

4 Rwanda

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I. Introduction

I.1 Location, Geography and Climate

Rwanda is situated in the East-Central of Africa, it is a Land locked country located on the far western edge of the Rift Valley, and neighboring Uganda in the North, in the South Burundi, in the east there is Tanzania and the Democratic Republic of Congo in the west. It is ranked the 149th world's - largest country, the area size of Rwanda is 26,338 square kilometers (10,169 square miles) with its capital city Kigali situated closely in the Middle of the country, with a population of 1,004,000.

Rwanda is located in the great lakes region, it lies 75 miles south of the equator in the Tropic of Capricorn, 880 miles 'as the crow flies' west of the Indian Ocean and 1,250 miles east of the Atlantic Ocean - literally in the heart of Africa.

Rwanda is commonly known as the Land of a thousand hills because it's a country with numerous mountainous landscapes. Rwanda has numerous rivers, some forming the source of river Nile (the longest river in the world) streaming to Egypt. The country has five volcanoes, it also has 23 lakes. The main lakes are Lake Kivu, being the largest which is one of the twenty deepest lakes in the world with 480 meters (1,575 ft), Lake Muhazi, Lake Ihema, Lake Burera, Lake Ruhondo, and Lake Mugesera.

Spectacular volcanoes and dense tropical forests dominate the north of the country, while temperate hills and valleys, calm lakes and turbulent rivers in both savannah and dense tropical vegetation dominate the rest of the country. The high altitude forests of the Virunga volcanic mountains, in northern Rwanda are home to the world's largest number of endangered mountain gorillas. Numbering in hundreds, the gorillas live in protected areas, free from poachers. The gorillas can be viewed in their natural mountain habitats at a fairly close range and this yields foreign currency to the country through tourism.

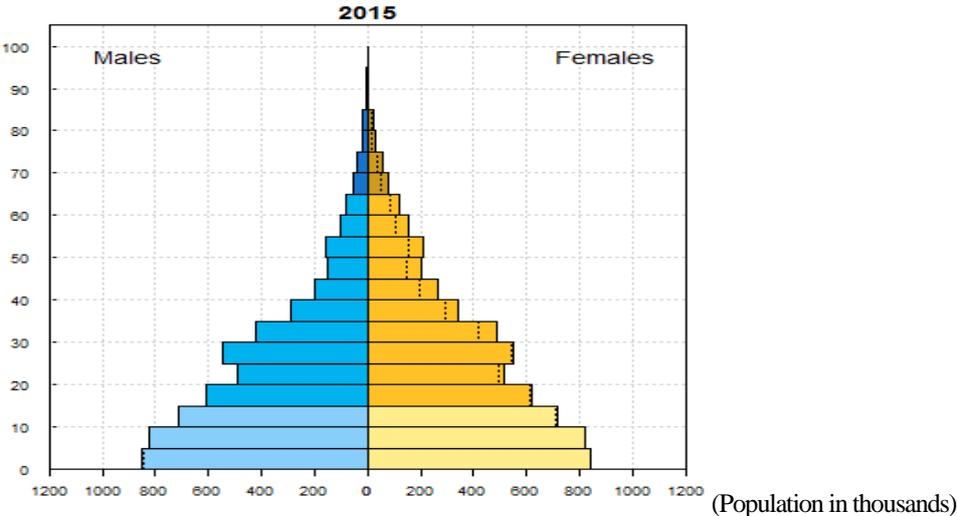
Rwanda has two rainy seasons and two dry seasons each year. Over the course of a year, the temperature typically varies from 15°C to 29°C and is rarely below 14°C or above 30°C.

I.2 Population

According to Country meter (2016), the population of Rwanda was estimated to be 11 751 364 people. This being an increase of 2.40% (275 759 people) compared to population of 11 475 605 in 2015, where the natural increase was positive, as the number of births exceeded the number of death by 291 480. The Rwandan population is estimated to have 5 036 752 people under 15 years (42.9% of total population), 6 430 346 between 15 years to 64 years (54.7%) while 284 383 are 65 years and above (2.4%).

Currently the population is estimated to be composed of 49.1% male while the female is 50.9%.

Figure.1: Rwanda population 2015



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015).

I.3 Rwandan Cuisine

The cuisine of Rwanda is based on local staple foods produced by subsistence agriculture such as banana plantains (known as *ibitoke*), sweet and Irish potatoes, beans, and cassava. Many Rwandans do not eat meat more than 4 times a month. For those who live near lakes and have access to fish, tilapia is popular.

Ubugari is a paste made from cassava or maize and water to form posho that is eaten throughout the African Great Lakes region. Lunch is usually a buffet known as *Imvange*, consisting of the above staples and sometimes meat. Brochettes (grilled-meat) is the most popular food when eating out in the evening, usually made from goat but sometimes beef or fish and served with grilled bananas or French fries.

Milk, particularly fermented yoghurt form called *ikivuguto*, is a common drink throughout the country.

Rwanda’s main food crops are; beans, banana, cassava, maize, rice, potatoes and sorghum. Fruits and vegetables are grown on small scale but they are also emerging as both cash and food crops together with rice, sorghum, potatoes and maize.

I.4 Language and culture

In Rwanda three languages are officially used i.e. Kinyarwanda, English and French also Swahili is used in some places neighboring Tanzania and the Democratic Republic of Congo. Kinyarwanda is the mother tongue used throughout the country, since it is spoken nearly entirely by everyone in the country. Kinyarwanda is a Bantu language closely related to Kirundi (spoken in Burundi), Mashi (spoken in the South Kivu region of Congo), and Kiha (spoken in northwestern Tanzania), rufumbira (spoken in Uganda).

The Rwandan culture is diverse, music and dance encompasses the traditional sphere in the Rwandese society. Also Rwandans are known to be hospitable people being the reason Rwanda is called the Land of million smiles.

I.5 Religious Demography

According to International Religious Freedom Report (2015), estimates the total population at 12.6 million (July 2015 estimate). The population is 44 percent Roman Catholic, 11.9 percent Seventh-day Adventist, 37.9 percent other Protestant denominations, 2 percent Muslim, and 0.7 percent Jehovah’s Witnesses. In addition, the report

mentions other small religious groups, together constituting less than 1 percent of the population, include animists, Bahaism, The Church of Jesus Christ of Latter-day Saints (Mormons), and a small Jewish community consisting entirely of foreigners. Approximately 2.5 percent of the population holds no religious beliefs.

I.6 Political Administrative structure

The Rwandan government is explicitly made up by three arms; Judiciary, Legislature and Executive. The Judiciary and the Legislative are separate and independent of each other, with the Executive arm being led by the president and the cabinet. The president is the head of state and has broad powers including creating policy in conjunction with the cabinet, exercising the prerogative mercy, commanding the armed forces, negotiating and ratifying treaties, signing presidential orders and declaring war or state of emergency. The president appoints the Prime minister and other members of the cabinet.

The Constitution was adopted following a national referendum in 2003, replacing constitution which had been in place in 1994. The Constitution mandate a multiparty system of government with politics based on democracy and election.

The Parliament makes legislation empowered by Constitution to oversee the activities of the president and cabinet. It consists of two chambers; the Lower chamber and the Upper chamber.

The Lower chamber is the chamber of deputies which has 80 members serving five year terms, twenty four of these seats are reserved for the women elected through a joint assembly of local government officials and another three seats are reserved for youth and disabled members. The remaining 53 are elected by universal suffrage under a proportional representation system. Following the 2013 election there are 51 female deputies.

According to the Inter-Parliamentary Union (2016); Rwanda is ranked number one in the world with female majority in the national parliament. The upper chamber (the senate) has 26 seats whereby members are selected by a variety of bodies for an eight year term, a mandatory minimum of 30 percent of the senators are women.

Decentralization has, since 2000, been a key policy of the Government of Rwanda (GoR) for promoting good governance, service delivery, and national development being the reason the Republic of Rwanda is made of five Province i.e. Northern, Southern, Eastern, Western province and the city of Kigali which are composed of 30 districts all together. Districts also are divided into sectors that are composed of cells which are made up of Villages as the smallest politico-administrative entity of the Country.

II. Overview of Macroeconomic Activity and Fiscal

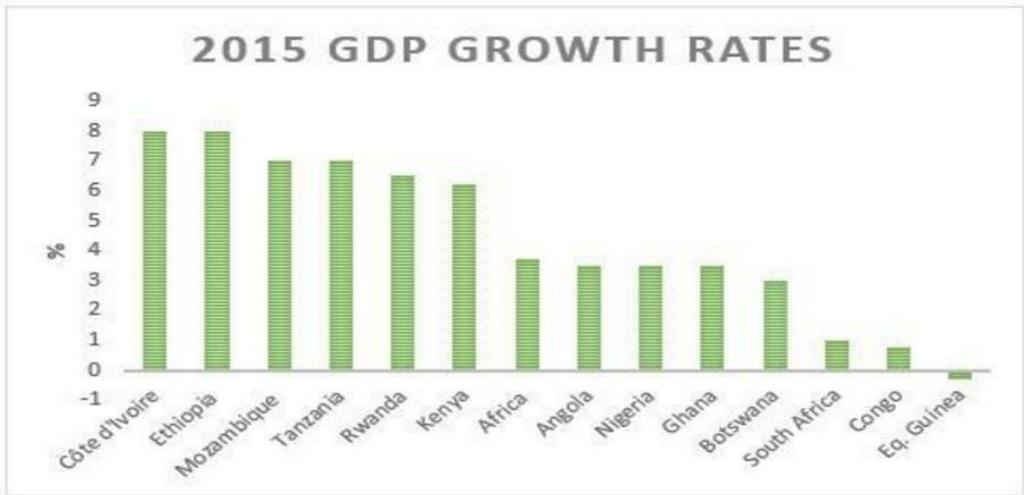
II. A. International Environment

More than two decades on, Rwanda’s economy left in tatters following the genocide, has come a long way. Rwandans are generally living healthier and wealthier lives. But while poverty has fallen rapidly, more than 30% of the population still live on less than \$1.25 a day.

World Economic Forum (2016), one of the fastest growing economies in Central Africa, Rwanda notched up GDP growth of around 8% and 7% per year between 2001 and 2015. However, the International Monetary Fund (IMF) expects the economy to slow down this year and pick up in 2018, forecasting around 6% growth in 2016 compared with 6.9% last year. According to the IMF Rwanda’s growth in 2015 was driven by construction, services, agriculture and manufacturing, but mining exports have slowed.

Rwanda in the region is ranked as one of the fastest growing economy. In 2015, the East African Community, Rwanda and Tanzania’s GDP emerged higher among this region. Below is a graph showing the GDP status of Rwanda in the continent.

Figure 2: GDP Growth Rates in the Region



Source: IMF

Table 1: Rwanda Real GDP growth (in %)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
GROSS DOMESTIC PRODUCT (GDP)	1,904	2,284	2,882	3,157	3,527	4,147	4,696	5,149	5,631	6,139
AGRICULTURE, FORESTRY & FISHING	724	772	946	1,064	1,109	1,347	1,585	1,713	1,827	2,031
Food crops	484	506	617	719	743	927	1,110	1,234	1,295	1,460
Export crops	56	57	62	67	65	78	104	86	112	117
Livestock & livestock products	66	75	99	105	114	130	144	159	177	202
Forestry	110	128	158	162	175	196	210	215	223	231
Fishing	6	7	10	11	13	15	16	20	21	22
INDUSTRY	229	286	361	391	486	586	696	754	809	855
Mining & quarrying	24	36	29	24	55	71	81	92	92	77
TOTAL MANUFACTURING	96	111	145	169	189	220	247	264	272	293
<i>Manufacturing of food</i>	<i>22</i>	<i>26</i>	<i>33</i>	<i>39</i>	<i>41</i>	<i>53</i>	<i>59</i>	<i>62</i>	<i>62</i>	<i>65</i>
<i>Manufacturing of beverages & tobacco</i>	<i>45</i>	<i>51</i>	<i>73</i>	<i>86</i>	<i>97</i>	<i>106</i>	<i>122</i>	<i>133</i>	<i>132</i>	<i>137</i>
<i>Manufacturing of textiles, clothing & leather goods</i>	<i>5</i>	<i>6</i>	<i>6</i>	<i>6</i>	<i>8</i>	<i>9</i>	<i>8</i>	<i>9</i>	<i>11</i>	<i>11</i>
<i>Manufacturing of wood & paper; printing</i>	<i>9</i>	<i>11</i>	<i>11</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>17</i>	<i>18</i>	<i>19</i>	<i>22</i>
<i>Manufacturing of chemicals, rubber & plastic products</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>8</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>11</i>	<i>11</i>
<i>Manufacturing of non-metallic mineral products</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>19</i>
<i>Manufacturing of metal products, machinery & equipment</i>	<i>3</i>	<i>4</i>	<i>4</i>	<i>6</i>	<i>6</i>	<i>11</i>	<i>11</i>	<i>10</i>	<i>13</i>	<i>14</i>
<i>Furniture & other manufacturing</i>	<i>3</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>13</i>
Electricity	8	9	7	9	10	13	16	18	20	28
Water & waste management	9	11	9	11	13	14	15	16	16	18
Construction	92	118	172	178	219	267	337	364	409	438
SERVICES	838	1,088	1,384	1,513	1,687	1,966	2,183	2,411	2,696	2,902
TRADE & TRANSPORT	249	337	458	480	543	651	734	804	866	918
Maintenance & repair of motor vehicles	8	11	15	15	18	20	22	23	25	28
Wholesale & retail trade	195	266	366	375	427	512	571	625	678	711
Transport	47	60	77	90	98	119	141	156	164	179
OTHER SERVICES	588	751	926	1,033	1,144	1,315	1,449	1,607	1,829	1,984
Hotels & restaurants	59	72	80	88	97	103	108	114	119	125
Information & communication	42	54	69	79	87	106	117	121	145	161
Financial services	56	66	72	73	101	120	150	164	180	188
Real estate activities	123	180	241	269	284	293	272	295	347	380
Professional, scientific and technical activities	42	61	82	92	95	105	113	122	130	140
Administrative and support service activities	44	64	86	96	99	109	120	130	139	155
Public administration and defense; compulsory social security	59	63	77	86	98	135	158	173	185	210
Education	49	59	71	90	109	136	176	213	255	253
Human health and social work activities	19	23	29	34	42	64	66	75	93	100
Cultural, domestic & other services	97	109	119	125	134	144	170	199	238	272
Taxes less subsidies on products	113	138	190	189	244	249	232	271	300	351

Source: National Institute of Statistics of Rwanda

II.A.1. Trade balance

Conferring to the trading economics (2016), Rwanda recorded a trade deficit of 127.35 United States of America Dollar (USD) Million in July of 2016. Balance of Trade in Rwanda averaged -223.08 USD Million from 1998 until 2016, reaching an all-time high of -116.61 USD Million in April of 2013 and recorded low of -1268.30 USD Million in December of 2012. Balance of Trade in Rwanda is reported by the National Bank of Rwanda (BNR).

National Bank of Rwanda (2015); In 2015 “total exports recorded poor performance, decreasing by 6.8% in value to stand at USD 558.8 million from USD 599.8 million in 2014, while the volume increased by 20.5%. Formal

imports decreased by 2.8% in value, reaching USD 2,320 million from USD 2,386.9 million, but increased by 12% in volume. Despite a bigger percentage fall in exports, the trade deficit improved by 1.4%, falling to USD 1,761.3 million from USD 1,787.2 million. Formal imports cover by formal exports slightly declined to 24.1% in 2015 compared to 25.1% in 2014. Including informal cross-border trade, exports covered 28.1% of imports in 2015 from 29.5% for last year’.

II.A.2. Exports

Conferring to the trading economics (2016), Exports in Rwanda increased to 56.55 USD Million in July from 53.50 USD Million in June of 2016. Exports in Rwanda averaged 84.06 USD Million from 1998 until 2016, reaching an all-time-high of 590.80 USD Million in December of 2012 and a record low of 36.90 USD Million in February of 2016.

National Bank of Rwanda (2015); Traditional exports composed of tea, coffee, pyrethrum, minerals as well as hides and skins accounted for 47.5% of the total export earnings in 2015 compared to 55.2% in 2014, followed by re-exports (+31.8%) and non- traditional exports (+20.7%). The change observed in the exports structure was mainly due to the poor performance recorded in the mining sector which decreased in both value and volume, following a 21.1% fall in international metals’ prices on the back of weakening demand, especially in China.

Table 2: Evolution of % share of exports: 2011–2015

	2011	2012	2013	2014	2015
TOTAL EXPORTS	100	100	100	100	100.0
Traditional exports	77.9	59.4	62.1	55.2	47.5
Coffee	19.2	12.6	9.6	10.0	11.1
Tea	16.5	13.6	9.7	8.6	13.0
Cassiterite	25.0	11.0	10.7	12.0	6.1
Coltan	10.0	11.8	23.5	17.5	11.8
Wolfram	4.1	5.4	5.2	4.4	3.1
Hides and Skins	2.0	3.0	2.8	2.4	1.9
Pyrethrum	1.2	2.0	0.7	0.3	0.4
Re-exports	9.6	22.4	23.6	27.6	31.8
Non-traditional exports	12.5	18.2	14.3	17.3	20.7

Source: BNR, Statistics Department

Table 3: Major exports developments (Value FOB in USD millions, Volume in thousands of tons)

		2011	2012	2013	2014	2015	% Change
Coffee	- Value	74.60	60.89	54.90	59.68	62.04	4.0
	- Volume	15.60	16.99	19.99	15.97	18.79	17.7
	- Price	4.78	3.58	2.75	3.74	3.30	-11.6
Tea	- Value	63.90	65.72	55.48	51.76	72.46	40.0
	- Volume	23.73	22.45	21.01	22.67	24.68	8.9
	- Price	2.69	2.93	2.64	2.28	2.94	28.6
Mining	- Value	151.43	136.07	225.70	203.32	117.81	-42.1
	- Volume	8.85	7.53	9.58	10.47	7.28	-30.5
	- Price	13.93	11.41	12.48	12.08	8.91	-26.3
Cassiterite	- Value	96.82	52.90	61.07	71.95	34.26	-52.4
	- Volume	6.95	4.64	4.90	5.95	3.85	-35.4
	- Price	13.93	11.41	12.48	12.08	8.91	-26.3
Coltan	- Value	38.58	56.91	134.57	104.78	66.20	-36.8
	- Volume	0.89	1.14	2.47	2.30	1.65	-28.3
	- Price	43.35	49.72	652.56	45.51	40.08	-11.9
Wolfram	- Value	16.03	26.26	30.05	26.59	17.34	-34.8
	- Volume	1.01	1.75	2.22	2.21	1.78	-19.4
	- Price	15.93	15.00	13.55	12.01	9.72	-19.1
Hides and Skin	- Value	7.62	14.37	16.02	14.22	10.38	-27.0
	- Volume	6.22	10.03	10.30	9.62	8.27	-14.1
	- Price	1.22	1.43	1.56	1.48	1.26	-15.1
Pyrethrum	- Value	4.51	9.71	3.98	1.83	2.48	35.5
	- Volume	0.02	0.04	0.02	0.01	0.01	31.0
	- Price	240.37	257.86	238.88	171.20	177.15	3.5
I. Traditional Exports	- Value	302.06	286.76	356.08	330.81	266.33	-19.5
	- Volume	54.42	57.04	60.89	58.74	59.55	1.4
II. Re-exports	- Value	36.50	107.99	135.04	165.35	177.87	7.6
	- Volume	19.38	57.05	97.59	105.73	159.16	50.5
III. Other Exports	- Value	48.35	88.00	81.91	103.60	115.73	11.7
	- Volume	93.06	174.59	149.89	159.63	172.42	8.0
Total General	- Value	386.91	482.75	573.03	599.76	558.75	-6.8
	- Volume	166.85	288.67	308.37	324.10	390.61	20.5

Source: BNR, Statistics Department

National Bank Of Rwanda (2016); In 2015, total formal exports performed poorly, decreasing by 6.8% in value to USD 558.8 million from USD 599.8 million, after an increase of 4.7% in the same period of 2014, mainly as a result of poor performance recorded by the mining sector (-42.1%). However, total formal exports increased in volume by 20.5%, attributed mainly to re-exports (+50.5%), coffee exports (+17.7%), tea exports (+8.9%) as well as non-traditional exports (+8.0%).

Coffee exports increased by 17.7% in volume and 4.0% in value, due to the fall in the unit price (-11.6%) from USD 3.74/Kg to USD 3.30/Kg. Tea exports increased in both value and volume by 40.0% and 8.9% respectively, due to the rise in the unit price (+28.6%) from USD 2.28/Kg to 2.94/Kg in 2015.

The mining sector recorded poor performance in 2015, declining in both value and volume by 42.1% and 30.5% respectively, due to the fall in international metal prices which declined by 21.1%. Exports of cassiterite declined by 52.4% in value and by 35.4% in volume as its unit price declined by 26.3%. The unit price for coltan also fell by 11.9% leading to a decline in its exports value and volume by 36.8% and 28.3%, respectively. The fall in the unit price of wolfram (-19.1%) and its volume (-19.4%) led to a decline in its exports value by 34.8%.

Exports value and volume for hides & skins also decreased by 27.0% and 14.1% respectively, due to high demand on the local market. Exports for pyrethrum increased by 35.5% in value and by 31.0% in volume.

Non-traditional exports, which are dominated by products of the milling industry, increased by 11.7% in value and by 8.0% in volume mainly due to good performance recorded by some agro-processing industries that penetrated regional markets notably in Kenya, Tanzania and Democratic Republic of Congo (DRC).

The major agro-processing industries that have penetrated regional markets include Bakhresa, Inyange, Bralirwa, Skol Brewery, Pembe and Minimex. Re-exports, which are dominated by petroleum products, vehicles and

machines as well as engines, increased by 50.5% in volume and by 7.6% in value due to the rise in re-exports of petroleum products (+56.5% in volume and +30.5% in value). Petroleum products represent 49.0% of the total volume of re-exports and 50.2% of total re-exports earnings. The rise in the volume of petroleum products was a result of high demand of fuel consumption by the increasing number of planes coming to Rwanda.

II.A.3. Imports

According to the trading economics (2016), Imports in Rwanda decreased to 183.90 USD Million in July from 206.13 USD Million in June of 2016. Imports in Rwanda averaged 306.95 USD Million from 1998 until 2016, reaching an all-time high of 1859 USD Million in December of 2012 and a record low of 159.02 USD Million in February of 2013.

National Bank of Rwanda (2016); Rwanda's formal imports are composed of consumer goods, capital goods, intermediary goods as well as energy and lubricants. In 2015, imports value was fairly distributed, consumer goods with a share of 29.9%, followed by intermediary goods (+29.4%), capital goods (+28.1%), energy - lubricants (+12.5%). In volume terms, intermediary goods are dominant with a share of 48.0%, followed by consumer goods (+33.6%), energy - lubricants (+15.5%) and then lastly, capital goods (+3.4%). In 2015, formal imports decreased by 2.8% in value, to USD 2,320 million from USD 2,386.9 million, after an increase of 6.2% in 2014.

However, they increased by 12.0% in volume, in line with the improved performance of economic activities. Consumer goods grew by 17.5%, capital goods (+15.8%), intermediary goods (+8.5%) and energy – lubricants (+11.1%). The decline in total imports Cost Insurance Freight (CIF) value is attributed to the decrease in import value of energy and lubricants (-23.7%) resulting from the decline in international oil prices by 47.3%, as well as from intermediary goods (-5.2%) despite the increase in imports value of consumer goods (+5.8%) and capital goods (+1.6%).

Table 4: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

	2012		2013		2014		2015		% change 2015/2014	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Consumer goods	576.96	626.0	574.38	633.6	592.36	656.1	695.91	694.1	17.5	5.8
Capital goods	68.09	589.2	59.00	596.3	60.62	642.2	70.21	652.5	15.8	1.6
Intermediary goods	810.27	622.4	878.85	632.8	914.69	720.0	992.18	682.4	8.5	-5.2
Energy and lubricants	253.24	361.4	269.72	384.6	278.94	368.5	309.80	290.8	11.1	-21.1
Petroleum products	242.36	342.3	261.23	367.9	270.41	352.5	276.96	269.1	2.4	-23.7
Total Imports	1708.54	2199.1	1781.94	2247.4	1846.62	2386.9	2068.1	2320.0	12.0	-2.8
Trade balance (exports less imports)		-		-		-		-		
		1716.4		1674.3		1787.1		1761.2		1.4
Cover rate of imports/exports, %		22.0		25.5		25.1		24.1		-3.9

Source: BNR, Statistics Department

Imports of consumer goods which are dominated by food products increased in both volume (+17.5%) and value (+5.8%). The rise in volume was mainly attributed to the increase in food products (+19.7%), domestic articles (+31.0%), non-utility transport (+24.8%) as well as articles of clothing (+27.5%). Food imports CIF value rose mainly due to the increased imports for vegetables, fruits and spices (+41.9%), meat and fish (+24.8%), milk and milk products, birds, eggs, natural honey (+14.6%) and sugar & sweets (+19.4%). Imports of capital goods dominated by machines, devices and tools as well as transport materials increased in both value (+1.6%) and volume (+15.8%), mainly due to imports of machines & devices (+5.6% in value and +10.4% in volume) and trucks (+92.0% in value and +123.8% in volume) owing to importation of the right hand drive trucks in the second half of 2015.

Imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, increased in volume by 8.5% but decreased in value by 5.2%, due mainly to textile industries (+14.2% in volume and -5.4% in value) and chemical industries (+6.4% in volume and -19.2% in value). Imports of textile industries are mainly cotton threads, stiff papers, rubber threads and fishnets imported mainly from Kenya, Uganda, China and South Africa.

Chemical industries imports are mainly Sulphur, tubes, pipes, vulcanized rubber threads and gypsum, mainly from Uganda, China, Tanzania, Indonesia, Kenya and Saudi Arabia. Imports of construction materials increased in both value and volume by 4.9% and 11.1% respectively due to imports of cement and other similar products which represent 75.0% of the volume of imports of construction materials. The latter increased in volume by 9.7%. On the other side, exports of CIMERWA significantly increased by 143.9% in volume and by 71.3% in value in 2015, after a rise of 351.4% in volume and 457.3% in value in 2014.

II.B. Domestic Environment

II.B.1. Economic growth rate

According to BNR (2016), The Rwandan economy performed well in the first three quarters of 2015 as real GDP grew by 6.1% in 2015 Quarter (Q) 3, 7.1% in 2015Q2 and 7.6% in 2015Q1 after 8.0% in 2014Q3, 6.1% in 2014Q2 and 7.5% in 2014Q1. On average, the economy grew by 6.9% in the first three quarters of 2015, slightly lower than 7.2% recorded in the corresponding period of the previous year. Growth in the first 3 quarters of 2015 was driven by the good performance of the service sector (+7.3%) followed by the industry sector (+7.0%) and the agriculture sector (+5.0%).

Leading indicators of economic activities indicate that the economy continued to perform well in 2015Q4, evolving towards attaining the projected growth of 7% in 2015. Total turnovers of industry and services sectors increased by 16.3% in 2015Q4 from 12.0% recorded in 2014Q4 while the composite index of economic activities (CIEA) increased by 15.2% in 2015Q4 from 13.6% in 2014Q4.

II.B.2. Inflation

In 2015/2016 Consumer Price Index (CPI) inflation picked up but was maintained below the 5% objective except in June 2016 due to a prudent monetary policy implemented by BNR and good coordination between the fiscal policy and the monetary policy. In the first quarter of the financial year 2015/2016 (2015Q3) headline inflation evolved at low levels around 3.0% on average but it jumped up in the subsequent quarters due to a hike in food prices as an effect of El Nino. Other upward pressures came from transport inflation which increased from 1.5% in June 2015 to 7.0% in June 2016 mostly reflecting movements in exchange rate that pushed up inflation of vehicles.

Headline inflation reached 5.5% in June 2016 but remained at 4.1% on average for the 2015/2016 financial year with an inflation for fresh products which increased from 0.1% in July 2015 to 12.0% in June 2016. Core inflation remained moderate justifying the prevailing monetary policy stance in 2015Q3, 2015Q4 and 2016Q1 but edged up in 2016Q2 due to the increase in prices of some products classified as core such as milk products, some imported foods as well as imported oils.

Domestic inflation went up from 2.6% in June 2015 to 6.1% in June 2016 as it mainly follows the trend in vegetables inflation which sprung up from 4.6% to 20.2% during the same period. Imported inflation stood at 2.7% in 2015Q3 on average. It declined in subsequent two quarters but shot up again in 2016Q2 as a result of exchange rate depreciation.

Table 5: Inflation developments for key items (annual % change)

	2015							2016					
	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Headline	2.8	2.3	3	3.7	2.9	4.8	4.5	4.5	4.4	4.6	4.7	4.6	5.5
Domestic	2.6	1.9	3.1	4.3	3.8	6.1	5.7	5.3	5.2	5.4	4.8	4.7	6.1
Food	2.9	0.7	3.2	5.6	5.7	10.5	9.7	8.6	8.1	7.8	5.6	6.1	9.4
Vegetables	4.6	-10.8	6	11.9	12.4	22.5	23.3	20.8	18.4	18.4	11.2	11.3	20.2
Housing	4.5	4.2	4.5	5.7	4	3.6	2.9	3.0	2.8	3.0	3.9	2.9	2.9
Transport	1.5	2.7	2	0.4	-1.4	2.0	2.4	4.1	5.1	4.8	7.6	7.4	7.0
Imported	3.3	3.4	3	1.8	0.1	1.0	1.3	1.9	2.3	2.1	4.2	4.1	3.9
Core	3	3	2.7	2.3	1.3	2.3	2.3	2.6	2.9	2.9	3.6	3.6	4.2
Energy	0.9	0.3	1.9	4.4	3.8	3.4	1.6	4.0	3.3	5.2	7.4	7.1	4.1

Source: BNR

II. B.3 Interest Rates Developments

In 2015, money market interest rates remained at low levels following the sufficient level of liquidity in the banking system as a result of the accommodative monetary policy. Compared to their levels in December 2014, repo and interbank rates slipped respectively to 2.36% and 3.73% in December 2015 from 2.77% and 4.74% while the T-bills rate increased to 6.76% from 4.88% during the same period.

Table 6: Interest Rate Developments (in Percent)

	2014		2015					2016					
	Dec	Mar	Jun	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Key Repo Rate	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Discount Rate	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Repo Rate	2.77	1.95	2.01	1.90	1.83	1.83	2.36	3.97	3.52	3.09	3.09	3.09	3.62
T-Bills Rate	4.88	4.33	4.05	4.64	4.92	5.41	6.76	7.27	7.04	6.35	7.15	6.85	7.29
Interbank Rate	4.74	3.79	4.03	3.67	3.45	3.45	3.73	4.93	4.80	5.18	5.59	5.91	5.93
Deposit Rate	7.76	8.12	8.80	8.32	7.87	8.14	7.59	7.56	8.22	7.32	8.07	8.65	7.94
Lending Rate	17.66	17.37	17.26	17.17	17.19	17.07	17.03	16.69	17.59	17.09	17.21	17.34	16.95

Source: BNR

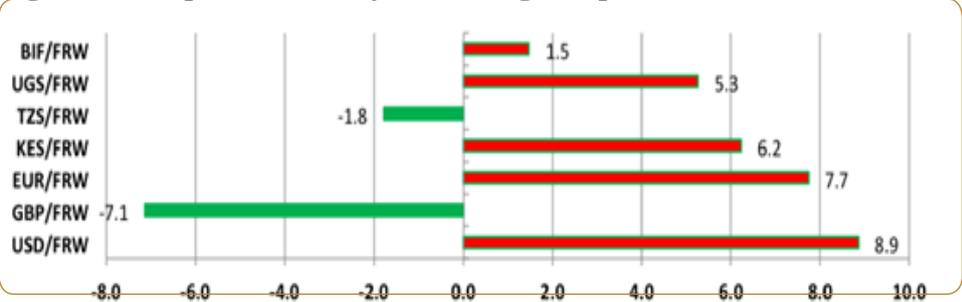
Commercial banks interest rates, both lending and deposit interest rates declined slightly respectively to 17.2% and 8.0% on average during the financial year under review, from 17.4% and 8.2% during the previous year. This was due to some competition in the banking sector as evidenced by the Hirfindahl-Hirschman Index (HHI) which stood at 0.12 in 2015/2016 from 0.22 in 2002, despite operating cost structure and other factors that have been contributing to the rigidity in lending rate. Investors have been benefiting from positive real interest rates overtime due to good macroeconomic environment with stable level of prices. The interbank market followed the Central Bank decision to keep moderate level of excess reserves.

II.B.4. Exchange Rate and Forex Market

National Bank of Rwanda (2016); The Rwandan Franc (FRW) has been under relative pressure in 2015/2016 resulting mainly from widening mismatch between imports and exports as well as a decline in commodity prices. The BNR kept the FRW exchange rate fundamentally market driven, while continuing to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the FRW exchange rate volatility.

In the financial year 2015/2016, the FRW depreciating by 8.9%, against a depreciation of 5.4% recorded in the previous year. In the same period, FRW depreciated by 7.7% versus EUR but appreciated by 7.1% against the GBP mainly due to Brexit effect.

Figure 3: FRW per unit currency (in % change compared to end June



Source: BNR

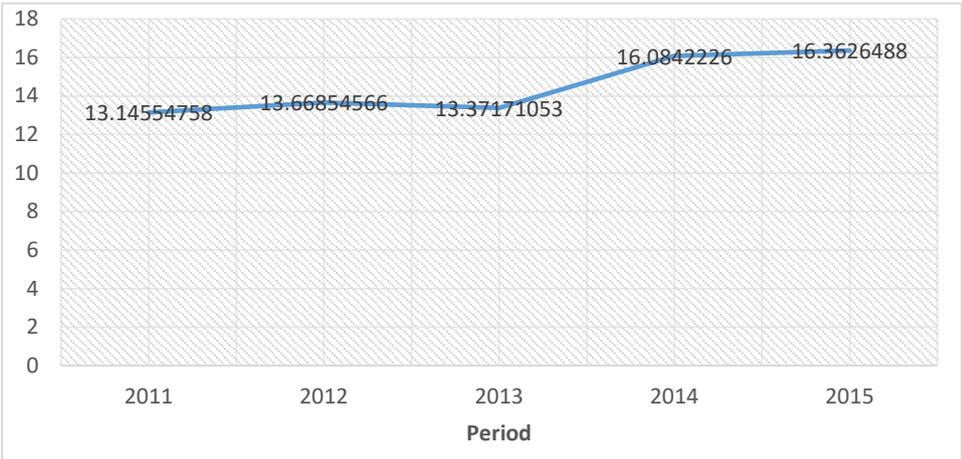
The FRW depreciated by 6.2%, 5.3% and 1.5% against the Kenyan shilling, Ugandan shilling and Burundian franc respectively, but appreciated by 1.8% versus the Tanzanian shilling.

II.B.5.Fiscal Position

Rwanda’s fiscal position currently has been improving following the Rwanda Revenue Authority (RRA)’s efforts through tax administration reforms and efficient collection mechanisms. Certainly, the government implemented new measures under fiscal consolidation strategy such as expenditure prioritization, improving revenue collection performance through increased tax recovery and expanding tax bases as well as the control of the budget outlays aimed reduce foreign dependence.

Consequently, Rwanda’s Revenue to GDP ratio is growing as indicators show a wide improvement from 13.3 percent in 2013 to 16.3 percent in 2015. Basically the growth is contributed to by the Tax reforms RRA initiated for instance Electronic Billing Machine (EBM) which has led to the increase of Value Added Tax (VAT)’s share to the total revenue collected by the Rwanda Revenue Authority.

Figure 4: Rwanda’s Revenue to GDP



Source: Central Bank of Rwanda

III. Tax Structure

In 1994 there was genocide against the Tutsi in Rwanda, which left the country in turmoil in all aspects. The aftermath of the genocide Rwandan government prioritized the restoration and establishment of the Rwandan economy, political and social setting of the country. Certainly, to ensure the restoration of the country's financial health, Rwanda Revenue Authority (RRA) was established in 1998 aimed to revitalize the tax capacity and tax administration equitable enough to raise revenues for the country's development ambitions.

III.1 History of Tax system in Rwanda

The history of taxes in Rwanda indicates that the first tax legislation was inherited from colonial regimes. This tax legislation included the Ordinance of August 1912, which established graduated tax and tax on real property. There was another Ordinance on 15th November 1925 adopting and putting into application the Order issued in Belgian Congo on 1st June 1925, establishing a profits tax.

The law was amended from time to time in order to comply with the changing economic environment. Such other legislative instruments include the 1973 law governing property tax, the tax on license to carry out trade and professional activities, the law N°. 29/91 of 28th June 1991 on sales tax /turnover tax (now repealed and replaced by the law N°. 06//2001 of 20/01/2001 on the Code of VAT).

A substantive Law governing Customs was enacted on 17th July 1968 accompanying the Ministerial Order of 27th July 1968, putting into application the Customs Law.

The administration and accountability of taxes and duties in Rwanda was initially under the Ministry of Finance and Economic Planning. This was later vested into an independent body - the Rwanda Revenue Authority - that was established by law no 15/97 of 8th November 1997.

In 2005, the parliament adopted law N°25/2005 of 04/12/2005 on tax procedures, amending Decree-Law of December 28, 1973 relating to Personal Tax, law n° 06/2001 of January 20, 2001 on the Code of Value Added Tax and law n° 9/97 of June 26, 1997 on the Code of Fiscal Procedures.

Correspondingly, Law N° 16/2005 of 18/08/2005 2005 on direct taxes on income was adopted replacing Law n° 8/97 of 26/6/1997 on Code of Direct Taxes on Different Profits and Professional Income, and Law n° 14/98 of December 18, 1998 establishing the Rwanda Investment Promotion Agency, especially in its Articles 30, 31 and 34.

The parliament also adopted Law N°. 21 of 18/04/2006 establishing the customs law, replacing the Law of July 17th 1968 concerning the Customs law as amended and completed to date.

However, on July 1, 2009, Rwanda adopted the East African Community (EAC) Customs Management Act 2004, An Act of the Community to make provisions for the management and administration of Customs and for related matter.

Enactment of new laws and amendments of old ones is a continuous process, the following are the compiled tax laws and regulations used in Rwanda

1. Law No 34/2015 of 30/06/2015 establishing the infrastructure develop levy on imported goods.
2. Law No. 37/2015 of 30/06/2015 modifying and complementing law No 26/2006 of 27/05/2006 determining and establishing consumption tax on some imported and locally manufactured products as modified and complemented to date
3. Law No. 02/2015 of 25/02/2015 modifying and complementing law No 37/2012 of 09/09/2012 establishing the Value Added Tax

4. Law No. 59/2011 of 31/12/2011 establishing the source of revenue and property of centralized entities and governing their management
5. Law no 55/2013 of 02/08/2013 on mineral law
6. Law No. 28/2012 of 27/07/2012 modifying and complementing law No 16/2005 of 18/05/2005 on direct taxes on income as modified and complemented to date
7. Law no 37/2012 of 0/11/2012 establishing the Value Added Tax
8. Law No. 38/2012 of 20/12/2012 modifying and complementing law No 25/2005 of 04/12/2005 on procedures as modified and complemented to date
9. Law No. 01/2012 of 03/02/2012 modifying and complementing law No 25/2005 of 04/12/2005 on procedures as modified and complemented to date
10. Law No 08/2009 of 27/04/2009 determining the organization functioning and responsibilities of Rwanda Revenue Authority(RRA)

III.2 RRA Mission, Vision and Core Values

RRA's vision is "To become a world class efficient and modern revenue agency, fully financing national needs"

RRA's mission is "Mobilize revenue for economic development through efficiency and equitable services that promote business growth"

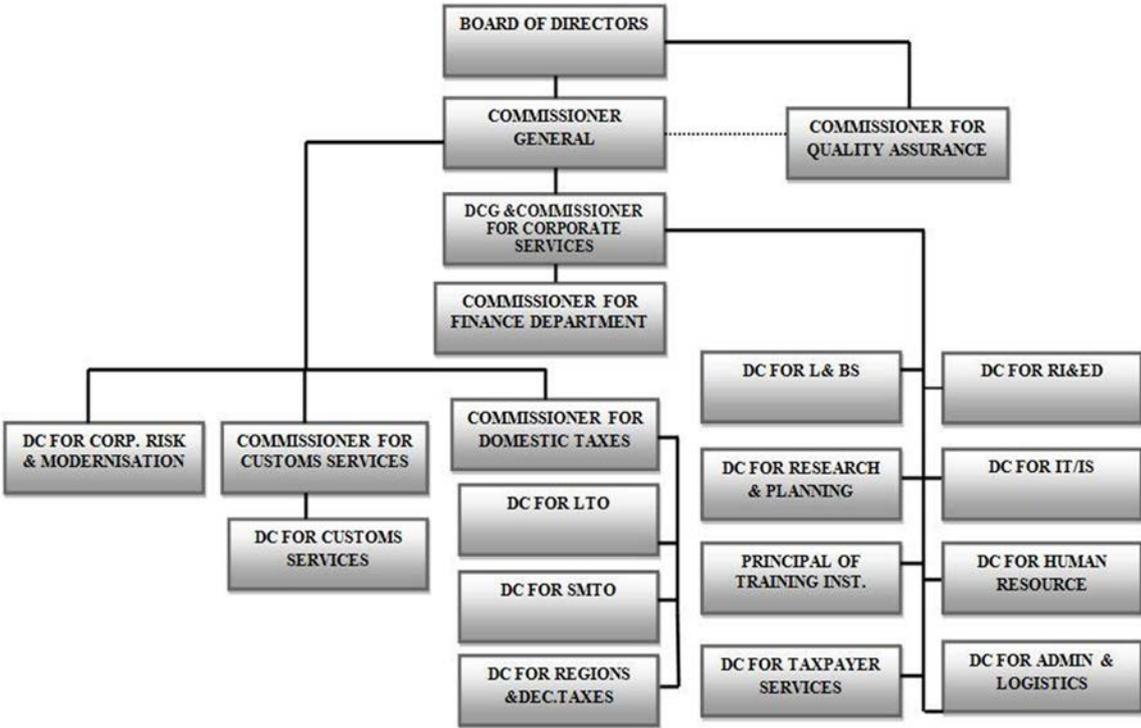
RRA core strategic values are:

1. Integrity;
2. Customer focus;
3. Transparency;
4. Professional service delivery
5. Teamwork

III.3 Board of directors

RRA board of directors is governed by the board chair person who is appointed by the Prime Minister on the recommendations of the cabinet, It is composed of eight permanent board members including the RRA Commissioner General, The Governor of the Central bank, permanent Secretary in the Ministry of Finance and economic planning, the permanent secretary in the ministry of trade and industry others are non-permanent members from private sector federation. The RRA board of directors is responsible for formulating and communicating day to day RRA policies.

Figure 5. RRA Organizational Structure



Source: RRA

III.4. Taxation

The responsibility and accountability of taxes in Rwanda is under Rwanda Revenue Authority (RRA), taxes are collected by operational department which include Domestic Tax department and Customs department.

Domestic tax department is responsible for collection of domestic taxes, non-fiscal revenues, social security funds and taxes for local government; Customs department is in charge of collection of customs duties.

III.5. Taxpayers Registration

According to the Rwandan tax law any corporation or individual who starts profit making activities that may be taxable must be registered in the tax administration within seven (7) days from the beginning of the business activity. After registration the tax payer will be issued the Tax Identification Number (TIN). This is used in filling tax declaration and in all other tax related documents. The taxpayer is obliged to use the same number in all his business activities. Any change, related to the taxpayer’s activities, must be notified in writing to the tax administration within seven days (7) from the day of the notice of the change. The procedures and instructions regarding taxpayer’s registration and cancellation of registration for persons who no longer carry out business activities is issued by the Commissioner General.

III.6 Types of taxes in Rwanda

III.6.1 Personal Income Tax (PIT)

Personal income tax is levied on income received by an individual. A resident taxpayer is liable to income tax per the tax period from all domestic sources and foreign sources in accordance with the law. A nonresident tax payer is only liable to income tax which has a source in Rwanda. Taxable income is composed of the following:

1. Employment income

2. Business income
3. Investment income

Taxable income is rounded to the nearest thousand (1,000) to the following table:

Table 7: PIT rates

Annual taxable income	Tax rate
0-360,000	0%
360,001-1,200,000	20%
1,200,000 and +	30%

Source: Rwanda Revenue Authority

Tax rates in the table does not apply for small and micro enterprises, the lump sum tax of 3% applies to small businesses with the annual turnover between Frw 12,000,000 and Frw 50,000,000, for micro enterprises with annual turnover below Frw12,000,000 the flat amount estimated as summarized in the table below:

Table 8: Flat tax amount

Annual turnover	Annual flat amount of tax due in Rwandan francs
From 2,000,001 to 4,000,000	60,000
From 4,000,001 to 7,000,000	120,000
From 7,000,001 to 10,000,000	210,000
From 10,000,001 to 12,000,000	300,000

Source: Rwanda Revenue Authority tax law

An individual who receives taxable income prepares an annual tax declaration in accordance with the procedures specified by the Commissioner General and he or she presents the declaration to the tax administration with payments not later than 31st March of the following tax period. Except newly established businesses others are subject to quarterly prepayments 25% of tax declared in the previous tax period.

Pay As You Earn (PAYE)

When an employer makes it available to an employee the employer must withhold, declare and pay the PAYE tax to Rwanda Revenue Authority within 15days following the end of the month for which the tax was due. In the case of engaging casual laborer for less than 30days during a particular tax year, the employer withholds 15% of the taxable employment income of the casual laborer.

Monthly employment income which includes the amount an employee is paid on an extra ordinary basis as well as the bonus and the benefit he or she receive in kind is subject to tax in accordance with the rate as shown below;

Table 9: PAYE tax rate

Monthly taxable income	Tax rate
0- 30,000	0%
30,001-100,000	20%
100,000 and +	30%

Source: Rwanda Revenue Authority tax law

The same rates are also used for quarterly PAYE calculation.

For taxpayers whose annual income is less than two hundred million (200,000,000) Rwandan francs, the Pay As You Earn is quarterly deposited with payments of the tax due within 15 days after the end of the quarter to which Pay As You Earn is referred. The Commissioner General determines the modalities of the declaration and payment of Pay As You earn on quarterly basis.

Withholding tax on other payments:

A withholding tax of fifteen (15%) percent is levied on the following payments made by resident individuals or resident entities including tax exempt entities

1. Dividends, except those between resident companies
2. Interests
3. Royalties
4. Service fees including management and technical service fees
5. Performance payment made to an artist, a musician or an athlete irrespective of whether paid
6. Lottery and other gambling proceeds.

The withholding agent is required to file a tax declaration and payments within 15 days following the withholding month.

Withholding Tax on Imports and Public Tenders

A withholding tax of five percent (5%) is levied on the value of goods at the importation in customs on CIF (cost insurance and freight) value before the goods are released from customs. The total withholding on public tender is 8% which includes 3% and 5% for Profit and VAT withholding taxes for the taxpayers who win the public tenders respectively, the taxpayer whose business is exempt from taxation and those with tax clearance certificate issued by the Commissioner General are exempt from withholding tax.

All withholding taxes mentioned above are treated as advances on tax and are deductible on payment of profit tax and on VAT payable.

III.6.3 Value Added Tax (VAT)

The value added tax is charged on taxable goods and services and on taxable imported goods and services. All taxpayers with an annual turnover which is above twenty million Rwandan francs (RWF 20,000,000) of the previous fiscal year or five million Rwandan francs (RWF 5,000,000) in the preceding calendar quarter is required to register for VAT with the tax administration within a period of seven days (7) from the end of the year or the end of the quarter mentioned above, registered taxpayer must display the certificate of registration at his/ her principal place of business. The amount of value of tax payable on goods and services or imported goods or services is calculated by applying zero percent (0%) on zero rated goods and eighteen percent (18%) for other goods and services on the transaction value.

The value added tax is payable:

1. On the taxable goods or services VAT is paid by the taxpayer who Supplied goods or services in accordance VAT Law;
2. On imported goods or services VAT is paid by the importer. All goods and services supplied by a person are taxable if they are supplied in Rwanda but excluding exempted goods and services, the list of exempted goods and zero rated goods is provided by VAT tax law, the sale of any asset used in the business is considered as a table action.

The declaration and payment of tax is made in fifteen days (15) after the end of the period of tax period a registered tax payer submits a value added tax declaration in accordance with forms and formalities determined by Commissioner General. For taxpayers whose annual turnover is equal or less than two hundred million Rwandan francs (200,000,000Frw) the value added tax declaration is quarterly and is submitted with payment of the tax due within fifteen (15) days after the end of the quarter. However, taxpayers whose annual turnover is equal to or less

than two hundred million Rwandan francs (200,000,000 Rwf) who wish may opt for a monthly value added tax declaration.

A registered taxpayer is required to submit a value added tax declaration, whether he/she made sales or not, whether he/she is claiming for refund or whether the difference is zero. Value added tax registered persons are obliged to use a certified electronic billing machine that generates invoices indicating the tax as agreed by the tax administration. An Order of the Minister determines the design of these machines as well as modalities and conditions to be met in the use of those machines.

III.6.4 Corporate Income Tax

Corporate Income Tax (CIT) is the tax levied on business profit received by entities, Resident entities are liable to corporate income tax on business profit per tax period whether from domestic or foreign operations; non- resident entities shall be liable to corporate tax on business profit per tax period derived through a permanent establishment in Rwanda. Taxable Business profit is rounded down to the nearest Frw 1,000 and taxable at a rate of thirty percent (30%).

However, a registered investment entity that operates in a Free Trade Zone and foreign companies that have their headquarters in Rwanda that fulfils the requirements stipulated in the Rwandan law on Investment Promotion is entitled to:

1. Pay corporate income tax at the rate of zero per cent (0%)
2. Exemption from withholding tax
3. Tax free repatriation of profits.

A registered investor shall be entitled to a profit tax discount of:

1. 1.2% if the investor employs between one hundred (100) and two hundred (200) Rwandans;
2. 5% if the investor employs between two hundred and one (201) and four hundred (400) Rwandans;
3. 6% if the investor employs between four hundred and one (401) and nine hundred (900) Rwandans;

The tax discount mentioned in the paragraph above is granted to the investor only if he or she maintains the Employees for a period of at least six (6) months during a tax period, and are not in the category of employees who pay at the rate of zero percent (0%) as stipulated in Article 50 of this law.

Investment allowance

An investment allowance of forty percent (40%) of invested amount in new or used asset may be depreciated excluding motor vehicles that carry less than eight (8) persons, those exclusively used in a tourist business is deductible for a registered investor in the first tax period of purchases or of use of an asset if:

1. The amount of business assets invested is equal to thirty million (30,000,000) Rwandan francs; and
2. the business asset are held at the establishment of at least three (3) tax period after the tax period in which the investment allowance was taken into consideration.

The investment allowance becomes fifty percent (50%) if the registered business is located outside Kigali or falls within the priority sector determined by the investment Code of Rwanda. The investment allowance reduces the acquisition or construction cost, as well as the basic depreciation value.

Training and Research

All training and research expenses incurred and declared and earlier agreed and which promote activities during a tax period are considered as deductible from taxable profits, this excludes the purchase of land, house or buildings and other immovable properties including refining, rehabilitation and reconstruction as well as exploration expenses and other assets.

Loss carried forward

If the determination of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five (5) tax period, earlier losses being deducted before later losses. However, foreign sourced losses can neither reduce domestic sourced business profit nor can they reduce future domestic sourced business profits. And the carry back of loss is not permitted by the Rwandan domestic tax law.

Exportation

If a tax payer exports commodities or services that generate to the country between 3,000,000 US dollars and 5,000,000 US dollars in a tax period, he or she is entitled to a tax discount of 3%. If he or she exports commodities or services that bring to the country between 5,000,000 US dollars in a tax period he or she is entitled to a tax discount of 5%.

Micro Finance activities

Companies that carryout microfinance activities approved by competent authorities pay corporate income tax at the rate of zero percent 0% for a period of five years from the time of approval of the activity. However, this period may be renewed by the order of the minister.

III.6.5 Consumption Tax

Under the law No. 26/2006 of 27/05/2006 determining the establishment of consumption tax as modified and complemented as to date on some locally manufactured as well as imported products, the table below shows the rate of consumption tax applicable.

Table 10: Excise tax rates

Particulars	Tax rate
Juice, Soda and Lemonade	39%
Mineral water	10%
Beer	60%
Wine	70%
Brandies, Liquors and Whisky	70%
Cigarettes	120%
Fuel (excluding jet fuel), Gas oil, Fuel and Lubricants	37%
Vehicle with an engine capacity of above 2500cc	15%
Powdered Milk	10%
Telephone communication	3%

Source: Rwanda Revenue Authority

The taxable value on imported products shall be calculated according to Cost Insurance and Freight upon arrival in the country, for local manufactured products, it shall be calculated according to selling price exclusive of taxes.

The tax shall be payable when:

1. The taxable products are cleared out of factory for consumer use, in case of locally manufactured Products.
2. The taxable product is due for clearing at the customs under the customs system in case of imports.

The taxpayer is required to keep a register of raw materials, and activity register and the register of inventory of manufactured products.

III.6.6 Customs Duties

Rwanda as a member of East African community (EAC) customs union with other four member states which are Burundi, Uganda, Kenya and Tanzania. Customs tariffs, rule of origin, and other trade regulations have been

harmonized through the EAC. All EAC partner states use the same customs tariff on both imports and exports. For export from Rwanda to EAC member states are exempted from tax except withholding tax and VAT if they are not non-agricultural product. The countries which are not from EAC pay customs duties the tariff structure is shown below;

Table 11: East Africa Tariff Structure

Product	Tariff
Raw materials	0%
Capital goods	0%
Intermediate goods	10%
Finished goods	25%

Source: Rwanda Revenue Authority

III.7 Assessment by tax administration

When the Tax Administration discovers a miscalculation, an omission, a misrepresentation, an understatement of income or any other error in the tax declaration or an assessment, it has the right to issue an adjusted assessment.

In case the tax declaration form is rectified, the Tax Administration sends a rectification note to the taxpayer. The note contains a draft of the adjusted assessment and all the elements leading to the adjusted assessment. The rectification note contains fines determined by the Tax Administration in case of non-compliance with the tax laws.

III.7.1 Fines

A taxpayer or any other person is subject to a fine if he or she fails to;

1. File a tax declaration on time
2. File a withholding declaration on time
3. Withhold
4. Provide proof required by tax administration;
5. Cooperate with tax audit;
6. Register for tax purposes
7. Communicate on time the capacity or appointment he or she has been given;
8. Comply with the tax law and Pay on time the profit tax advance

III.7.2 Fines fixed amount

Fines related to the violation of provision of paragraph above (III.7.1)

1. one hundred thousand (100,000) Rwandan francs if the taxpayer’s annual turnover is equal to or less than twenty million (20,000,000) Rwandan francs or
2. Three hundred thousand (300,000) Rwandan francs if the taxpayer’s annual turnover exceeds twenty Million (20,000,000) Rwandan francs
3. Five hundred thousand (500,000) Rwandan francs if the taxpayer was informed by tax administration that he or she in a large taxpayer’s category

III.7.3 Interest rate

In the events taxpayer fails to pay taxes within a set period by the law; he or she is required to pay interest on the amount of tax.

The interest rate is fixed at the interbank offered rate of the National Bank of Rwanda, increased by two (2) percent and which is set every year on the first of January. Interest is calculated on the monthly basis, non-compounding, counting from the first day after the tax should have been paid until the day of payment. Interest rate

is payable even when the taxpayer has started an administrative appeal against the reassessment. Interest accrued cannot exceed 100 percent of the amount of tax.

III.7.4 Late payment fine

If the amount of tax shown on a tax declaration or the amount which is the result of the adjusted assessment by the tax administration is not paid in time, the taxpayer is subject to a fine of ten (10) percent of the tax payable.

III.7.5 Fines imposed to persons who do not comply with provisions of Value Added Tax:

1. In the event of operation without VAT registration where VAT registration is required, fifty percent (50%) of the amount of VAT payable for the entire period of operation without VAT registration;
2. In the event of the incorrect issuance of a VAT invoice resulting in a decrease in the amount of VAT Payable or in an increase of the VAT input credit or in the event of the failure to issue a VAT invoice, one hundred percent (100%) of the amount of VAT for the invoice or on the transaction;
3. For issuing of a VAT invoice by a person who is not registered for VAT is assessed a penalty of one hundred fifty percent (150%) of the VAT which is indicated in that VAT invoice and is due to pay the VAT as indicated on that VAT invoice.

III.8 Current Status

Since 2008, after RRA was established, tax revenue collection has been increasing year after year, the table below show the tax collection from the fiscal year 2010 to fiscal year 2014

Table 12: Total tax collections 2010-2014 (in billion) Rwandan francs

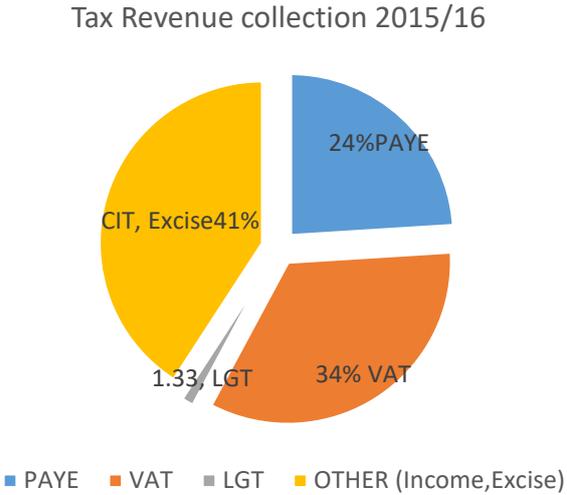
Fiscal year	Total tax revenue(bn)	Total National budget	%contribution tax revenue to National budget
July 09-June 2010	385.2	899.0	47.9
July 10-June 2011	473.9	984.0	48.2
July 11-June 2012	574.5	1194.2	48.1
July 12-June 2013	665.8	1550.3	42.9
July 13-June 2014	782.2	1677.7	46.6
July 14-June 2015	986.6	1949.4	54.9

Source: Rwanda Revenue Authority

The largest contributor to tax Revenue is VAT which composes almost 34% of total tax revenue. Rwanda Revenue Authority is also responsible for;

1. Collection of non-tax revenues which include fees for services rendered by other government institutions
2. Health and pension contribution: In 2010, the government decided to transfer the collection activities of Rwanda social security contributions and medical insurance contributions to Rwanda Revenue Authority.
3. Local government revenue collections: Certain taxes which were formerly collected by local- government have been transferred to Rwanda Revenue Authority, these include;
 - The property tax
 - The rental income tax and
 - The trading license

Figure 6: Tax Revenue collection for 2015-2016



Source: Rwanda Revenue Authority

IV. Country Specific Issues

In the aftermath of the 1994 Genocide against the Tutsi, the government of Rwanda focused on rebuilding the nation establishing political and economic policies to promote sustainable, equitable growth and poverty eradication. Consequently the Rwandan economy has been growing fast at an average of 6.8% GDP and the Gini coefficient reduced from 0.49 in 2011 to 0.45 in 2014.

However, there are many challenges that have to be addressed for instance, low education level, limited infrastructures, agricultural based economy and low domestic resource mobilization.

IV.1 Low Education Level

Rwandan literacy rate (people above 15 years of age who can read and write) is around 70% whereby 64% are female, this rate is far better than most sub-Saharan countries.

Even though Rwanda has attained universal primary school enrollment in education, the quality of education is poor. Consequently the human resource is incapacitated to initiate and compete at the world labor market. The number of university graduates has tremendously been increasing but with low knowledge and skill in specific fields of study to occupy the positions as best qualified personnel for some jobs available leading to the ingress of some expatriates.

IV.2 Limited Infrastructures

Currently the Rwandan government has emerged with construction of various infrastructures for instance, Transportation, health facilities, water and electricity supply however much the government's efforts the infrastructures are still limited. Therefore, foreign investors are unenthusiastic to invest in Rwanda since they expect high business cost, high risk affecting business profits.

IV.3 Low Domestic Resource Mobilization

Rwandan Domestic Resource Mobilization (D.R.M.) is relatively low meaning that the generation of savings from domestic resources has not kept pace with rising public expenditure and their allocation to economically and socially productive investments. It therefore positions the country to uncertainty of long-term financing for sustainable development.

The 2016-2017 national budget is comprised of 37.6 percent as external funding; foreign aid being 18.7 percent while loans 18.9 percent. Subsequently, being the basis to long term economic external aid dependency and increased change of policies for budgetary financing that reflect long term development priorities of Rwanda, hence, aggravating long term micro economic development.

IV.4 Agricultural Based Economy

This sector has remarkably grown but it still remains low since it over depends on natural seasons of rain. There are few modern irrigation and farming systems in place which are at a very minimal level. Basically the Agriculture techniques in Rwanda are rain fed production system mainly subsistence agriculture.

In addition, agriculture production units are few, limiting the farmers output to a more home food production than market supply. Rwanda exports' volume is mainly composed of commodity goods and agricultural products which are unreliable due to dependence on rain based agricultural output.

Another challenge that affects the agricultural sector is the increase of population. Due to over population farmers do not have enough land to practice modern farming to increase productivity to sustain the market demand. Also leading to environmental degradation that partially affects the change of season schedule as recently realized.

IV.5 High Informal Sector

Rwanda's economy is hindered by the emerging informal sector which is mainly categorized of un-registered businesses, smuggling, understatement of sales, undeclared business transactions and other illegitimate transactions or shadow economic activities that lead to loss of government revenue.

IV.6 Low Industrial sector development

Presently the government of Rwanda has focused on direct foreign investment nevertheless there are hindrances to rapid industrialization as expected. The Industrial sector is currently small, contributing on average 15 percent of GDP, Real GDP being at Frw 755 billion while the Nominal GDP is around Frw 855 billion in 2015-2016 fiscal year. The industrial sector currently employs just 4 per cent of the workforce or 170,000 people. This compares to agriculture which employs over 80 per cent of the population. This has hindered the growth of exportation causing a wide trade balance deficit.

V. Conclusion:

Current Status and the way forward

The fact that Rwanda has been able to recuperate from the 1994 genocide against Tutsis turmoil and ranked as a fast growing economy in the region at an average rate of 6.5 percent GDP. The remarkable growth is accredited to Rwanda's government strategies such as the EDPRS (Economic Development Poverty Reduction Strategy) and the Vision 2020 that have set clear goals to attain poverty eradication, increase the Rwandans' standard of living and increased strong focus on home developed and initiated policies.

In addition, Rwanda's Vision 2020 significantly states the revolution from subsistence Agriculture based economy to knowledge based together with high ambition level of implementing microeconomic policies of saving and private investment, consequently reducing dependence on external aid.

The determination goes on to turn Rwanda into a hub for Eastern and Central African service based economy relying on digital high technology and well trained population. Human capital therefore, with diversified modern skills that can cope with the modern technologies and flexible labor market is at the priority state of the Rwandan government. This will improve access to service and human development indicators. It is on this note, that 97 percent GSB (Granular Sub Base) coverage of the country has optic fiber cable to enhance transfer of digital signals advancement in Rwanda.

The incredible economic growth registered in recent years has led to rise of GNI (Gross National Income) per capita from US\$ 240 in 2000 to US\$ 718 in 2015. While poverty rate 39.1% dropped by 5.8% from 44.9% in 2010/11, extreme poverty rate is at 16.3% it dropped by 7.5 from 24.1% in 2010/11.

Despite the remarkable economic, political and social growth of Rwanda, there many challenges hindering development of the country for instance, low infrastructure advancement, low domestic resource mobilization and local industrial development among others that have to be dealt with. There is anticipation through tax reforms and policies by the Tax Administration and other related policy setting agencies improved revenue realization will emerge through equitable and sustainable mechanisms.

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