

Rwanda Leasing Investment Guide

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IFC Rwanda



 **IFC** | International
Finance Corporation
World Bank Group



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Abbreviations and Acronyms

CIF	Cost Insurance and Freight
BAT	British American Tobacco
BCR	Banque Commerciale De Rwanda (Commercial Bank of Rwanda)
BRD	Banque Rwandaise de Développement (Development Bank of Rwanda)
CDMA	Code Division Multiple Access
CEDP	Competitiveness and Enterprise Development Project
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EIA	Environmental Impact Assessment
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GOR	Government of Rwanda
GPRS	General Packet Radio Service
ICF	Investment Climate Facility
ICT	Information and Communication Technology
IFC	International Finance Corporation
KPS	
MDG	Millennium Development Goals
MW	Mega Watt
ONATRACOM	Office National de Transport en Commun (National Public Transport Authority)
PAYE	Pay as you earn
R&D	Research and Development
RCRSA	Rwanda Commercial Registration Service Agency
RDB	Rwanda Development Board
RIEPA	Rwanda Investment and Export Promotion Agency
RITA	Rwanda Information Technology Agency
RRA	Rwanda Revenue Authority
RWF	Rwandan Franc
SME	Small and Medium Enterprise
SUV	Sport Utility Vehicle
TIN	Tax Identification Number
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollars
VAT	Value Added Tax

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The cooperation of the Lessors in the leasing industry in Rwanda namely; BRD, BCR, Fina Bank, Cogebank, Ecobank and Al Halaal Micro Finance was essential to the guide's success. Our thanks are owed to Robert Mukasa, Constant Mayende, Remy Muneza, Alfred Baguma, Aline Batamuliza, Patrick Buki, Nadjibu Nyandwi, Alexis Shumbusho, Rosemary Mbabazi and Alex Rudasigwa who provided valuable input and feedback.

The cooperation of other stakeholders such as the RDB, RIEPA, the RRA and Rwanda National Institute of Statistics was immense.

This guide was prepared by KPS in conjunction with Equity Juris Chambers, Simon Karenzi, the lead consultant, Calvin Mitali and Moses Kiiza as co-lead consultants.

Background

IFC, a member of the World Bank group is implementing an advisory services program, the IFC Rwanda CEDP Leasing Development Program, which promotes the role of leasing as an alternative financing mechanism for businesses in Rwanda. The program is supported by the Dutch ministry of foreign affairs through the Netherlands partnership program and the government of Rwanda through the competitiveness and enterprise development project.

IFC aims to help expand access to leasing finance through investment promotion, capacity building, legal and regulatory reform and greater public awareness. It is within this context that the IFC commissioned a study to develop a leasing investment guide for Rwanda to help boost investment in the leasing sector.

Executive Summary

Rwanda has made great and remarkable progress in the last 14 years to turn its 1994 tragedy into hope. There is renewed stable and peaceful environment, reconciliation is beginning to bear fruit and strong institutional governance is in place.

These achievements create other forms of challenges like a vibrant, modern dynamic private sector as a leader of growth as articulated in the Vision 2020 report albeit with challenges like access to finance and capacity inter alia.

As a response the IFC Rwanda Leasing Development program was designed is currently being implemented along four flagship objectives:

- **Legal and regulatory framework** to review and provide input towards a favorable leasing legal and regulatory environment
- **Capacity Building** for all leasing stakeholders like financial institutions, private companies, Governmental institutions e.t.c.
- **Raising public awareness** countrywide about the leasing product and the advantages it provides all stakeholders like access to mid-longterm finance, job creation, increased productivity in certain sectors and revenue collections etc.
- **Increasing investment** in Leasing whether directly or indirectly by the IFC and hence providing the impetus for an investment guide to take stock of what is available to encourage investment like opportunities in priority sectors like Agriculture as

the Government looks to higher productivity and commercial orientation, integration efforts of the Government, incentive regime etc.

In light of the above, in November 2008 the program commissioned the development of a Rwanda Leasing Investment guide with an aim to give potential investors a look at the enormous possibilities of investing in Rwanda's leasing sector.

The Rwanda Leasing Market is now just under 3 years having begun in early 2006 and it has done leases worth over 20 million USD by June 2008. At the time of the program launch only two banks and one micro finance institution were undertaking leasing. By June 2008 they were eight financial institutions offering leasing. With the leasing markets in the region with close to 10 years experience and very successful markets; leasing in Rwanda is still considered a new product on the market and still a large section of its population have never heard of it or sought it out as an alternative form of access to finance. The potential for growth underlines the need to grow and develop leasing as a viable financing alternative in order to realize its full potential.

While this guide documents that the environment for doing business is not perfect but work in progress Rwanda is a success story and overall positive. Government is committed to development of its private sector and offering great hard and soft incentives to investors in order to meet its objective of bringing Rwanda to a mid-level income Country by 2020.

Chapter I: Introduction

Rwanda, known as the country of a thousand hills, is a virgin territory for investors that enjoys a strong leadership committed to private sector growth and development. It is the most densely populated country in East Africa, 120 km south of the equator. The total area is 26,338 sq. km, of which about 1,400 sq. km is water.

As a result of the 1994 genocide, normal economic activity froze with real GDP falling to about half its level of the previous years, equivalent to the level of 1970. All sectors were severely affected with industrial output declining the most, followed by agriculture. Industry, particularly manufacturing, was affected for a long time as some of the vital backbone infrastructure (electricity and water services) were severely damaged. Several establishments that had been damaged were rebuilt.

Export crops were the most affected segment of agriculture. Tea and coffee were mostly not harvested in 1994. The slow recovery in coffee production and falling prices of tea and coffee on international markets further affected value-addition for cash crops, which represented only 47% of the 1990 level in 2004.

Government policy played a key role in the recovery of the economy after 1994. One of the most important measures was to ensure that property rights on capital assets, and most crucially on land were respected. Neither national nor foreign investors faced difficulties in reclaiming movable assets that were seized during genocide and all were able to resume operations quickly if they wished.

The government also rapidly introduced stabilization policies and a series of structural reforms aimed at reducing poverty through private sector development. As a result, since 1999, the private sector has sustained its role as the prime mover of the economy representing 81% to 82% of the total consumption expenditure, with government expenditure representing 18% to 19%.

The government has committed itself to reform a number of laws and regulations concerning the investment climate and competitiveness.

Economic and social policy is guided by the vision 2020 strategy, which aims to turn Rwanda into a middle income country by 2020 with 900 USD income per capita and achieve the United Nations MDGs¹, with significant improvements in health, education, inequality reduction and other social indicators of development.¹



Chapter II: Leasing operations in Rwanda

2.1: What is leasing?

Leasing is a financing mechanism that allows a business to use an asset owned by the leasing company (the lessor) in exchange for specified periodic payments, without necessarily assuming ownership of the asset.² It is an alternative means of equipment for businesses (i.e. machinery, business cars, computers, trucks, buses etc.)

What is a leasing contract?

A lease is a contract between the owner of an asset (the lesser) and another party (the lessee). The contract gives the lessee possession and use of a specific asset in return for payment of specified rentals over an agreed period of time.

2.2: Benefits of leasing³

1. Security

The lessor already owns the asset and so may require little or no additional collateral.

2. Coverage

Leasing can provide up to 100% of a company's financing needs. The lessee incurs minimum capital outlay required since the lessor finances the majority of the capital expenditure.

3. Affordability

Leasing is often cheaper than bank credit, especially considering collateral requirements, processing time and fees.

4. Medium term financing

Leasing is often the only source of medium-term financing for SMEs' as maturity can be up to 5 years.

5. Flexibility or repayment

Lease rental payments can be tailored to match cash flow patterns and expectation of a business.

6. Taxes

VAT payment is spread over the lease period. If registered, the lessee is able to claim the VAT paid with the rentals from RRA.

In addition, the lessee claims full rentals as a business expense against taxable profit.

7. Fixed rate finance

Unlike some credit facilities such as a bank loan and overdrafts, the repayments remain fixed throughout the lease period.

¹ Investment Policy Review Rwanda, United Nations Conference on Trade and Development, Geneva, 2006, page 7.

² International Financial Corporation (IFC), Kigali, CEDP Leasing Development Program Brochure.

³ Ibid.

2.3: Leasing Market in Rwanda

2.3 Lease Operations in Rwanda

Leasing in Rwanda began in February 2006 with only two players; Commercial Bank of Rwanda and FINA Bank. Within the first year of their operations they had transacted a total of 43 leases worth 7 million USD. By December 2008 the players had increased to 469 leases and a combined portfolio of 30 million USD.

2.3.1 Leasing Products

Currently all the practitioners do the traditional finance leasing with only 1% operating leases. The only operating lease deal transacted during the surveyed period was done by BCR bank. The lease included a buy back clause as operating leases are still not a favorite with the option to buy at the end of lease not a characteristic of this type of lease.

2.3.2 Types of assets financed through leasing

Below is a chart outlining the choice of equipment leased. A large percentage of the leases are for vehicles. This would be an obvious choice as the secondary market for vehicles is thriving.

Types of assets financed

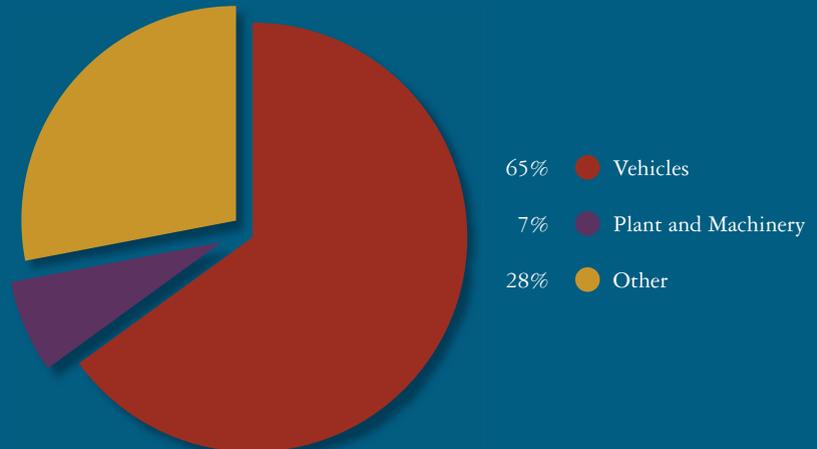


Figure 2.1

2.3.3 Average Lease Duration

The average lease period in Rwanda is three years. The banks have found this period most comfortable for the lessee to pay back according to their cash flow. This works for the lessor as it minimizes the impairment of the leased assets over the lease period.

2.3.4 Average Lease Size

The chart below gives an idea of the lease sizes frequently written. Most leases range from \$5,000 to \$150,000.

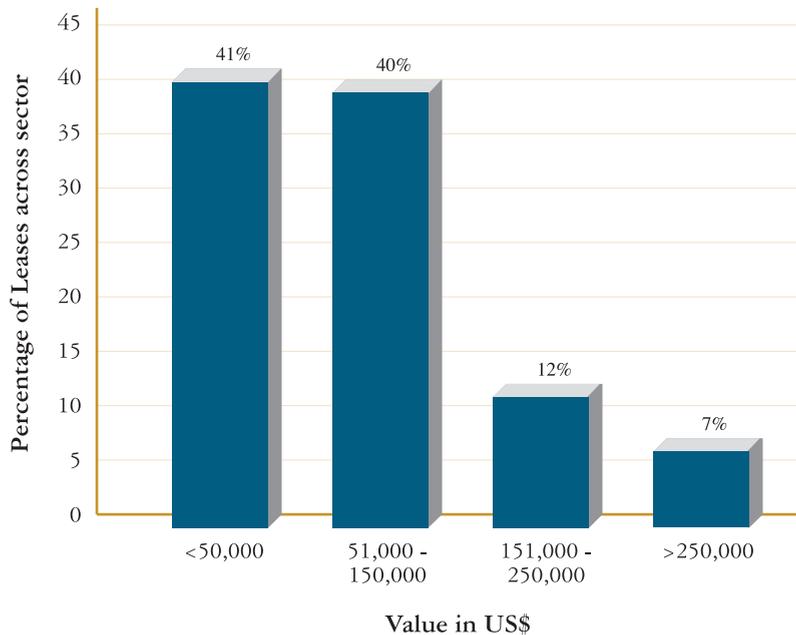


Figure 2.2

2.3.5 Sector Distribution of Leases

The classifications below are based on the sector in which the leased asset was used. For example, a distribution truck in an agriculture business is classified as under the agriculture sector.

The pie chart breaks down the leasing activity by sector.

The bulk of leasing activity is in transport and distribution, accounting for 64.15% of the total leases disbursed by June 2008. Currently, the seven financial institutions providing leasing services have a larger portfolio for business vehicles and trucks on lease than on the regular loan portfolio showing great potential for growth in leasing in Rwanda.

2.3.6 Regional Coverage

Ninety percent of leases financed are in the Kigali area. The remaining 10 percent are distributed between the remaining provinces mainly with busy border towns like the western province, a hotspot of trade between Rwanda and the Democratic Republic of Congo (DRC), followed by the northern province on the border with Uganda.

Leasing Activity by Section

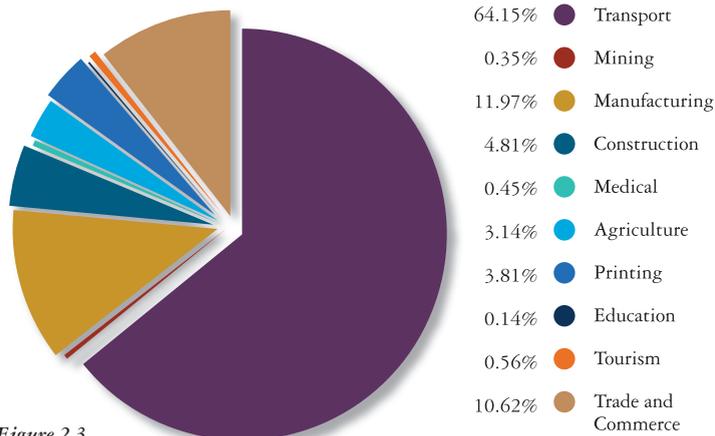


Figure 2.3

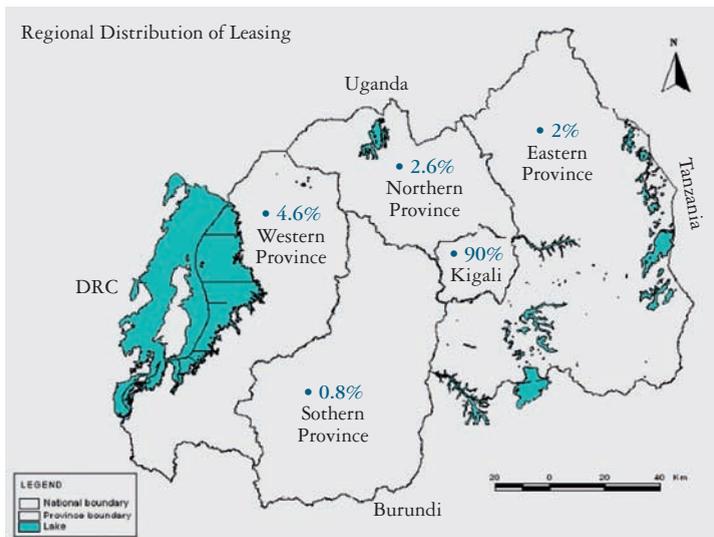


Figure 2.4

Leasing operators	Requirements for a lease	Equipment mostly leased	Lease amount	Lease period	Average time frame	Total n°. of clients	Challenges faced
<ul style="list-style-type: none"> - Rwandan Development Bank; - Commercial Bank of Rwanda; - Fina Bank; - Cogebanque; - Ecobank - Access Bank - Vision Finance Micro Finance 	<ul style="list-style-type: none"> -An application letter; -A Pro-forma invoice; -A certificate of incorporation; -Articles & Memorandum of Association; -A list of management team, age, qualification, experience and number of other staff; -Projected cash flow statement; -Balance sheet & income statement for 3 years; -Projected statements for period of the lease; -A budget for the next 12 months; - A business plan. - 30% Down payment; - TIN Number 	<ul style="list-style-type: none"> - Industrial machinery; - Construction equipment i.e. caterpillars, vibrating rollers, tiles & brick making machines; - Agricultural equipment i.e. tractors & coffee processing machines; - Vehicles i.e. trucks & buses; personal vehicles. - Office & ICT equipment i.e. printers, photo copiers & computers; - Laundry equipment; - Hotel equipment 	Between RWF 5 M-300 Million, equivalent to \$ 8,928 - \$ 535,714.	1 year minimum - 5 years maximum.	Within 1 week	469 Clients	<ul style="list-style-type: none"> - Capacity building; - Public awareness; - Low level of investment.

Table 1: Lease operations in general

Chapter III: Economic Indicators⁴

3.1. Demography

Population:	9.058.392
Population density per sq.Km:	344
Percentage of population under 5 years:	16.3%
Percentage of population under 15 years:	42.1%
Percentage of population between 15 to 64 years:	55.2%
Percentage of population aged 65 years and above:	2.7%
Life expectancy at birth:	52.73
Population growth rate:	2.8%

3.2. Size of the market

3.2.1. Local

Rwanda's population is approximately 9 million people.

3.2.2. Foreign

Rwanda's strategic location makes it a hub and gateway to East and Central Africa, a market of over 120 million consumers.

Rwanda is a Member of the COMESA and the EAC.

Rwanda enjoys quota and duty free access to European Union and the United States of America markets.

3.3. Gross Domestic Product at current

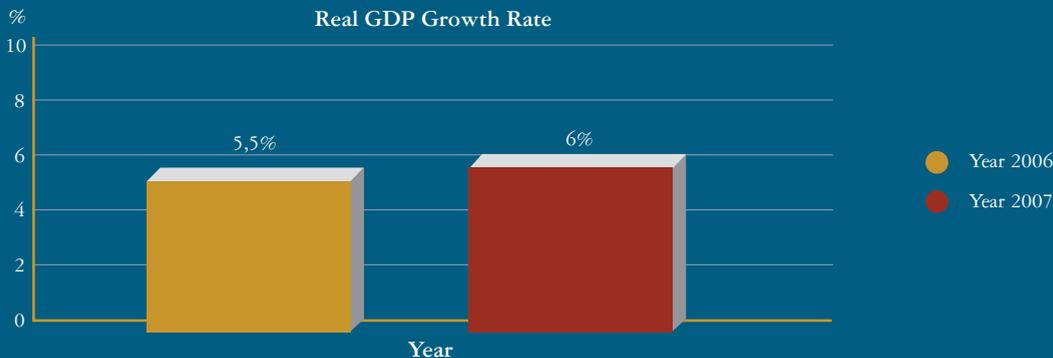


Figure 3.1

⁴ Rwanda Development Indicators, May 2008, National Institute of Statistics – Rwanda

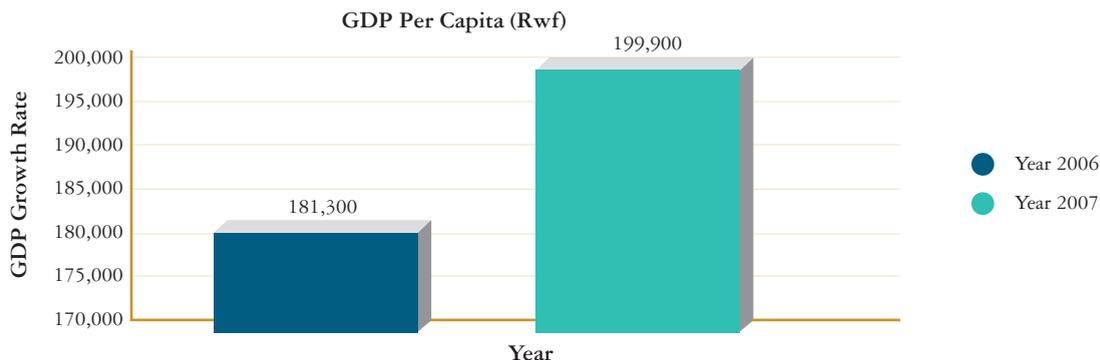


Figure 3.2

3.4. Growth rate

The growth rate at constant prices has steadily risen, 7.3% from 2005-2006 and 7.9 from 2006-2007. Agricultural production stabilized, with a minimal growth rate of 1%, compared to a growth of 5% in 2005. During the year 2006, industry and services grew by 8% each.

The production of export crops grew by 30%, after having undergone a fall of 24% in 2005. In the industrial sector, the rise of the real value added was attributed to the strong growth recorded by chemicals, rubber and plastic, (44%) as well as furniture (47%). Elsewhere, mines and quarrying registered a decrease of 14%, because of the drop of cassitérite and colombo-tantalite production.

For the service sector, the rise of the value added increased substantially in the financial sector (20%) and the public sector (11%). Other sectors such as education, real estate, trade, hotels and restaurants as well as transportation and communications also registered a rise of at least 6%.

During the last 5 years, the average annual GDP growth rate was 6%. During the same period, the annual average growth rate was 3% for agriculture, 7% for industry and 8% for services.

3.5. Inflation Rate

The current annual average inflation rate is 8.9%.⁵ This high rate of inflation might be attributed to the increase in prices of some categories of products. Among these, food products and non alcoholic beverages registered a price increase of 9.92%.

⁴ National Institute of Statistics – Rwanda, www.statistics.gov.rw

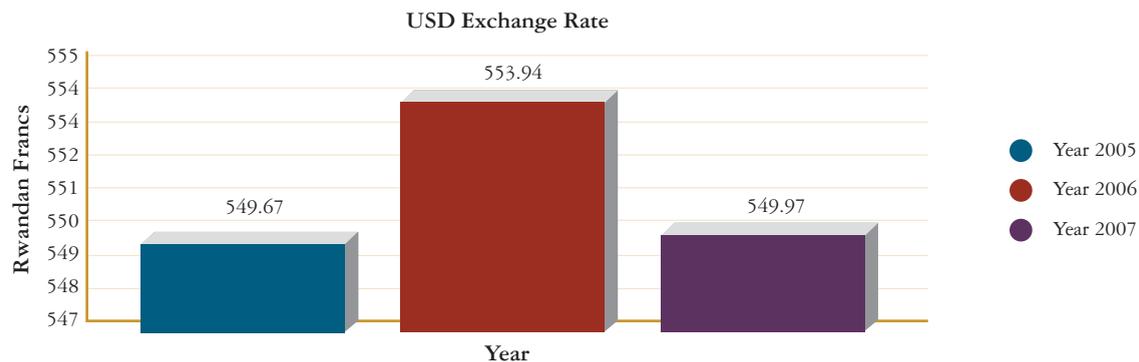
3.6. Exchange rate⁶

Figure 3.3

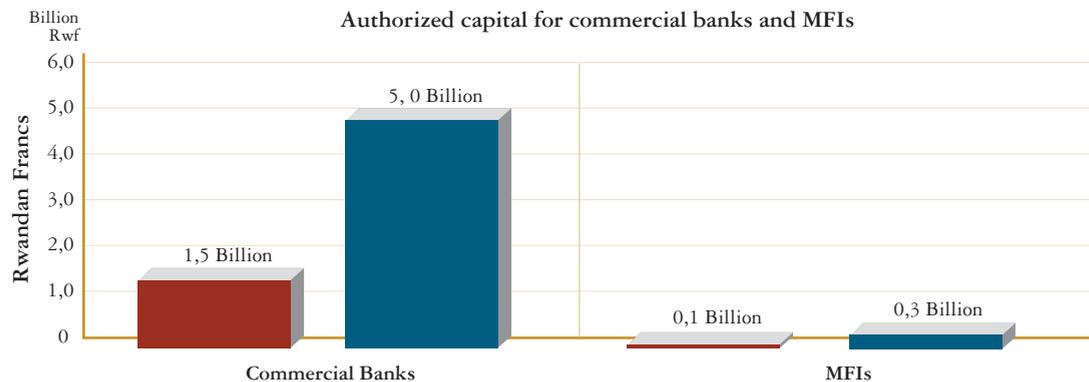
3.7. Money, Credit, Interest Rate and Financial System⁷

Figure 3.4

⁶ Rwanda Development Indicators, May 2008, National Institute of Statistics – Rwanda.⁷ Ibid.

3.7.1 The Financial Sector in Rwanda⁸

3.7.2. Monetary Development

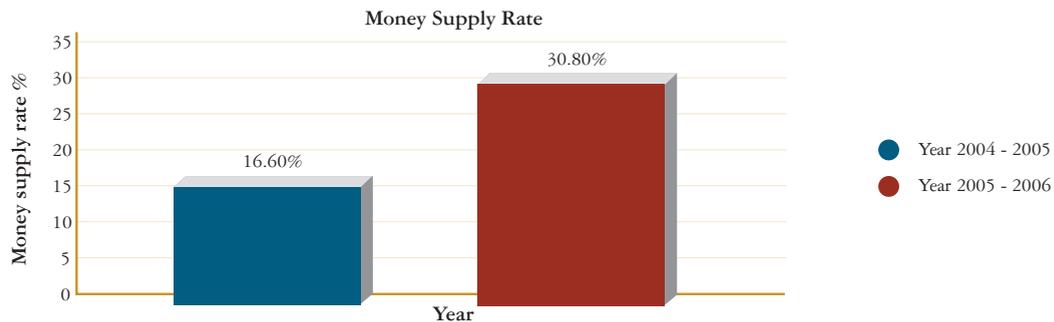


Figure 3.5

3.7.3. Interest rate

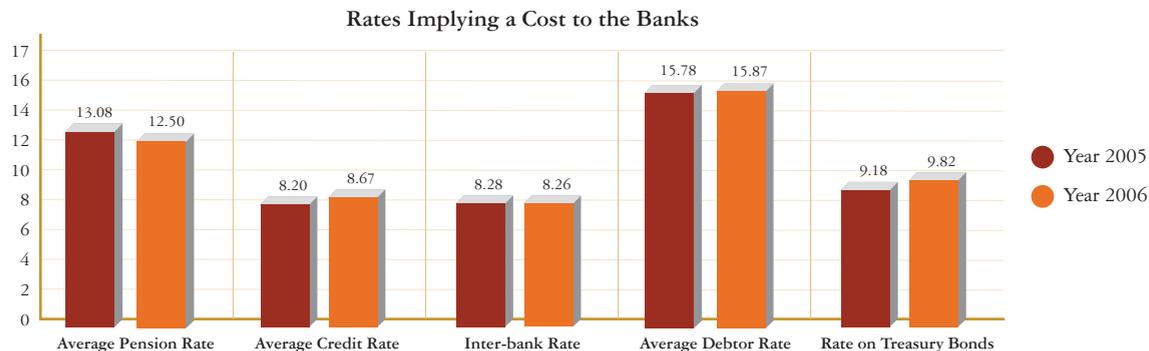
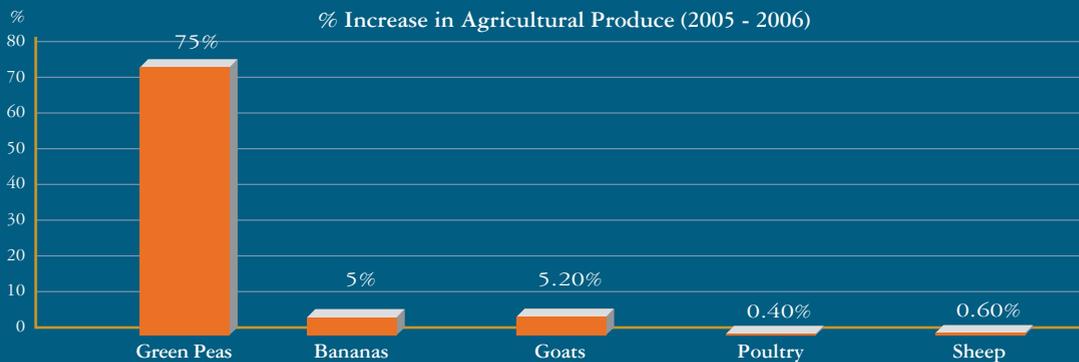
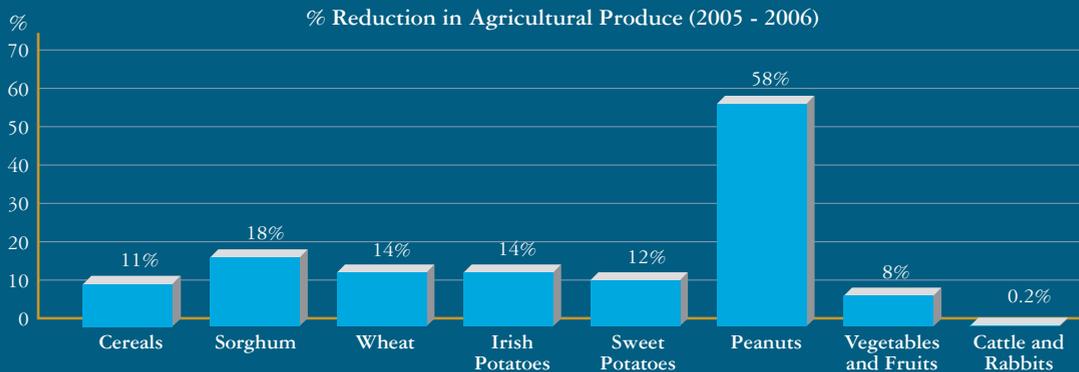


Figure 3.6

⁴ Rwanda Development Indicators, May 2008, National Institute of Statistics – Rwanda

3.8. Agricultural Development



3.9. Industries

3.9.1. *The mining sector*

In 2006 mining recorded a slight rise of 1.8% while cassitérite and Colombo tantalite production registered a major decline with a respective drop of 15.4% and 31.8%.

On the other hand, the production of Wolfram more than doubled in 2006 in comparison to the previous year, registering a 157.7% growth.

3.9.2. *Food processing Industry*

According to 2006 data, the food processing industry performed relatively well. Production of alcoholic and non alcoholic drinks increased by 27.4%. Modern beer production grew by 29.9% while soft drink production grew by 22.7%.

Tobacco production decreased by 8% following privatization and relocation of the BAT factory to Kenya.

After two years of very good performance, sugar production suddenly declined by 1.1% in 2006, while the bakery maintained good performance with a growth of 8%.

In 2006, milk production remained relatively stagnant with a slight decrease of 0.1%. Rice and animal feeds production experienced a respective increase of 1.2% and 8% in comparison to the previous year.

Juices and flour production continued to grow with the entry of new players in fruit and grain processing. The volume of locally produced juices progressively increased between 2004 to 2006.

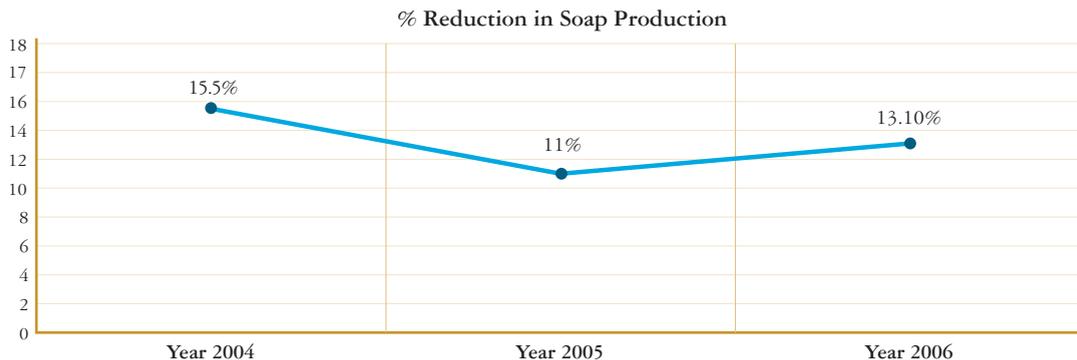
Flour production also recorded a remarkable rise. Its growth tripled in 2005.

Coffee production considerably recovered in relation to the previous year and registered an increased by 43.5% in 2006.

The quality of coffee was also improved as a result of an increase in the number of washing stations from 45 in 2005 to 84 in 2006. Thus, the production of high-quality coffee grew from 1,100 tons in 2005 to 1,846 tons in 2006, registering an annual increase of 67.8%. Tea production rose by 3.1% in the same period.



3.9.3. Chemical Industries

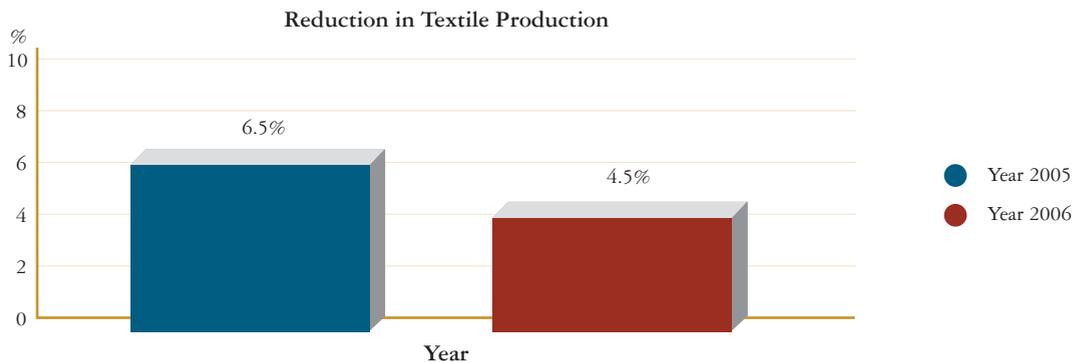


Production of paints recorded a high growth of 68.5% in 2006 in relation to 2005.

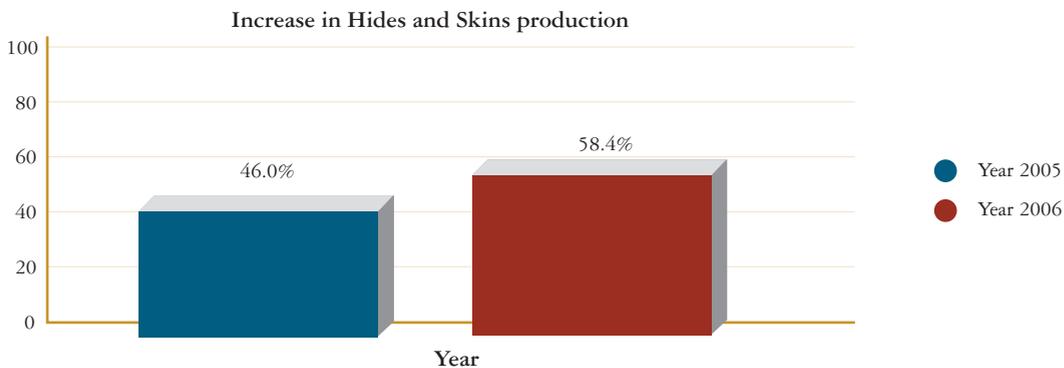
On the other hand, production of pyrethrum performed well, registering a 53.7% increase.



3.9.4. *Textile*



3.9.5. *Hides and Skins*



3.9.7. Water, Electricity and gas

However, energy became expensive due to high production costs. Indeed, 77.5% of the national production in 2006 was derived from power generators, which still could not satisfy national demand. The production of water decreased slightly by 0.8% in 2006.



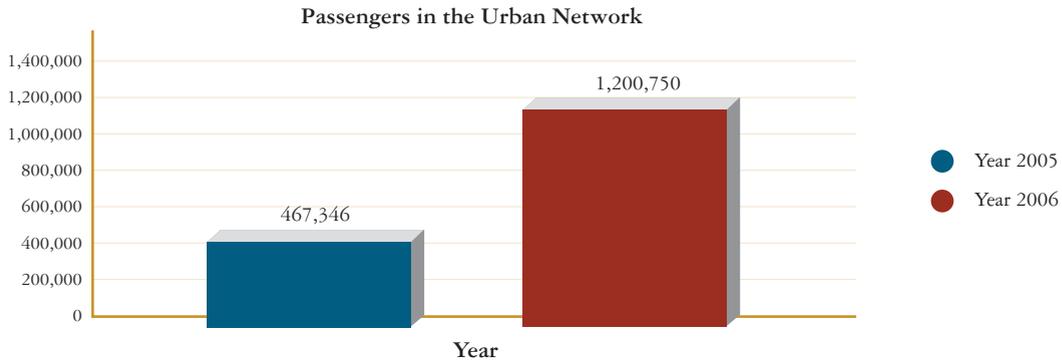
Also, the number of electricity customers increased to 77,181 in 2007 compared to 70,187 customers in 2005.⁹

⁹ Electrogaz, < <http://www.electrogaz.co.rw/publications.html> >

3.10. Services

3.10.1. Passenger Transport by Road

In 2006, the number of passengers boarding (ONATRACOM) buses, grew by 23% from the previous year. The number of buses more than doubled during the last quarter of 2006, increasing from 62 to 126 buses.



Passengers using the urban network also grew from 467,346 to 1,200,750 (table xyz). However, the number of buses remained below the needs of the constantly growing urban population, ONATRACOM, the major transport company, allocated only 22 buses to serve the Kigali urban passengers. Passengers in the inter city network grew by 16.6% between 2005 and 2006.

The transport network to rural areas which had 88 routes in 2005 was extended to more than 180 routes throughout the country at the end of 2006, registering an increase of over 64%.

The number of passengers using the ONATRACOM international network increased by 11% between 2005 to 2006, while revenue generated by ONATRACOM grew by 23% in the same period.

Vehicles in circulation on roads in Rwanda include of locally registered and foreign registered vehicles. They include buses, cars, SUVs, minibuses, pick-ups, trailers, semi-trailers, special engine vehicles and trucks. In

2003, 22,023 vehicles were registered. However, due to a change in policy restricting registration to exclusively left-hand drive cars, the subsequent years registered lower numbers of vehicles 7,647 in 2004, 9,413 in 2005, 7,677 in 2006 and 6,146 between January and September 2007.

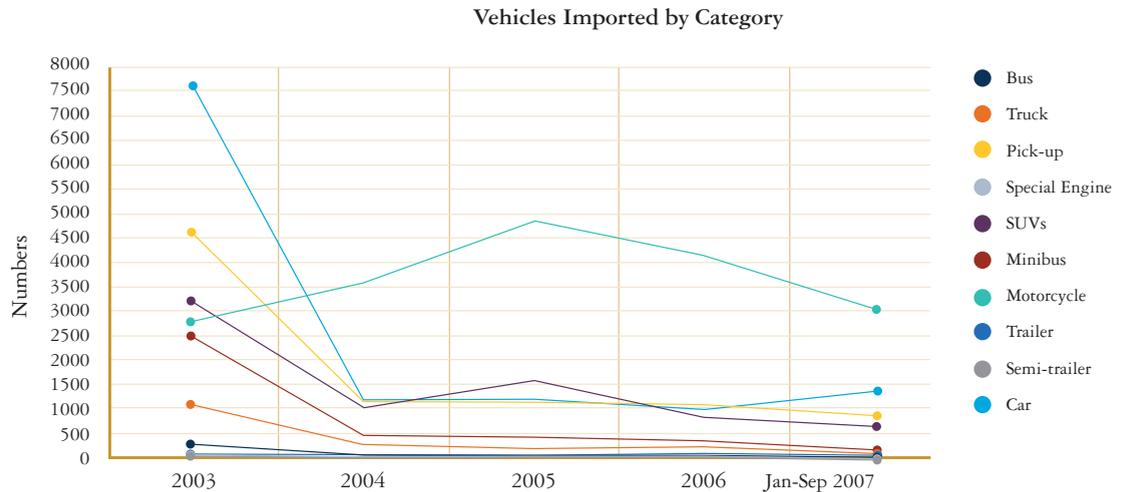
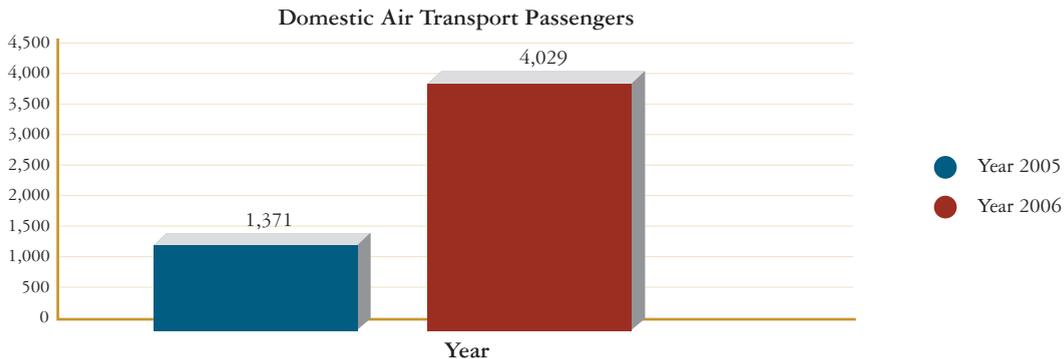


Figure 1

3.10.2 Air Transport



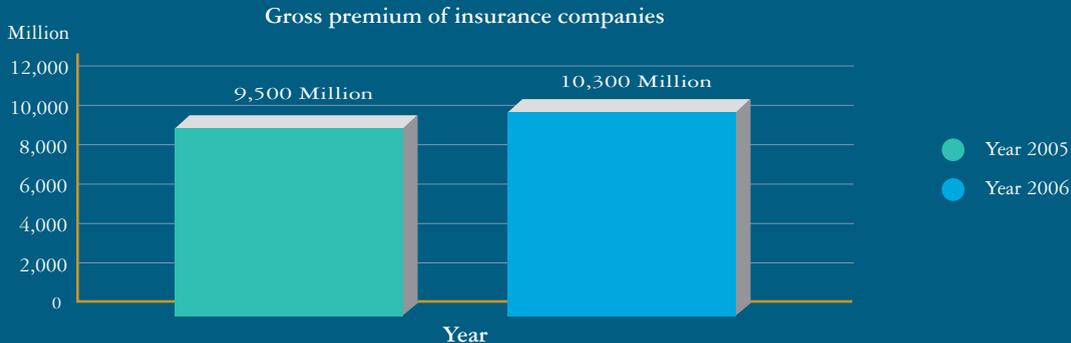
Domestic air transport passengers increased from 1,371 to 4,029 between 2005 and 2006, recording a 193.9% increase. This was partly attributed to the increase in the number of flights by the national carrier, Rwandair Express which flies thrice a weekly to and from Kamembe. However, in the same period, the Gisenyi aerodrome experienced a declining number of aircraft movements.

Total International passenger movements embarking, disembarking and in transit grew over the last five years. The figures recorded in 2005 showed an extraordinary increase, helped by international conferences taking place in the country at that time.



3.10.3. Insurance Industry

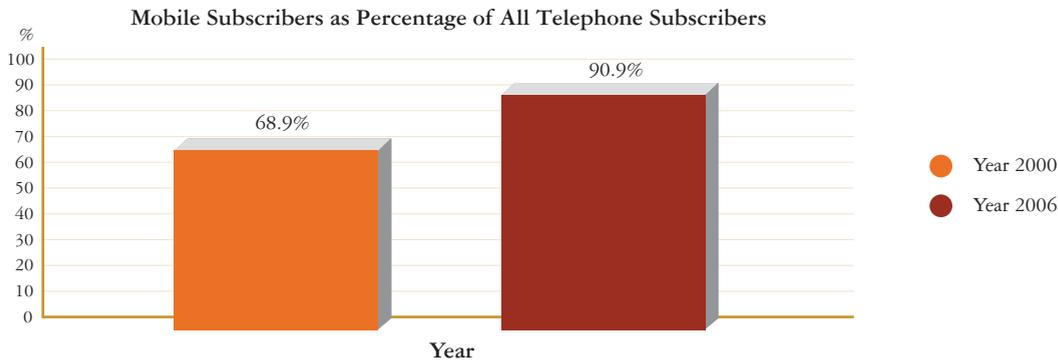
Main highlights of insurance company performance



In 2006, the gross premium written by the industry was Rwf 10.3 billion compared to Rwf 9.5 billion in 2005 representing, a sustained growth of 9% , following an increase of 18% in 2005.

3.10.4. Development in the ICT Sector

Telephone and Internet



In 2007, 23100 telephone land lines were in use.

Mobile phones are increasingly becoming the most used communication tool. From 2000 to 2006, the number of mobile subscribers increased 6 fold. The number of mobile telephone users was 635,100 in 2007.

Both RwandaCell and RwandaTel, the major telephone and internet providers, have introduced wireless internet technology using GPRS and Wi-Max, and CDMA respectively. In 2007 the number of internet users was 100,000. However, the cost of internet services remains high.

3.10.5. Education Sector

According to 2006 figures, there are 2,323 primary schools with a teacher/student ratio of 1:71. The total number of secondary schools is 631 with a teacher/student ratio of 1: 30, while higher institutions of learning are 18 in total.¹⁰

¹⁰ Ministry of Education, Statistics 2006 for Primary, Secondary and High Learning Institutions, < <http://www.mineduc.gov.rw/spip.php?article193>>

3.11. Employment

3.11.1. *Economic activity and occupational groups*

The majority of workers live in rural areas with 86.5% in agriculture, forestry or fishing as their main occupation. In urban areas, 13% are employed in the trade and services sectors, while the rest are employed in agriculture.

About half of Kigali's workforce is employed in the trade and services sectors, with 12% working in government and administration.

Construction and transport industries employ 6.4% of Kigali's workforce, while manufacturing employs 5.5%.

3.11.2. *Formal and informal sector*

The formal sector is a relatively small component of the labor market. Formal sector employment is estimated at 271,000 persons aged 15 years and over, representing 6% of all working adults. The rest are employed in the informal sector which comprises over 4.1 million adults.

3.12. Balance of Payments

In 2007, the external trade of the country was marked by a high increase of imports and exports. Despite good performances on exports registered in 2007, reaching USD 176.7 million, their value remained lower than imports (CIF) of USD 782 million. Compared to 2006, exports and imports registered a value increase of 20% and 32% respectively. Nevertheless, exports covered only 23 % of the expenses of imports of goods and services in 2007, compared to 30.5% in 2006.¹¹

The high level of imports of goods and services combined with their progressive increase resulted in a bigger deficit of current transactions. From a level of USD 207.29 million in 2006 the current account deficit increased to 226.27 million in 2007; an increase of 9.16%.



¹¹ National Bank of Rwanda, Annual Report 2007, www.bnr.rw

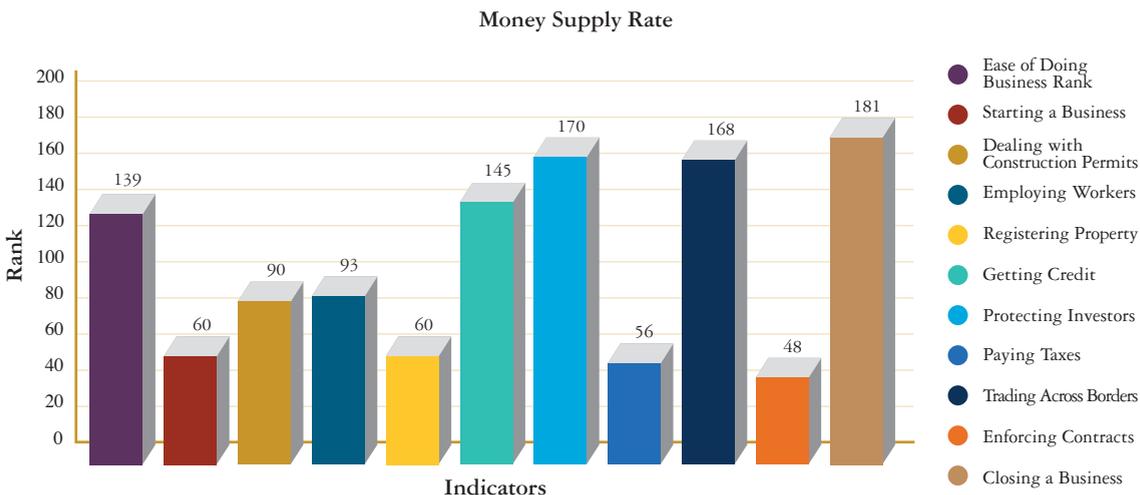
Chapter IV: Doing Business in Rwanda.

Rwanda's 2009 ranking in the World Bank's Doing Business Report is 139 out of 181 economies. This is 11 places higher compared to the 2008 report, suggesting the country's reforms are paying off.¹² The GOR is undertaking reforms to improve the economy ranking. It is against this background that the GOR has set up a Doing Business Unit in the Rwanda Development Board as well as a task force at institutional level to

study how to improve each indicator and present a list of reforms (Quick Wins) that can be immediately proposed for implementation.

GOR efforts are supported by the World Bank CEDP, the IFC Investment climate initiatives and the ICF.

4.1: Doing business indicators in Rwanda



¹² World Bank, "Doing Business in 2009" www.doingbusiness.org.

Chapter V: Investment

5.1. What makes Rwanda a favourable investment destination?¹³

5.1.1. An investor-friendly attitude

Rwanda's government is acutely aware that achieving the objectives of its vision 2020 requires a substantial contribution by foreign investors. There are no sectors that are barred to foreign investors and no restrictions on the percentage of equity they might hold. The Rwandan constitution also guarantees investors against expropriation, except in public interest and with fair and prior compensation.¹⁴

5.1.2 Safe and peaceful environment

Rwanda offers a safe and peaceful environment with very low levels of crime, making it one of the best destinations in Africa to live and invest in.

5.1.3 Low levels of corruption

The government has zero tolerance on corruption and has effectively minimized its levels by supporting and strengthening the capacity of institutions that fight corruption such as the ombudsman's office, police, prosecution and the law courts.

5.1.4 Strong development oriented government

Rwanda has a strong development oriented government, with a coherent vision and a serious commitment to sustained reform. This revealed by the country's dramatic economic transformation over the last 14 years, making it one of the top 10 African reformers, according to World Bank's "Doing Business Report 2009".

5.1.5 Exceptionally beautiful country

With its hilly terrain and lush green vegetation, Rwanda is an exceptionally beautiful country. Rwanda enjoys a mild climate with an average elevation of 1,500 m and an average annual precipitation in its capital, Kigali of 1,000 mm and average temperature ranging from 19 degrees Celsius (67 degrees Fahrenheit) in January to 21 degrees Celsius (70 degrees Fahrenheit) in July.

5.2. Investment opportunities

Investment opportunities are abundant including sectors such as manufacturing, Tourism, Horticulture, Sericulture, floriculture, Agro-processing, Information and Communication Technologies (ICT), energy, construction, property development and financial services. The need for plant and machinery in all these sectors that can be obtained under leasing arrangements makes leasing investment very lucrative.

¹³ An investment guide to Rwanda, UNCTAD, 2006 Page iii.

¹⁴ The Rwandan Constitution, 2003, Article 29.

5.2.1. *Manufacturing*

There are opportunities across the board in manufacturing, especially for SMEs' targeting the domestic market. The high cost of imports offers opportunities for import substitution that enjoy protection.¹⁵

5.2.2. *Agriculture*

Rwanda's economy is predominantly agricultural. Agriculture contributes to over 40% of the country's GDP and employs nearly 90% of the workforce. Major exports are coffee, tea, tin, cassiterite, wolfram and pyrethrum¹⁶. There are opportunities in the processing of coffee, tea and pyrethrum as well as in the virtually unexploited areas of horticulture and herbal products, where terrain and climatic conditions are favourable. Production in this sector can be boosted by availability of agricultural equipment through leasing. In addition, the need for processing equipment for value addition of agricultural products presents further leasing opportunities.

5.2.3. *Energy*

Rwanda has a huge energy deficit with only 5 percent of the population connected to the electricity network, mainly in the capital, Kigali and other towns. Electrogaz, the national electricity provider cannot satisfy even this limited demand. Back-up generators are still

needed by companies and this reduces manufacturing competitiveness.

The country has substantial hydroelectric resources, as well as natural gas deposits in Lake Kivu, which could make Rwanda self-sufficient in electricity or even, a net exporter¹⁷.

Investment opportunities in the energy sector include: the construction of a hydraulic power station on Nyabarongo river with a capacity of 27.5 MW, for which feasibility studies are available; the construction of a power station at Rusumo Falls with a capacity of 6.5 MW; the construction of a hydraulic power station at Rusizi with a potential capacity of 82 MW; and the exploitation of methane gas in Lake Kivu, producing a capacity of 700 MW.¹⁸ Demand for machinery to complete these projects presents multiple opportunities for leasing operations.



¹⁵ One example of such activity is the Madhvani Group's investment in a sugar factory.

¹⁶ An investment guide to Rwanda, UNCTAD, 2006 Page 30.

¹⁷ Ibid page 30.

5.2.4. *Tourism*

Rwanda has substantial tourism opportunities thanks to its natural beauty, hills and lakes, a high- altitude climate, and the famous mountain gorillas in the Virunga Volcano National Park. Principal opportunities for investment include: building hotels, lodges or guest houses in the key tourism destinations outside Kigali namely, (namely Huye, Rubavu, Musanza, Muhazi, Karongi, Nyanza, Nyungwe and Akagera); refurbishing and upgrading the existing hotels, lodges and restaurants in the key tourist destinations; creating zoological and botanical gardens in major urban centers such as Kigali, Butare, Ruhengeri and Gisenyi; creating boating and water sports facilities on Lake Kivu; and offering training in leisure and hospitality in key areas such as hotel management, tour guiding and customer care, for which there is a high demand.

5.2.5. *Finance*

The financial sector is relatively small, comprising seven commercial banks, a development bank and a housing bank. Four of the commercial banks have significant foreign participation, while the rest are locally owned.

The Rwanda Housing Bank offers opportunities for institutional and individual investors seeking to tap into the thriving home development business. Given Rwanda's economic development in the past decade, the real estate sector has experienced tremendous

growth due to high demand for both residential and commercial purposes.

5.2.6. *Information and Communication Technology (ICT)*

The government believes that ICT could help reform Rwanda from a poor subsistence economy to a middle-income knowledge-based economy.¹⁹ Opportunities available in the ICT sector include: software development; business process outsourcing; hardware assembly and manufacturing; call centers; mobile phone assembly; broadband fibre optic infrastructure development; state-of-the-art training facilities; and R&D.

5.3. Investment incentives

5.3.1. *Non-Fiscal Incentives*

Free initial work permit and visa

RDB's One Stop Centre offers facilitation and after care services to investors such as a free initial work permit and a visa to investors and foreign workers²⁰.

¹⁸ An investment guide to Rwanda, UNCTAD, 2006 Page 30.

¹⁹ An investment guide to Rwanda, UNCTAD, 2006 Page 34.

²⁰ Ibid, Art. 21

Acquisition of Permanent Residency

An investor who deposits an amount equivalent to five hundred thousand United States American Dollars (USD 500,000) in an account in a Rwandan commercial banks for a period of not less than six (6) months is entitled to permanent residency status.²¹

5.3.2. Fiscal

Import Duty Exemption²²

N°.	Item	Import Duty
1.	Machinery	0%
2.	Equipment	0%
3.	Raw materials	0%
4.	Building and finishing materials	5%
5.	Equipment for hotel industry ²³	0%
6.	Personal & household effects	0%
7.	Agricultural equipment & inputs ²⁴	0%
8.	ICT equipment ²⁵	0%
9.	Medicine ²⁶	0%

²¹ Law no. 26/2005 of 17/12/2005 relating to investment & Export Promotion & Facilitation, Article 21.

²² Annex II to the Law no. 26/2005 of 17/12/2005 relating to investment & Export Promotion & Facilitation.

²³ A list of exempted items is available at the One Stop Centre for the Rwanda Development Agency.

²⁴ A list of exempted items is available at the Customs Department of Rwanda Revenue Authority

²⁵ Ibid

²⁶ Ibid

Free Zone operations

Enterprises located in the free trade zone are exempt from import taxes on machinery, equipment and raw materials.

VAT Exemption

According to the Draft Law on Leasing, assets procured or imported by a leasing entity specifically for leasing shall be exempt from VAT at importation. However, lease rentals inclusive of all levies and interest charged by the leasing entity with respect to a leased asset shall be subject to VAT.²⁷

Income Tax exemptions²⁸

Investment Allowance

An investor in Kigali is entitled to an investment allowance of forty percent (40%) of the invested amount in new or used assets.

An investor outside Kigali is entitled to an investment allowance of fifty percent (50%) of the invested amount in new or used assets.

Training and Research Expenses

All training and research expenses incurred by an investor are considered deductible expenses from taxable profits.

Employment oriented tax discounts

Registered investors are accorded tax discounts based on the number of jobs created as follows:

- 1) Employment of between 100 – 200 Rwandans accords a tax discount of 2%;
- 2) Employment of between 201 - 400 Rwandans accords a tax discount of 5%;
- 3) Employment of between 401 - 900 Rwandans accords a tax discount of 6%;
- 4) Employment of over 900 Rwandans accords a tax discount of 7%.

²⁷ Draft Law on Leasing

²⁸ Annex II to the Law no. 26/2005 of 17/12/2005 relating to investment & Export Promotion & Facilitation.

Discount on export earnings

Exporters of goods and services that repatriate their foreign exchange earning to Rwanda are accorded tax discounts based on the amount repatriated in a given tax period as follows:

- 1) Repatriation of USD 3,000,000 to 5,000,000 accords a tax discount of 3%;
- 2) Repatriation of more than USD 5,000,000 accords a tax discount of 5%.

Tax Holiday for Micro Finance Institutions

Companies that engage in micro finance activities that are approved by competent authorities are exempt from corporate income tax for a period of five (5) years commencing from the time of their approval.

Incentives for companies operating from a FTZ or headquartered in Rwanda

In addition to being zero rated for corporate tax purposes, registered investment entities operating from a FTZ and foreign companies headquartered in Rwanda which fulfill all conditions laid down by the investment code, are exempt from withholding tax on dividends, royalties, interest, service fees including management and technical fees, and are further entitled to a tax free repatriation of profits.



Chapter VI: Policy and Regulatory Framework

In the last five years government has undertaken major policy and regulatory reforms to improve the country's business environment. As part of these reforms, a draft leasing law was developed to amend the existing law and ensure adequate protection of lessors and lessees. Currently, lease operations in Rwanda are governed by Law n°. 06/2005 of 03/06/2005.

6.1. Priority Areas

Rwanda's government of has identified the following as priority areas which all provide a range of opportunities for leasing.

- 1) Information communication and technology
- 2) Tourism
- 3) Energy
- 4) Agriculture and agro-based industries, fishing and forestry
- 5) Industry
- 6) Re-export trade
- 7) Mining
- 8) Research
- 9) Infrastructure, especially investments in water resource activities
- 10) Waste recycling²⁹.

6.2. ICT Sector

Rwanda has implemented the National Information Communication Technology Plan I and II (in progress) based on eight major areas that have been identified for strategic action namely:

- 1) Human resource development;
- 2) Infrastructure;
- 3) E-Government;
- 4) Community access;
- 5) E-education;
- 6) Foreign Direct Investment;
- 7) Regulatory and legal issues; and
- 8) Private sector facilitation.

A major focus of the ICT policy is to develop a critical mass of local producers and consumers of ICT products. The policy seeks to widen access to learning opportunities to a larger segment of society while striking a balance between global competitiveness and locally relevant education and training.

The government has also expanded its ICT portfolio in a bid to improve service delivery performed by its agencies and to improve local government decision-making processes through facilitation by information management and systems. To ensure effective implementation of these ICT plans, government established RITA.

²⁹ Law no. 26/2005 of 17/12/2005 relating to investment & Export Promotion & Facilitation, Article 29.

The government has established an ICT TechnoPark in Kigali to create the environment necessary to develop the ICT sector and spread awareness of its importance. Through the Techno Park, it hopes to attract leading foreign firm, provide access to world class IT products and services to Rwandan and COMESA consumers, incubate new ICT companies and create employment opportunities for the country's emerging skilled workforce.

6.3. Tourism

The government's strategy focuses on high-end eco-tourism and invites private investment to develop the sector. As part of the Rwanda National Innovation and Competitiveness Program, a group of 40 private sector, public sector and NGO leaders forming Rwanda's Tourism Working Group has set the goal of generating US\$100 million in tourism receipts in 2010 by focusing on creating high value and low environmental impact experiences for eco-travelers, explorers and business travelers.³⁰

6.4. Exports

To increase exports, the government has eliminated tax on exports. Furthermore, government fees for export licenses are three times lower than import licenses.³¹

6.5. Foreign Exchange

The National Bank of Rwanda is mandated to organize and supervise the foreign exchange market. The foreign exchange regulation policy in Rwanda represents a liberal policy where financial transactions between Rwanda and foreign countries relating to current and capital transactions are liberalized.³²

Residents and non-residents living in Rwanda can freely purchase foreign currency from banks and forex bureaus.

Any individual can purchase foreign currency from banks or forex bureaus to meet import payments of goods and services to Rwanda. The importer is required to import goods and services equivalent to the value of the purchased foreign currency and to provide the supporting documents.³³

To facilitate international trade, the National Bank of Rwanda has eliminated the requirement by importers and exporters of completing a Bank Declaration of Imports and exports.

Export receipts must be repatriated to Rwanda within three months from the date the goods are exported. The Bank must be informed in case of unforeseen delays in repatriation.

³⁰ An investment guide to Rwanda, UNCTAD, 2006 Page 35.

³¹ Annex to Ministerial Order no. 006/MINICOM/2001 of 06/12/2001 determining remunerative taxes to be collected for registration, supplementary registration and voluntary removal from the trade register.

³² Foreign Exchange Regulation, January, 2007, National Bank of Rwanda, Article 2.

³³ Ibid., Article 12.

Licensed banks are authorized to transfer foreign currency to cover the following invisible current transactions: dividends, directors and managers' fees, professional allowances, copyrights, royalties, costs of goods repairing, interests, payments to foreign companies using credit cards, reinsurance bonus, reimbursement of expenses due to foreign airlines companies, advertisement costs, hiring and leasing costs, sea-road-air transport and transit costs, newspapers and periodicals, membership to trade organizations and professional associations, expenses for correspondence, courses and books.³⁴

Foreign direct investment in Rwanda as well as the acquisition of Rwandan transferable assets by non-resident foreigners is fully liberalized. These transactions must be recorded at the Bank, which issues a certificate of registration after examining the required information.³⁵

In addition, non residents are authorized to invest in government securities.

6.6. Labour

Presently there is no set minimum wage. However, once the draft Labour Law is in force, the minimum wage will be set by a ministerial order.³⁶

6.7. Minimum Capital Requirement for Investors

For purposes of investment registration, investors from the Common Market for Eastern and Southern Africa (COMESA) are offered National treatment and their minimum capital investment is set at USD100,000 (One hundred thousand USD), while the minimum capital investment for other foreign investors is set at USD 250,000.³⁷

6.8. Additional Incentives for Investors

Upon request by the Board of Rwanda Investment and Export Promotion Agency, and depending on the nature of the project and its national importance, location and capital invested, cabinet may offer additional incentives and facilities for the project.³⁸

³⁴ Ibid., Article 44.

³⁵ Ibid., Article 45.

³⁶ Interview with Mr. Alexander Twahirwa, Labour Legislation Officer, Ministry of Labour, 26 September, 2008

³⁷ Law no. 26/2005 of 17/12/2005 relating to investment & Export Promotion & Facilitation, Article 1.

³⁸ Ibid., Article 19.

6.9. Environment

Rwanda's government takes environmental protection seriously and has taken major steps to balance economic development and environmental protection, as well as to prevent environmental degradation. Notable among the measure taken is the ban of manufacturing and use of polythene bags. In addition, projects that affect the environment are subject to an EIA prior to obtaining authorization for their implementation³⁹. Before commencing implementation of business projects, investors are required to cross-check whether their projects are required to undergo an EIA.

6.10. Land

A foreigner who invests in Rwanda is entitled to full rights of ownership of land reserved for residential, industrial, commercial, social, or cultural and scientific purposes⁴⁰.

There are three categories of land: (1) private state land; (2) private district land and (3) individual land.

Designated Land Use and Lease Periods⁴¹

N°.	DESIGNATED LAND USE	NUMBER OF YEARS
1.	Individual land	99 years
2.	Private state land, private Kigali City land and private District land designated for Tourism, Forestry, Agriculture and animal husbandry.	49 years
3.	Private District land designated for Industrial, economic and commercial, social, cultural and scientific.	30 years
4.	Private District land designated for residential and activities approved in wetlands	20 Years
5.	Fishing in waterways subject to license	15 years

³⁹ Law no. 04/2005 of 08/04/2005 determining the modalities of protection, conservation & promotion of environment in Rwanda, Art. 67.

⁴⁰ Organic Law no. 08/2005 of 14/07/2005 determining the use and management of land in Rwanda, Article 6.

⁴¹ Presidential Order n° 30/01 of 29/06/2007 determining the exact number of years of land lease, Art. 7.

6.11. Tax Requirements

Tax Identification Number

Within seven (7) days of incorporating a business, companies and individuals are required to register with the RRA to acquire a TIN.⁴²

Value Added Tax

Any company or individual that engages in business activities exceeding a turnover of RWF 20,000,000 in a fiscal year, or RWF 5,000,000 in the preceding calendar quarter is required to register for VAT with RRA within a period of seven (7) days following the end of the year or from the end of the quarter mentioned above⁴³.

On the other hand, persons who are not required to register for VAT by law may voluntarily register for it⁴⁴.

Tax Structure

Rwanda levies different types of domestic taxes namely: Corporate Income Tax; Personal Income Tax; Value Added Tax (VAT); Pay As You Earn (PAYE); Excise Duty; Withholding Taxes and Decentralized taxes.

Corporate Income Tax

Corporate tax is levied on profits earned by business entities. Business profit is taxed at a rate of thirty percent (30%)⁴⁵.

⁴² Law no. 25/2005 of 10/12/2005 on tax procedures, Art. 10.

⁴³ Ibid, Art. 10 para 1.

⁴⁴ Ibid, Art. 10 para 2.

⁴⁵ Law no. 16/2005 of 18/08/2005, Art. 41.

⁴⁶ Ibid, Art. 12.

Who is liable to Corporate Income Tax?

The following entities are subject to corporate income tax:

- 1) Companies established in accordance with Rwandan law or foreign law;
- 2) Cooperative societies;
- 3) Partnerships;
- 4) De facto companies or associations and any other entities that perform business activities, and are established to realize profits.

Filing and payment period

A company which earns taxable income must prepare an annual tax declaration for presentation to the RRA not later than 30 June of the following tax period.

Personal Income Tax

An individual who earns taxable income must prepare an annual tax declaration for presentation to the RRA not later than 30 June of the following tax period⁴⁶.

Who is liable to Personal Income Tax?

1) An individual who earns an income from domestic and foreign sources;

2) A non-resident person who earns an income which has a source in Rwanda.

Income subject to Personal income Tax includes the following⁴⁷:

2.1) Employment income;

2.2) Business profits;

2.3) Investment income.

Tax Rate for personal income tax

Taxable income is levied progressively according to the following rates⁴⁸:

Annual Taxable Income (RWF)	Tax Rate
From 0 to 360,000	0%
From 360,001 to 1,200,000	20%
From 1,200,001 and above	30%

Intermediate business owners pay a lump sum tax of 4% on annual turnover not exceeding RWF 20 million.

Value Added Tax

VAT is generally defined as tax on final consumption. All persons who consume taxable goods or services, whether imported or locally produced must pay VAT. *VAT is levied at 18%*⁴⁹.

Pay As You Earn

Employers are required to withhold at source, declare, and pay PAYE tax to the RRA within 15 days following the end of the month for which the tax was due, with respect to salaries of their employees.⁵⁰

When employing casual laborers for no more than 30 days during a particular tax year, the employer is required to withhold 15% of the taxable employment income based on the following amounts:⁵¹

Monthly Taxable Income (RWF)		Tax Rate
From	To	
0	30,000	0%
30,001	100,000	20%
100,001	and above	30%

⁴⁷ Law no. 16/2005 of 18/08/2005, Art 10.

⁴⁸ Ibid, Art. 11.

⁴⁹ Art. 34 as modified & completed by Art. 1 of Law no. 23/2002 of 10/07/2002 modifying & completing the law no. 06 of 20/01/2001 on the Code of Value Added Tax.

⁵⁰ Law no. 16/2005 of 18/08/2005, Art. 48

⁵¹ Law no. 16/2005 of 18/08/2005 on direct taxes on income, Art. 50.

Excise Duty

Taxable goods and services

Excise duty is levied on the following locally manufactured products; beers, lemonades, cigarettes, wines, spirits and mineral water, as well as telephone communication provided by telephone communication companies operating in Rwanda.

Products subject to excise duty and their rates

Product	Tax rate
Mineral Water	10%
Juice, Soda and Lemonade	39%
Beer	60%
Wine	60%
Brandies, liquors and whisky	70%
Cigarettes	120%
Telephone Communication	3%

Withholding Tax on payments

There are five types of withholding tax. A withholding tax of 15% percent is levied on the following payments made by resident individuals or entities including tax-exempt entities:

- 1) dividends;
- 2) Interest;
- 3) Royalties;
- 4) Service fees including management and technical service fees;
- 5) Performance payments made to artists, a musicians or an athlete;
- 6) Lottery and other gambling proceeds.

The withholding agent is required to file a tax declaration and transmit the tax withheld to RRA within fifteen (15) working days after the tax is withheld.⁵²

*Withholding Tax on Imports and Public Tenders*⁵³

A withholding tax of 5% of the CIF value of goods imported for commercial use is paid at customs before the goods are released from the bonded warehouse.

A withholding tax of 3% of the invoice is retained on payments by public institutions to suppliers of goods and services based on public tenders.

Decentralized taxes

In addition to the above taxes, there are decentralized taxes levied by districts in line with the decentralization policy geared towards promotion of economic development in districts. Within this context, the collection of property tax, trading licenses and rental income tax has been decentralized to districts⁵⁴.

⁵² Law no. 16/2005 of 18/08/2005 on direct taxes on income, Art. 51.

⁵³ Ibid, Art. 52

⁵⁴ Law no 17/2002 of 10th May 2002

Property tax

Property tax is levied on houses and registered land, whether in use or not, according to rates determined by the districts⁵⁵.

Trading license

A trading license to carry on a trade or profession is payable every year by natural persons that normally carry on an activity in Rwanda for a profit on a non-salaried basis and by companies or organizations that are liable to pay corporate tax. The license must be paid before any taxable activity is conducted. For on-going business, the duty is paid by the 1st quarter of every year. The duty levied varies depending on the type of activity and is fixed every year by the districts.⁵⁶

Rental income tax

Tax on rent is levied on the net profit from income generated from rented land, residential and commercial building⁵⁷.

Tax rates for rental income

Amount of income in RWF	Rate
From 0 to 60,000	0%
From 60,001 to 180,000	10%

From 180,001 to 300,000	15%
From 300,001 to 600,000	20%
From 600,001 to 1,000,000	25%
Above 1,000,000	30%

6.12. Double Taxation Treaties

Rwanda has entered into double taxation treaties with Belgium, Mauritius and the Republic of South Africa. However, the treaty with South Africa is not ratified.

6.13. Social Security

Employees are required to contribute 3% of their gross salary to the National Social Security Fund (referred to by its French acronym, CSR) while employers are required to contribute 5%.

6.14. Business Registration

Rwandan businesses are registered according to the following categories:

- 1) Sole proprietorship;
- 2) A Company; or
- 3) A foreign subsidiary/branch.

⁵⁵ Law no.17/2002, Art. 5.

⁵⁶ Law no.17/2002 of 10/05/02, Art. 44 – 53.

⁵⁷ Law no 17/2002 of 10/05/2002, Art. 54-65,

The Companies Act recognizes four types of companies that can be formed, although in practice, only the first two are mainly used.⁵⁸

N ^o .	TYPE OF LEGAL ENTITY	AUTHORISED SHARE CAPITAL	SHARE HOLDERS
1.	Limited Liability Company	500,000 Rwf equivalent to USD 893.	Not less than 2 shareholders and not more than 50.
2.	Public Limited Liability Company	100,000,000 Rwf equivalent to USD 178,571.	Not less than 7 shareholders.
3.	General partnership	-	Two or more shareholders
4.	Commercial partnership	-	Two or more shareholders

Rwanda Development Board/Rwanda Commercial Registration Service Agency

The RDB/RCRSA was created to strengthen business registration, securities registration, information services and intellectual property protection services. It is comprised of (i) a company's registry, (ii) a business registry for non-incorporated companies, (iii) a register for non-land securities and, (iv) a registry for patents, trademarks and industrial designs.⁵⁹

According to the draft law on leasing, RDB/RCRSA shall have a lease registry for registration of interests in leased assets.⁶⁰

⁵⁸ Company Law no. 06/1988 of 12/02, Art. 2

⁵⁹ Law No. 32/2007 of 30 July 2007 Establishing the Rwanda Commercial Registration Services Agency and Determining its Responsibilities, Organization and Function, Article 4, para 1.

⁶⁰ Draft Law on Leasing.





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