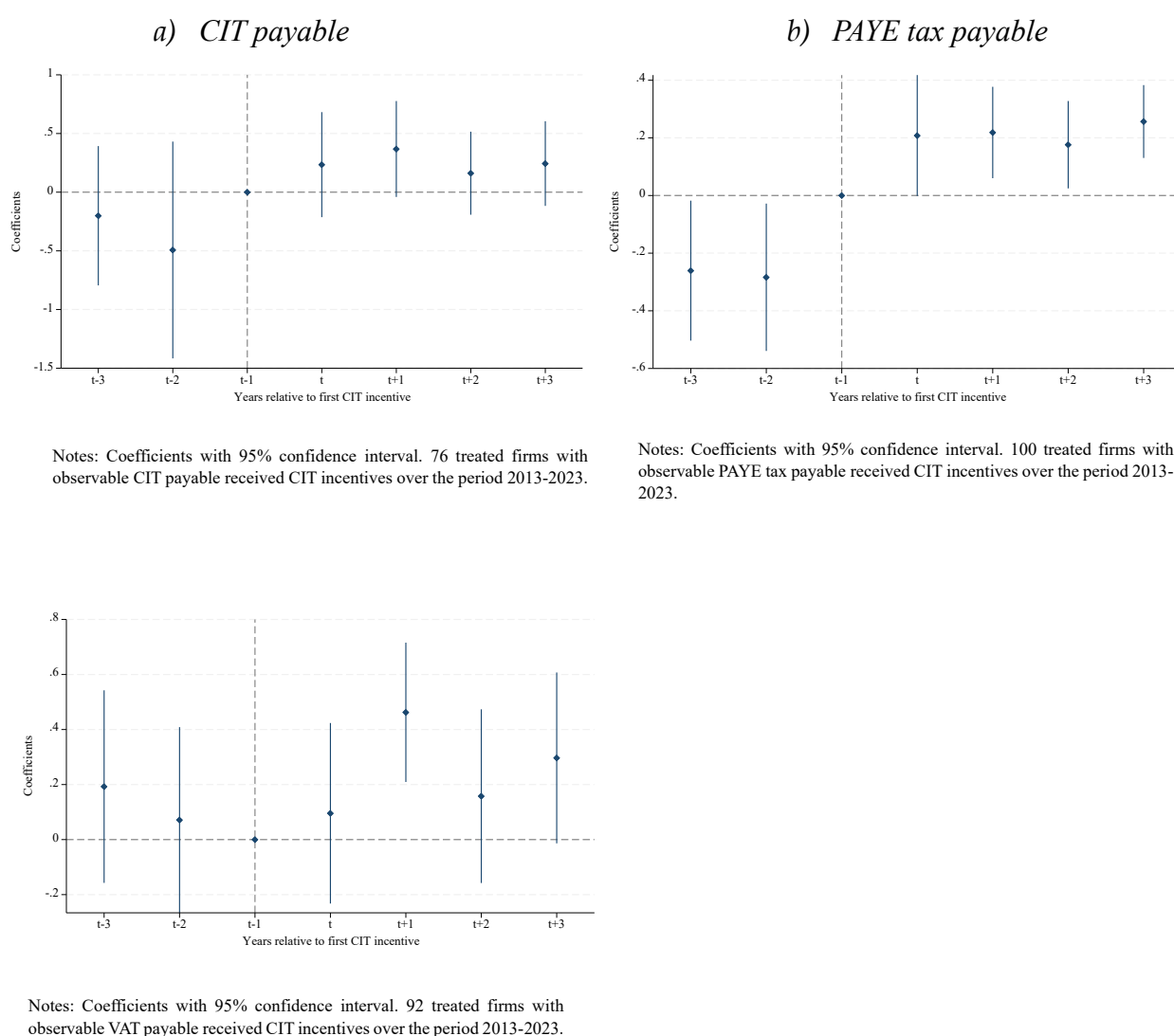
	Total Paid	Share
Total tax payable in RWF million	1,928	100%
CIT payable in RWF million	835	43.3%
VAT payable in RWF million	971	50.4%
PAYE tax payable in RWF million	84.6	4.4%
Customs duty tax payable in RWF million	37.7	2.0%

(2) Event study. Alternatively, since the tax payable is observable, we could use a similar methodology as in the previous sections to estimate the impact of CIT incentives over tax payables (CIT, PAYE and VAT). Overall, we observe a clear positive association between the first time a firm receives CIT incentives and its total PAYE tax payable. In particular, there seems to be an increase of approximately 20% in PAYE tax payables. The association with CIT

payables is less clear, but it hints towards a slight positive effect. There seems to be no clear sustained effect on total VAT tax payable.⁵

The results of the event studies are thus in line with the back-of-the-envelope calculation. We find no evidence of a decrease in tax payables after firms receive CIT incentives as the costs in terms of foregone revenue seems to be more than made up through an increase in firm size that leads, on average, to higher CIT and PAYE tax payables. Again, we recommend caution in interpreting these results, as they do not account for the potential selection of firms into receiving the tax incentives nor for the potential negative effect on other competitors that do not receive the incentives.

Figure 9. Event-study – CIT incentives and financial implications



⁵ A year after receiving tax incentives for the first time there seems to be an increase in VAT tax payable, but the effect dies out a year later.

6.1.5 Robustness tests on the analysis

Appendixes 5 and 6 report the same set of results discussed above on a different sample of treated firms and using an alternative estimation method.

In Appendix 5 we estimate the same results, always in an event study setting, but with a different method. More specifically, we use the Sun and Abraham (SA, 2021) estimator to measure how firms' performance changes before and after receiving a tax incentive. This approach extends the standard difference-in-differences (DiD) framework to settings where firms are treated at different points in time (which in our case happens frequently, since firms become eligible for an incentive in different years). In traditional estimators, firms that are treated early can mistakenly serve as "controls" for firms treated later, creating biased results. The SA method addresses this issue by estimating the coefficient of interest separately for each group of treated firms according to their treatment year and then combining those results using only never-treated or not-yet-treated firms as valid comparisons. Results of the analysis using such alternative method are overall consistent with what reported in the previous sections.

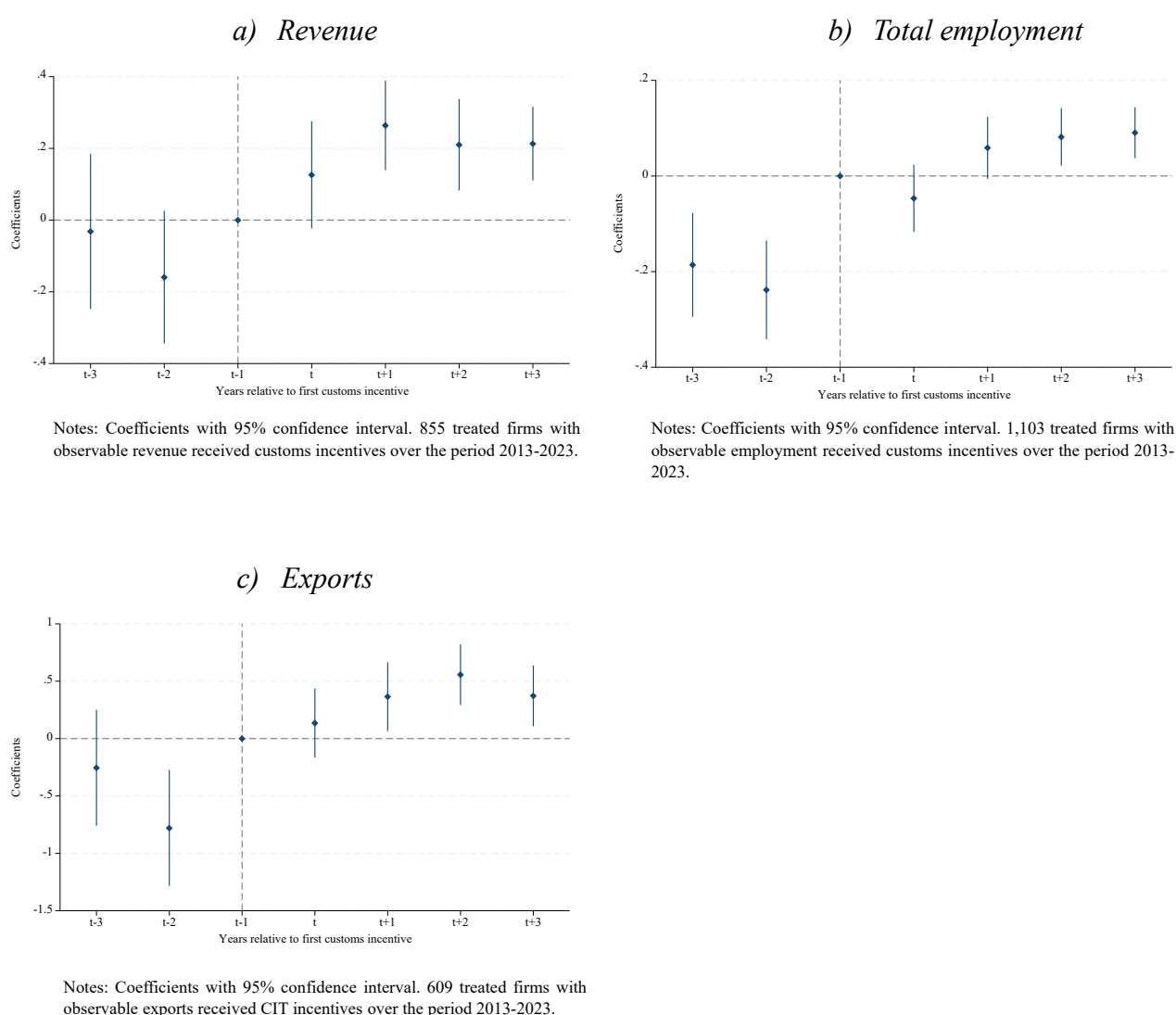
Appendix 6 reports instead out results obtained using a different definition of the treatment in which we exclude firms with CIT incentives that were either repealed by the 2015 investment code (i.e. the CIT incentive for large employers) or that were no longer in use after 2015 (i.e. the CIT incentive for newly listed companies). The exclusion covers 56 treated firms (23% of the initial sample of firms with CIT incentives over the period 2013-2023). Dropping such incentives does not affect the direction of the results, meaning that they can be equally attributed to the new measures introduced in the 2015 and 2021 codes.

6.2. Customs incentives

This Section reports the results of the analysis focusing on the correlation between the uptake of custom related incentives (under the form of reduced duties on imports of capital and intermediate inputs that fall outside of the scope of the EAC) and the subsequent performance of firms. The potential mechanisms at work here are different from the case of the investment incentives, in that a reduction in input duties has a first order effect on the overall costs of the firms, which reduce as foreign inputs will cost less, and on the capacity of firms to introduce newer or different inputs in their production process. While the first channel is more likely to affect profitability and size, the second is more likely to improve efficiency.

In the remaining of this analysis we focus on three main outcomes: sales, employment, and exports. While, as it is for the case of CIT incentives, the results point to an evident surge in all outcomes post-treatment, the evidence on the lack of parallel trends is less likely to hold. This means that while evidence suggestively supports a positive correlation of import incentives with firms outcomes, further refinements are needed to attribute a causal interpretation of such findings.

Figure 10. Event-study - Customs incentives and firm performance



7. Policy discussion and conclusion

This report has analysed the role of investment incentives in Rwanda. Between 2013 and 2023, 235 firms received CIT incentives, and more than 3,300 firms received customs duty exemptions, making Rwanda a valuable case study for assessing the role of tax policies in

economic development. Our findings extend and complement on a previous mapping exercise conducted by the IGC (Steenbergen, 2018) and covering the period 2012-2016. Relative to that exercise, we add evidence on the implications of the 2015 and 2021 revisions of the investment code, showing how many new firms were added to the list of recipients and which specific incentives they received. We also provide a more descriptive analysis related to the characteristics of such firms, emphasizing the differences between those that receive the incentives and those that do not. Also, we provide an empirical analysis that exploits the associations between the receipt of an incentive (CIT or custom) and the successive trajectory of the firms in terms of several indicators of their performance. Last, we also provide an assessment of the potential costs and benefits of the incentives showing that from the point of view of the fiscal stability, the tax incentives do not seem to decrease tax payables, as the increase in firm size more than compensates for the decrease in tax revenues.

There are three main takeaways we can gather from this analysis.

The first has to do with **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. Such relatively small numbers were already highlighted by the previous IGC report (Steenbergen, 2018), which attributed them to some constraints for firms to meet the conditions to receive the incentive. As such, both our report and the previous highlight the role of larger firms as main recipients. In our analysis, for instance, we show a rapid increase in the amount of revenue foregone, which along with the small number of recipients indicate that it is most likely due to larger taxpayers being involved.

This leads straight to the second takeaway, which is **selectivity**. This is a common issue for both CIT and custom incentives. Recipients of incentives tend to be a selected group of firms, which display structural differences with respect to the other firms in the sample, especially in terms of size, experience, revenues and their degree of internationalization. While the latter is to be expected, given the outward orientation of some of the incentives studied, the former indicates an implicit bias towards larger, older and potentially already profitable firms. Such “selectivity” is a common issue in the design and implementation of industrial policies, and it is often related to the intended objective of the measure. On the one hand, investing on 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 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.

Last, on the **effectiveness** of the incentives. Overall, we find evidence of a positive association between the uptake of an incentive (either CIT or custom) and the subsequent improvements in several dimensions of firms’ performance. We also find some evidence of treated firms paying higher tax bills after receiving the incentives, as the increase in size more than compensates the foregone revenue. Keeping in mind the potential concerns due to the selectivity, which we cannot fully address in our empirical analysis, it is not granted that what we find can entirely be attributed to the incentive itself. Still, we observe across-the-board evidence of a change in the trajectory of firms after the incentive was received, which is suggestive of the fact that—net of any selection bias—this might have pushed the observed improvements in performance.

Related Evidence. The provisions of the Rwanda’s Investment Codes broadly align with the international trend toward targeted and outward-oriented industrial policies, emphasizing fiscal incentives for selected sectors and complementary investment facilitation. The main tools—preferential corporate income tax (CIT) rates for priority sectors such as manufacturing, transport, financial services, R&D, e-mobility, and tourism—mirror the sector-specific tax reductions and investment subsidies studied elsewhere (e.g. in the United Kingdom and Korea, and Italy, see Lane, 2025 and Criscuolo et al., 2019). Likewise, customs duty exemptions on imported intermediate goods are functionally equivalent to the input-cost reliefs used in East Asian export-promotion programs (Juhász et al., 2024).

Compared to other contexts, Rwanda’s pattern of uptake is consistent with international evidence: fiscal incentives are predominantly accessed by larger, internationally connected firms, while small and purely domestic producers rarely apply. This mirrors regional-assistance schemes—where uptake was concentrated among firms ready to expand (Criscuolo et al., 2019)—and the experience of East Asian countries, e.g. Korea and Japan, where support was initially directed to a limited number of large firms with proven absorptive capacity (Lane, 2025).

The estimated evidence on Rwanda’s incentives—with positive correlation with sales and employment of roughly 30–40 and 15 percent respectively—are within the range found in well-identified studies elsewhere. For example, the UK’s Regional Selective Assistance program and Italy’s investment subsidies both raised employment and output, with effects concentrated

among smaller or growing firms (Criscuolo et al., 2019). Similarly, Romania's IT-sector income-tax exemption studied by Manelici and Pantea (2021) offers a useful comparison for Rwanda's new R&D provisions, showing significant expansions in exports and skilled employment once incentives were paired with a strong domestic talent base.

Beyond fiscal incentives, Rwanda's investment-promotion institutions—notably the Rwanda Development Board (RDB)—represent a distinctive strength. International evidence shows that non-fiscal investment promotion and facilitation can be as effective as tax incentives in attracting and shaping foreign investment. Harding and Javorcik (2011) find that sector-targeted promotion efforts by national agencies significantly increased foreign direct investment (FDI) inflows in promoted sectors, particularly when agencies offered high-quality, tailored services. In Rwanda, the RDB's proactive facilitation and aftercare services likely play a similar role: attracting FDI based on credibility, information, and administrative support rather than focusing exclusively on fiscal incentives. Consistent with these findings, the data suggest that only a minority of foreign investors in Rwanda benefit from tax incentives.

The experience of Rwanda also illustrates several of the institutional features emphasized by Juhász and Lane (2024) in their analysis of the political economy of industrial policy. They argue that the success of selective industrial interventions lies on credible commitment, bureaucratic capability, and structured state–business collaboration. In this respect, Rwanda's investment-promotion system, centered on the Rwanda Development Board (RDB), already displays elements of such embeddedness. The RDB's capacity to provide coordinated facilitation services to investors, monitor compliance, and adjust incentives might have characteristics of the approach that Juhász and Lane (2024) identify as critical in successful cases like Thailand's 1980s export promotion or Korea's coordinated sectoral drives. At the same time, their framework highlights potential vulnerabilities: sustaining credibility over time requires clearly defined sunset conditions, performance-based renewal of incentives, and continued investment in administrative capacity. Embedding these governance principles would strengthen the long-term effectiveness of its incentive regime, transforming fiscal concessions into a platform for learning, coordination, and structural transformation.

Policy Implications

Based on the findings of this report and on the overall analysis and consultations held over the project's timeline, we present a few implications mostly focusing on the Investment code.

- **Targeting/cost effectiveness:**
 - **Move from firm size to firm potential.** Current incentives are predominantly accessed by large, well-established firms. Future reforms should broaden eligibility and simplify access for high-potential but less structured firms—for example, scalable medium enterprises with credible investment plans or strong growth prospects. This would make incentives more inclusive while supporting structural transformation.
 - **Link benefits to measurable performance.** Move from entitlement-based schemes to *performance-based mechanisms* in which eligibility and renewal depend on clear, verifiable benchmarks—such as job creation, export growth, R&D investment, or local sourcing. This strengthens accountability and ensures incentives contribute to reach well-defined policy objectives.
 - **Quantify value for money.** Each major incentive should be subject to a cost–benefit test, reporting and keeping monitoring on the fiscal cost per job created, per unit of exports, or per RWF of additional investment, among others.

- **Rationalize the incentive structure**
 - **Reduce proliferation and overlaps.** The current system includes many incentive types, many of which have very limited or no actual uptake (see Appendix 3). This fragmentation makes the system complex, difficult to monitor, and less effective in achieving clear policy goals. Any future revision of the Investment Code should consolidate existing measures into a few function-based categories, so that incentives are linked to well-defined economic objectives and so are easier to evaluate. This alignment would also help firms apply for incentives that match their main purpose, improving the fit between policy intent and firm demand. Three main categories could be retained as guiding pillars: (1) Export promotion (e.g. preferential CIT rate for firms exporting >50% of output; special economic zone, should this be supported); (2) Investment support (accelerated depreciation for

qualifying assets; sectoral policies, with the choice of the sectors aligned to national industrial policy priorities); (3) Innovation and green transition (R&D deductions and e-mobility support as in the current version of the code).

- **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 behavior by firms. Measuring the conditions should be tractable. The current data generated for this project, if properly updated, allow to map from time to time whether firms comply with conditions.
- **Learning:**
 - **Publish an annual Incentives Report.** Building on the 2018 IGC proposal, establish a transparent system of annual reporting that includes, among others, (i) total revenue forgone by incentive type, (ii) beneficiary characteristics, and (iii) corresponding performance indicators (employment, exports, investment). Note that this would be different from the “Tax Expenditure Report” that MINECOFIN publishes annually, in that it provides a more macro picture on the contribution of tax expenditures by type and does not deal specifically with the micro (firm) features of recipients. This would facilitate accountability and evidence-based review.
 - **Institutionalize evaluation.** The revised Investment Code should mandate periodic independent evaluations of incentive effectiveness. Codes to replicate this analysis can be made available through the IGC. Still, to move ahead also with the idea of automating the process, these assessments should regularly access RRA administrative data to update the evidence presented in this report. Ideally, this should result in an ad-hoc platform that allow measuring progress over time for the firms that receive incentives.
 - **Pilot and scale up.** If new types of incentives—such as those added in 2021 on R&D or e-mobility—are considered in the future, we recommend doing this through small pilots. Evaluating their impact *before* scaling up will ensure that new measures are evidence driven.

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Appendix 1. Evolution of CIT incentives in Rwanda

Type of tax incentive	Year	Beneficiaries	Description	2015 reform	2021 reform	Source
Discount in CIT (Benchmark tax system: 30%)	2005	Medium-sized and large companies	Discount of 2% CIT if they employ between 100 and 200 Rwandans Discount of 5% CIT if they employ between 201 and 400 Rwandans Discount of 6% CIT if they employ between 401 and 900 Rwandans Discount of 7% CIT if they employ more than 900 Rwandans	Repealed		Annexe C to Law N° 26/2005 of 17/12/2005 relating to investment promotion and facilitation Annexes to Law N° 06/2015 of 28/03/2015 and Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
Preferential CIT (Benchmark tax system: 30%)	2005	Exporters	27% CIT for exports worth between USD 3 and 5 million. 25% CIT for export worth more than USD 5 million.	15% CIT if at least 50% of the company's total turnover produced in Rwanda comes from the export of goods and services (excluding minerals, tea and coffee without value addition)	Same as in 2015	Art. 41 in Law N° 16/2005 of 18/08/2005 on direct taxes on income Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe V to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2010	Newly listed companies	20% CIT for 5 years if the company sells at least 40% of their shares to the public. 25% CIT for 5 years if the company sells at least 30% of their shares to the public. 28% CIT for 5 years if the company sells at least 20% of their shares to the public.	Same as in 2010	Same as in 2010 but reform in 2023 20% CIT for 5 years if the company sells at least 40% of their shares to the public. 25% CIT for 5 years if the company sells at least 30% of their shares to the public.	Art. 7 in Law N° 24/2010 of 28/05/2010 modifying and complementing Art. 41 in Law N° 16/2005 of 18/08/2005 on direct taxes on income Art. 2 in Law N° 051/2023 of 05/09/2023 amending Law n° 027/2022 of 20/10/2022 establishing taxes on income
	2015	Energy sector	15% CIT if the company operates one of the following operations: energy generation, transmission and distribution from peat, solar, geothermal, hydro, biomass, methane and wind.	Not applicable	Same as in 2015	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation

Appendix 1. (Continued)

Type of tax incentive	Year	Beneficiaries	Description	2015 reform	2021 reform	Source
Preferential CIT (Benchmark tax system: 30%)	2015	Sector of transport of goods and related activities	15% CIT if the company operates a fleet of at least 5 trucks registered in the investor's name, each with a capacity of at least 20 tons.	Not applicable	Same as in 2015	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2015	Sector of transport of passengers and goods	15% CIT if the company operates a fleet of at least 10 buses registered in the investor's name, each with a capacity of at least 25 seats.	Not applicable	Same as in 2015	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2015	ICT Sector	15% CIT if the company invests in service, manufacturing or assembly (excluding ICT activities related to retail, wholesale trade, repair industries and telecommunications).	Not applicable	Same as in 2015	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2015	Financial services	15% CIT if the company invests in financial activities (excluding locally oriented fund and wealth management, retail banking and insurance activities).	Not applicable	No exclusions in financial activities	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation.
	2015	Housing	15% CIT if the company builds low-cost housing.	Not applicable	Same as in 2015	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	R&D	15% CIT if the company establishes a facility, training centre or institution of higher learning related to innovation research and development.	Not applicable		Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation

Appendix 1. (Continued)

Type of tax incentive	Year	Beneficiaries	Description	2015 reform	2021 reform	Source
Preferential CIT (Benchmark tax system: 30%)	2021	E-Mobility	15% CIT if the company invests in electric mobility.	Not applicable		Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	Tourism	15% CIT if the company invests in adventure and agriculture tourism.	Not applicable		Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	Manufacturing	15% CIT if the company is involved in manufacturing within the sub-sectors of textiles and apparels, electronics information, and communication technology equipment, large scale agricultural operations, processing in wood, glass and ceramics, value addition and professional operations in mining and agricultural equipment.	Not applicable		Annexe IV to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	All sectors	3% CIT if the company fulfils the following requirements: (i) total net assets $\geq$ USD 1 million, (ii) annual expenditure in Rwanda $\geq$ USD 15,000, (iii) physical office in Rwanda, (iv) at least 30% of professional staff are Rwandan $\geq$ 30%, (v) at least 25% of directors residing in Rwanda, (vi) at least 50% of Board of Directors members are physically present in Rwanda, (vii) meetings and resolutions are held in Rwanda, and (viii) at least 2 Rwandan residents are members of the Board of Directors	Not applicable		Annexe II to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	Exporters	25% CIT if the company (i) has at least 30% of total turnover of goods and services and (ii) less than 50% of total turnover comes from export of goods and services	Not applicable		Annexe V to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation

Appendix 1. (Continued)

Type of tax incentive	Year	Beneficiaries	Description	2015 reform	2021 reform	Source
CIT Holiday (Benchmark tax system: 30%)	2005	All sectors	0% CIT if the company is (i) in a Free Trade Zone or its headquarters are in Rwanda, (ii) invests at least USD 10 million in both tangible and intangible assets, (iii) provides employment and training to Rwandans, (iv) conducts international financial transactions for at least USD 5 million per year, (v) uses at least USD 2 million per year in Rwanda, and (vi) performs at least in three of the following Rwandan services: procurement of raw materials, components or finished products, market control and sales promotion planning, information and data management services, treasury management services, research and development work, training and personnel management.	Conditions (ii), (iii), (v) and (vi) of the 2005 law remain unchanged. However, the following conditions have been modified: (i) having headquarters or regional office in Rwanda, and (iv) conducting commercial operations using a licensed commercial bank in Rwanda for at least USD 5 million per year.	Same as in 2015	Art. 41 in Law N° 16/2005 of 18/08/2005 on direct taxes on income, Annexe I to Law N° 06/2015 of 28/03/2015 and Annexe VIII to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2005	Microfinance institutions	Up to 5 years after the approval of competent authorities. This period can be renewed by the Minister in charge of finance.	Same as in 2005		Art. 42 in Law N° 16/2005 of 18/08/2005 on direct taxes on income, Annexe IV to Law N° 06/2015 of 28/03/2015 and Annexe IX to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2015	All sectors	Up to 7 years if the company (i) invests USD 50 million and (ii) contributes with at least 30% of this investment in the form of equity in the following sectors: energy (excluding investors having an engineering procurement contract with the Government of Rwanda), manufacturing, tourism, health, ICT and projects related to exports (excluding ICT activities related to retail, wholesale trade, repair industries and telecommunications)	Not applicable	Same as in 2015. However, USD 50 million must be fully invested within a period of 7 years. In addition, energy projects must produce at least 25 megawatts.	Annexe II to Law N° 06/2015 of 28/03/2015 and Annexe VIII to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation
	2021	Innovation industrial developers or park	Up to 5 years if the project makes a positive net income	Not applicable		Annexe IX to Law N° 006/2021 of 05/02/2021 relating to investment promotion and facilitation

Appendix 1. (Continued)

Type of tax incentive	Year	Beneficiaries	Description	2015 reform	2021 reform	Source
CIT exemptions	2005	Agricultural & livestock activities	Income derived from agricultural activities is exempt, if the proceeds from these activities do not exceed RWF 12 million in the tax period.	Same as in 2005		Art. 18 in Law N° 16/2005 of 18/08/2005 on direct taxes on income and Art. 21 in Law N° 016/2018 of 13/04/2018 and Law N° 027/2022 of 20/10/2022 establishing taxes on income
	2010	All sectors	Income derived from registered collective investment schemes and employee share schemes is exempt	Same as in 2010		Art. 16 bis in Law N° 24/2010 of 28/05/2010 modifying and complementing Law N° 16/2005 of 18/08/2005 on direct taxes on income, Art. 20 in Law N° 016/2018 of 13/04/2018 and Law N° 027/2022 of 20/10/2022 establishing taxes on income

Appendix 2. Definition of variables under study

Variable	Definition
Revenue	It is the total revenue in RWF generated by a firm from its trade and business transactions and activities
Total employment	It refers to all workers with permanent contracts, fixed-term contracts and a part of a secondary job employed by a firm
Labour productivity	It is calculated by dividing the total revenue of a firm by its number of employees.
Exports	It refers to the total export value in RWF generated by a firm
Gross profit	It refers to the profit a firm makes after deducting the costs of producing and selling its products or services
Probability of investing	It is a binary variable, taking the value 1 if the firm has observable investment income
Number of buyers (B2B)	It refers to the total number of businesses or organisations that purchase a firm's products or services in a business-to-business (B2B) market
Number of suppliers (B2B)	It refers to the total count of businesses or organisations that provide goods or services to a firm in a business-to-business (B2B) market
Total purchases (B2B)	It refers to the overall value of goods and services in RWF that a firm buys from other businesses
Total tax payable	It is the total amount of tax in RWF that a firm owes to the government after all deductions and credits are applied
CIT payable	It is the amount of corporate income tax in RWF that a firm owes on its profits.
PAYE tax payable	It is the income tax withheld from workers' salaries in RWF that a firm must remit to the government.
VAT Payable	It is the value-added tax in RWF owed by a firm on goods and services sold, after subtracting input VAT on purchases
Customs duty tax payable	It is the tax in RWF owed by a firm on imported goods based on their value or quantity

Source: CIT, PAYE, customs and VAT databases.

Appendix 3: Firms with CIT incentives and revenue forgone by type of incentive

Year	Revenue foregone in million	Tax rate discounts					Tax holidays				Exemptions	Other incentives ¹
		Large employer	Newly listed public companies	Large exporters	Priority sectors	All sectors	Free trade zones	Microfinance companies	Venture capital companies	Other sectors	Collective investment / employees share	
2013	RWF	1,160	315	345			18	70	2,350			8
	# firms	27	5	10			1	5	2			2
2014	RWF	3,790	2,600	64			130	84				0.4
	# firms	27	2	9			3	4				1
2015	RWF	2,810	66	1,230			69	99				0.2
	# firms	5	1	8			2	6				1
2016	RWF	34		1,230	150		420	440			52	
	# firms	6		10	1		2	77			1	
2017	RWF	84		1,790	140		830	110	113			8
	# firms	3		9	1		3	16	1			1
2018	RWF				6100		73	520		1,960		
	# firms				18		1	6		6		
2019	RWF			630	1100			0.7		2,020		6
	# firms			4	8			1		5		1
2020	RWF			225	4000			2,300		3,180		
	# firms			2	21			6		7		
2021	RWF			2,920	2,800			410		444		12
	# firms			7	11			2		1		1
2022	RWF			375	4,100	63		2,700		1,220		12
	# firms			4	18	2		3		3		1
2023	RWF			2,190	11,000	5,970		5,900		986		15
	# firms			8	35	6		7		5		1

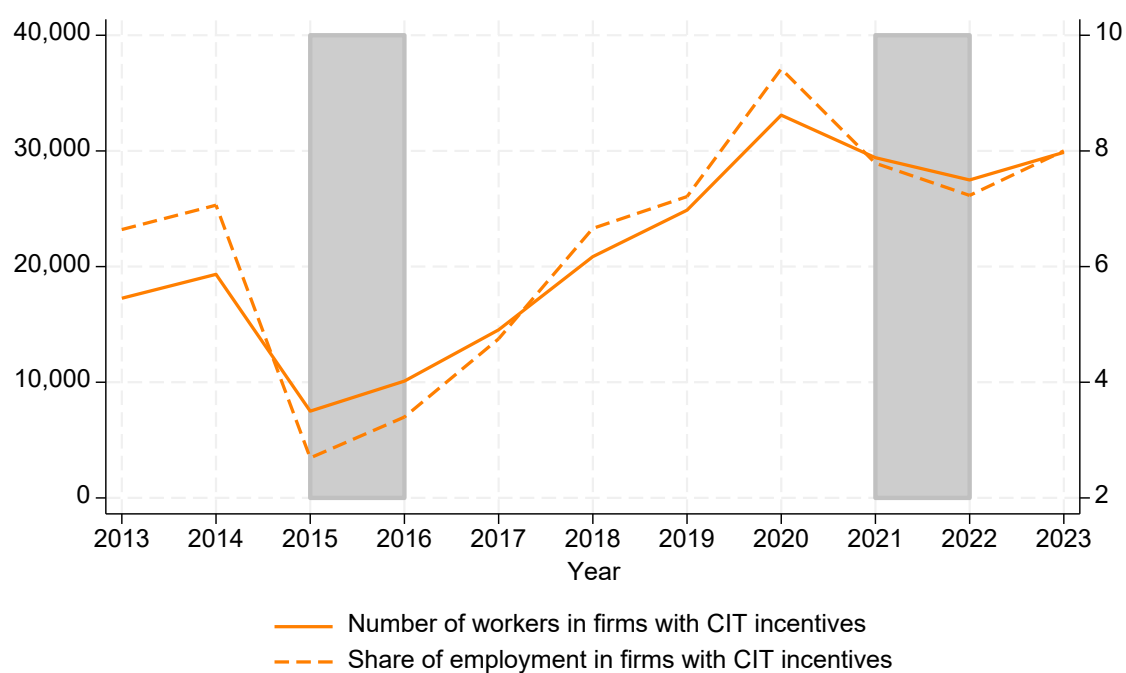
Notes: ¹ Incentives related to diplomatic organizations, USAID Project implementing partners and other tax discounts. Source: Authors' calculations using the CIT database between 2013 and 2023.

Appendix 4. CIT incentives: Microfinance institutions compared to other firms

	Microfinance institutions (n = 98)	Other firms (n = 152)
	mean	mean
Number of employees	9.8	521.7
Total business income in RWF million	251	15,400
Total export value in RWF million	419	10,700

Source: CIT database, 2013-2023.

Figure A1. Evolution of employment in firms with CIT incentives in Rwanda



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