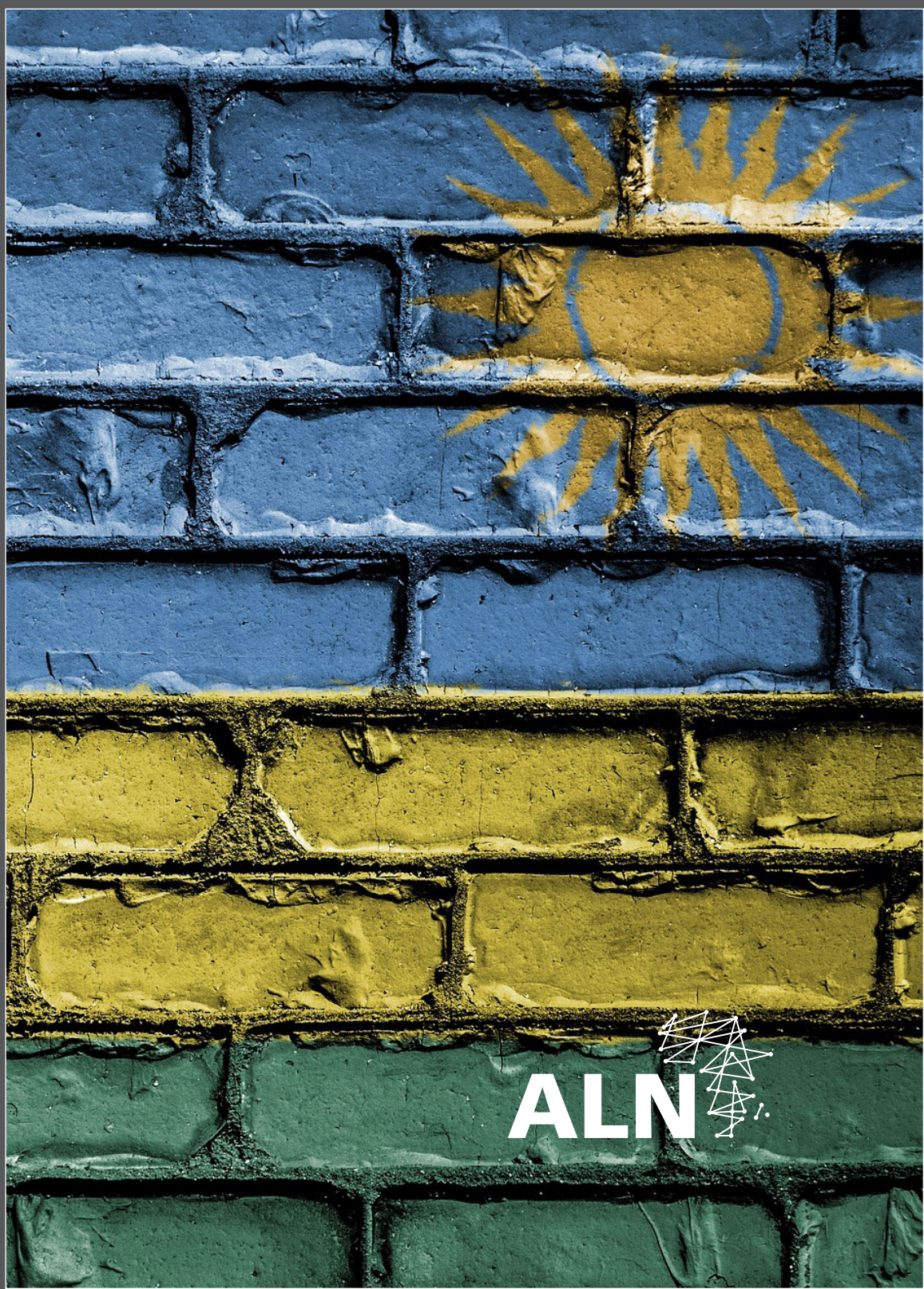


Impact of Rwanda's New Investment Facilitation and Promotion Law on Doing Business

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Introduction

Rwanda does not hide its vision to transform its economy into a knowledge-based economy and ensure prosperity and high quality of life for its people. As part of its Vision 2050, Rwanda aims to become a premier investment hub where its economic competitiveness at a regional and continental level is underpinned by innovation, modern technology and overall private sector-led growth. It is against this backdrop that Rwanda enacted Law NO 006/2021 of 8/02/2021 on Investment Promotion and Facilitation which came into force on 8 February 2021 with the view of promoting foreign direct investment and knowledge and skills transfer to Rwandan nationals.

This new law repealed the previously existing law NO 06/2015 of 28/03/2015 on investment facilitation and promotion that had been in operation since 2015. It introduces various significant additions including a more robust framework for investment, an expanded list of economic sectors considered as a priority, flexible investment regime amongst others.

It is instructive to note that for those investment incentives that were granted to investors under the repealed law that are not part of the new law or whose period of validity has not been fixed, remain valid for 12 more months from the date the law was published in Official Gazette (8 February 2021). In any case, investors registered under the repealed law will have to apply for new investment certificates under the new law before 6 February 2022. However, there is an exception to fixed-term investment agreements entered between the Government of Rwanda and an Investor/s, these will only expire after the duration agreed upon in the agreements.

In this alert, we begin by providing for the significant additions introduced by the law. Then we proceed to provide a detailed analysis of the investment incentives across four investment categories: the financial services sector, start-ups, specialised innovation and industrial park developers and assorted incentives targeted at priority economic sectors.

Significant Additions to the New Law on Investment

Facilitation and Promotion

The new law makes significant additions to Rwanda's investment regime in four main ways.

a) A more robust framework for investment

It provides an expanded priority economic sectors list which was previously limited to export, industrial manufacturing and investments in energy, ICT, construction of low-cost housing and financial services. The priority economic sectors have been expanded to include construction/operation of specialised innovation parks or special industrial parks, tourism, horticulture and cultivation of high-value plants as well as creative arts in the film industry.

Further, there is enhanced flexibility for the recognition of new economic sectors as priority sectors by way of an Order of the Minister for Finance.

b) The introduction of strategic investment projects

The law introduces strategic investment projects which it defines as investment projects of national importance that have a strategic impact on the development of the country. These are investment projects of a large scale that are expected to create a significant impact on the value chain in its sector, are anchor investments with first-mover demonstration effects and are of significant scale in terms of the investment amount, output, and jobs created. These investments carry additional investment incentives that are beyond the ones provided for in the law. Upon approval of the strategic investment, the incentives are to be negotiated between the Rwandan Government and the investor.

c) An expansive institutional framework to facilitate investment

In addition to the Rwanda Development Board (the 'Board') that has the overall mandate of investment promotion, the law introduces the Private Investment Committee ('PIC') whose objective is to review proposed strategic investment projects, the accompanying additional investment incentives, to identify and propose additional priority economic sectors as well as provide an avenue for discussing investor issues and propose resolutions.

d) A time-limit on the validity of the investment certificate

The law introduces a time limit on the validity of an investment certificate as 5 years. However, this certificate is renewable for an additional 5 years upon fulfilment of certain criteria including a revised investment plan that details an estimated investment amount and number of employees for the renewable period. This might mean that the law expects additional investment by the investor to get the renewal application approved. This can prove challenging for those investors whose investment amount is of a large amount that it cannot be recouped within 5 years.

Economic Sector-Specific Investment Incentives

The law provides for investment incentives along 4 main investment categories: the financial services industry, incentives for start-ups, developments for specialised innovation and industrial parks as well as incentives to assorted priority economic sectors.

It is instructive to note that accompanying all the major tax-related investment incentives is the requirement of fulfilling economic substance conditions in Rwanda. The requirements generally mirror each other across the various categories of investment incentives save for those that require a minimum of



net assets consolidated in Rwanda and minimum expenditure in Rwanda. The economic substance requirements are set out in the table below.

Economic substance requirements	<ul style="list-style-type: none">• Varying minimum amount of net assets consolidated in Rwanda depending on investment category• Varying minimum expenditure in Rwanda depending on the investment category• Setting up actual and effective administration and coordination of operations in Rwanda• Having physical office of the company in Rwanda• Having at least 30% of professional staff as Rwandan nationals• Having at least 25% of directors residing in Rwanda
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a) Financial Services Industry

The incentives for the financial services industry are set out with the role of the Kigali International Financial Centre (KIFC) as the core focus. The objective of the incentives related to the financial services industry is to make Rwanda a financial services hub for Africa.

Various tax-related incentives are available for investors in the financial services industry. For instance, investors within the financial services industry will enjoy a preferential corporate income tax rate of 3% as well as a preferential withholding tax rate of 0% on dividends, interest and royalties paid by investors. These include investors set up as:

- i. A global/paper trading company which is a commercial entity in Rwanda making deposits in financial entities in Rwanda financing its trading activities outside Rwanda; and
- ii. An intellectual property company which is a commercial entity that is set up for the sole objective of owning intellectual property rights.

There is also a preferential corporate income tax rate of 15% and a preferential withholding tax rate of 0% on dividends, interest and royalties on investors licensed to operate as support services to the financial services industry. These include but are not limited to, wealth management service providers, financial advisory commercial entities, private banks as well as trust and corporate service providers.

A comprehensive detail of the investor categories and the accompanying tax incentives are set out in the table below:

Investor Category	Applicable Tax Incentive
A pure holding company – defined as a company that only owns assets or subsidiary and is not involved in any other commercial activities	
A special purpose vehicle registered for investment purpose in projects, which are meant to last for more than 2 years – defined as a separate legal entity that is created by another existing entity with its balances sheet and with a specific objective	<ul style="list-style-type: none"> • A preferential corporate income tax rate of 3%
A global/paper trading company	
An intellectual property company	
Collective investment scheme – defined as a type of scheme where there is an arrangement for the collection and pooling of funds from investors for investment in the interest of each participant or investor represented by his or her proportional ownership in the pool.	<ul style="list-style-type: none"> • A preferential withholding tax rate of 0% on dividends, interest and royalties.
Investors registered as support services to the financial services industry including: <ul style="list-style-type: none"> • a fund management entity • collective investment scheme that does not fulfil minimum fund size and expenditure requirements • wealth management services • financial advisory commercial entity • family office services • fund administrator • financial technology commercial entity • captive insurance schemes • private bank • mortgage finance institution • finance lease commercial entity • Asset Backed Securities • reinsurance company • trust and corporate service providers. 	<ul style="list-style-type: none"> • A preferential corporate income tax rate of 15% • A preferential withholding tax rate of 0% on dividends, interest and royalties

b) Incentives for start-ups

With a view to promote development of start-ups that have the potential to scale, the law on investment provides various incentives including incentives for angel investors, for research and development costs, for internationalisation costs, for talent attraction. These incentives together with their description are tabulated below.



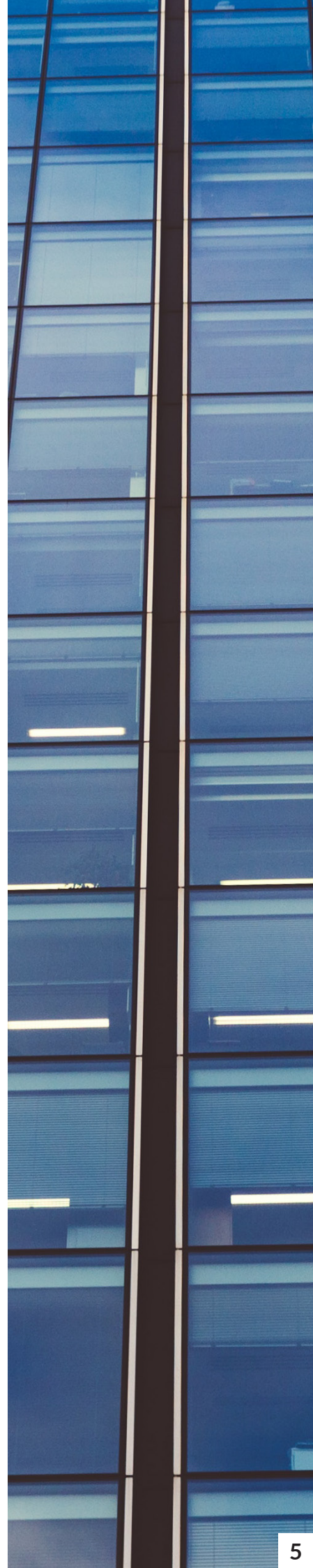
Applicable Incentive	Incentive Description
Incentives for Angel Investors	<p>Angel investors not including private equity and venture capital firms that are investing a maximum of USD 500,000 in a start-up and the investment remains for a minimum period of 2 years, are eligible for:</p> <ul style="list-style-type: none"> • Exemption from capital gains tax upon the sale of shares • Exemption from withholding tax applicable to dividends up to a maximum of 5 dividend issuances
Incentives for Research & Development	<p>Strategic investment projects or small and medium investors or emerging investors may be eligible for financing under the Seed Innovation Fund. The fund provides a variety of instruments including convertible grants, equity and debt for the following qualifying activities:</p> <ul style="list-style-type: none"> • qualifying manpower costs • training costs • costs for materials, equipment, software and technology acquisition • professional services engaged • costs incurred on intellectual property rights
Incentives for Internationalization	<p>A small and medium investor or emerging investor registered as an investor with an investment project involved in export is entitled to 150 tax deduction of all qualifying expenditures, with a maximum ceiling of USD 100,000 every year, relating to internationalisation including:</p> <ul style="list-style-type: none"> • overseas marketing and public relations activities including the launch of in-store promotions, roadshows, overseas business or trade conferences • participation in overseas trade fairs not supported by another existing initiative • overseas business development costs • market entry and research costs such as costs of establishing a legal entity in a foreign market, salary costs of employees stationed in a foreign market, analysis of market opportunities, supply chain and entry requirements
Talent Attraction incentives	<p>Foreign start-up founders and innovative entrepreneurs and their dependents are eligible for a two-year entrepreneurship visa to start a business in Rwanda.</p>

c) Incentives for developers of specialised innovation and industrial parks

A specialised innovation park developer is defined as a domiciled commercial entity that is involved in the construction or operation of the real estate of a licensed specialised Innovation Park. A special industrial parks developer is defined as a domiciled commercial entity that is involved in the construction or operations of the real estate of a licensed industrial park designated for a special purpose. These incentives have been enacted with projects such as Kigali Innovation City ('KIC') in mind. KIC is a mixed-use, master-planned innovation city which will seek to develop talent and become a technology innovation hub.

The incentives specialised innovation and industrial park developers are eligible for are tabulated below:

Investor Category	Tax Incentives
Specialised innovation and industrial park developers	<ul style="list-style-type: none"> • A corporate income tax holiday of a period of 5 years maximum from the first year that the project makes a positive net income • A preferential withholding tax of 10% on interest on foreign loans, dividends, royalties, and service fees, including management and technical service fees. • Exempted from paying property tax for a period of 5 years. • Carry forward accumulated tax losses in the event of a change of ownership of share capital or voting rights amounting to more than 25% in a given year subject to fulfilling specific criteria. • Carry forward losses for a period of 7 years from the first year of making the loss, by deducting losses in the order in which they incurred. • Accelerated depreciation of 50% in respect of capital expenditures incurred for a period of 1 year from the date on which construction works were started. • Value-added tax is zero-rated for construction materials and finished goods at investment for construction projects within specialised innovation parks or specialised industrial parks. • A specialised innovation park developer or a specialised industrial park developer is exempted from paying domestic taxes including withholding tax and excise duty, if applicable, on the importation of construction materials and finished goods.



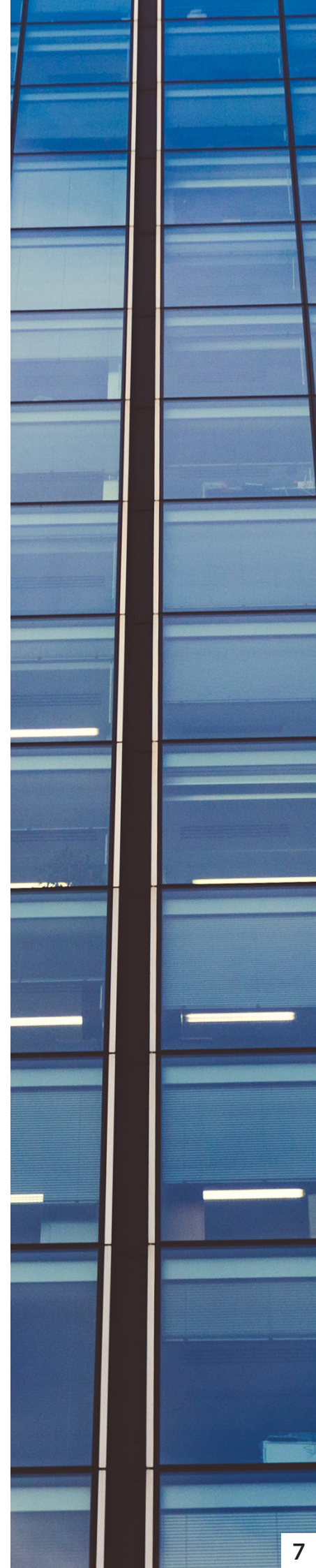


d) Incentives for assorted priority economic sectors

Some incentives extend to general priority economic sectors. These are highlighted in the table below:

Investor Category	Tax Incentive	
In energy generation, transmission and distribution from peat, solar, geothermal, hydro, biomass, methane and wind	A preferential corporate income tax rate of 15%	
In the transport of goods and related activities		
In manufacturing within the sub-sectors of textiles and apparels, electronics information, and communication technology equipment, large scale agricultural operations, processing in wood, glass and ceramics, value addition and professional operations in mining and agricultural equipment		
In the information and communication technology sector with an investment involving one of the following activities: information and communication technology and knowledge-based services, manufacturing or assembly		
In the construction of affordable housing		A preferential withholding tax rate of 0% on dividends, interest and royalties
In electric mobility		
In an investment project involved in adventure tourism and agriculture tourism		
For export, investments apply to registered investors exporting goods and services with at least %50 total turnover of goods and coming from the export of goods and services	A preferential corporate income tax rate of 15%	
For export, investments apply to registered investors exporting goods and services with at least %30 total turnover of goods and services and less than %50 of total turnover coming from the export of goods and services	A preferential corporate income tax rate of 25%	
Products used in export processing zones are exempted from customs taxes and duties following provisions of the East African Community Customs Management Act	Exemption from customs taxes and duties	

Investor Category	Tax Incentive
<p>A registered investor, except for investors in private equity and venture capital, investing an equivalent of at least fifty million USD 50,000,000 and contributing at least %30 of this investment amount in form of equity in the sectors specified below</p> <ul style="list-style-type: none"> • energy projects producing at least twenty-five megawatts (25MW). • manufacturing • tourism; • health; • information and communication technology with an investment involving manufacturing, assembly and service; and • export-related investment projects. 	<p>Corporate income tax holiday for 7 years</p>
<p>A philanthropic entity</p> <p>An international company, which has its headquarters or regional office in Rwanda, if it fulfils the following requirements:</p> <ul style="list-style-type: none"> • to invest the equivalent of at least USD 10,000,000 in both tangible or intangible assets in Rwanda • to provide employment and training to Rwandans • to conduct international financial transactions equivalent to at least USD 5,000,000 a year for commercial operations through a licensed commercial bank in Rwanda • to spend the equivalent of at least USD 2,000,000 per year in Rwanda • to set up actual and effective administration and coordination of operations in Rwanda and perform at least 3 of the following services in Rwanda: <ul style="list-style-type: none"> i. procurement of raw materials components or finished products ii. strategic planning and business development iii. marketing and sales promotion planning iv. information and data management services v. treasury management services vi. research and development work vii. training and personnel management 	<p>A preferential corporate income tax rate of 0%</p>





Investor Category	Tax Incentive
<p>Investing in business assets worth at least USD 50,000 each and operate in at least one of the following sectors:</p> <ul style="list-style-type: none">• export projects• manufacturing• telecommunications• agro-processing• education• health• transport excluding passenger vehicles with less than 9 people seats• tourism investments worth at least one million eight hundred thousand USD 1,800,000• construction projects worth at least USD 1,800,000	<p>Accelerated depreciation rate of 50% for the first year for new or used assets</p>

Key contacts

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