

# Rwanda: macroeconomic and trade profile

## Opportunities and challenges towards implementation of the AfCFTA

Sherillyn Raga

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### Key messages

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- Rwanda's GDP growth rebounded strongly from Covid-19, at 10.5% in 2021, up from a -3.4% contraction in 2020. However, lingering pandemic effects and Russia–Ukraine war spillovers are putting pressures on inflation, public debt and food security. A 6.8% annual average GDP growth is forecast over 2022–2025, which is still higher than the forecast (3.9%) for sub-Saharan Africa.
- In 2021, total trade (imports + exports) expanded by 13.6%, to an equivalent of 53.7% of GDP. This was driven by growth in imports (to \$3.6 billion), which outpaced that of exports (to \$2.1 billion), widening the trade deficit to 13.8% of GDP (vs 11% in 2020).
- Gold, tea and coffee comprised about 50% of goods exports in 2021. But the pandemic may have induced increased exporting of processed food products and medical instruments, which contributed 15.5% of goods exports (vs 0.6% in 2019), and may be further supported in the future in view of increasing world demand for and Rwandan efficiency in these products. Services exports (largely tourism) were increasingly important in recent years prior to 2020 (e.g. 10% of GDP in 2019) but have been adversely affected by Covid-19 and started to recover only in 2022.
- In 2020, FDI inflows to Rwanda declined by 22% to \$274 million, with FDI stock reaching \$2.7 billion. Returns on equity in FDI in Rwanda decreased from 11.6% to 9.7% in 2020 but remained above the world average (5%).
- Intra-African trade comprised 33% of Rwanda's total goods trade as of 2021. Rwanda has been a net goods importer from Africa, and enjoys lower trading costs with regional partners. In the absence of meaningful trade under the AfCFTA since 2021, Rwanda participated in the AfCFTA Secretariat's Guided Trade Initiative among eight countries, launched in October 2022.
- Rwanda has prepared its national AfCFTA strategy, and a policy guide for trade in services under the AfCFTA. Rwanda may benefit from conducting a comprehensive gap analysis comparing domestic laws with its regional and continental trade commitments, and from expediting the implementation of its AfCFTA strategy.



# Acknowledgements

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## About this publication

This brief aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Rwanda's current economic situation and its implementation of AfCFTA. This brief represents an update of the first edition of the paper on Rwanda's macroeconomic and trade profile published by ODI in February 2022. Data and information for this update were mostly collected between October and December 2022.

This ODI–GIZ policy brief series is part of a larger project titled the GIZ Support Programme to the AfCFTA. The supports GIZ's partners on the continental (African Union Commission, AfCFTA Secretariat), regional (currently East African Community and Economic Community of West African States; planned Southern African Development Community) and national levels on the negotiations surrounding and implementation of the AfCFTA.

Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

## About the author

Sherillyn Raga is a Research Fellow at ODI. Sherillyn has a decade of professional experience on policy-oriented research covering macroeconomics, financial integration, trade and investment in Asian and African contexts. Prior to joining ODI, she worked at the Philippine central bank, the International Monetary Fund and the Asian Development Bank.

# 1 Recent socioeconomic developments

Rwanda has achieved significant economic and social development gains since the 1994 genocide and civil war (Table 1). The Covid-19 pandemic, however, gravely affected the country's tourism, services and industrial activities, inducing a decline in gross domestic product (GDP) by 3.4% in 2020 (IMF, 2021a). In 2021, GDP rebounded strongly, with 10.9% growth (at par with pre-pandemic 9.5% growth in 2019), supported by accelerated vaccination, the lifting of restrictions, recovery of external demand for Rwandan exports and accommodative policies (IMF, 2022a). Rwanda's announced Covid-related spending reached \$1 billion (10.1% of GDP), higher than the packages of low-income countries (4% of GDP) and close to those in emerging markets (9.9% of GDP).<sup>1</sup> In August 2021, Rwanda raised \$620 million from 10-year Eurobond issuance to finance the country's Covid-19 recovery, refinance debt maturing in 2023 and fund strategic investments (MINECOFIN, 2021). Rwanda's Covid-19 fiscal package was assessed to have limited the impact of the crisis (IMF, 2021b) but may have contributed to a significant rise in public debt and inflation, which remained elevated in 2021 (Table 2).

**Table 1 Rwanda country facts and social indicators**

<b>Capital:</b> Kigali			
<b>Geographical size:</b> 26,338 km <sup>2</sup> ; shares border with Burundi, Democratic Republic of Congo, Tanzania and Uganda			
<b>Languages:</b> Kinyarwanda, English, French			
<b>Religion:</b> mostly Catholic, Protestant and Adventist			
<b>Currency; exchange rate:</b> Rwandan franc (FRw); FRw 1,068.4 per US\$ (12 December 2022)			
	<b>2000</b>	<b>2010</b>	<b>2021/latest</b>
Population (million)	7.9	10.0	13.3
Dependency ratio (%) <sup>1</sup>	85.4	74.3	68.2
Life expectancy (years)	47.1	62.5	66.1
Mean years of schooling	2.5	3.8	4.4
Gross national income per capita (constant 2017 purchasing power parity \$)	861.2	1,495.1	2,209.8
Poverty rate (% of population living on less than \$2.15 a day, 2011 purchasing power parity)	75.2	59.2	52 <sup>2</sup>
Unemployment rate (%)	0.8	1.1	1.6
Gender Inequality Index <sup>3</sup>	0.563	0.45	0.388
Human Development Index <sup>4</sup>	0.34	0.489	0.534

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2016; 3 higher score = higher gender inequality; 4 higher score = better human development.

Sources: EAC (2021); NISR (2014); World Bank (2022b); UNDP (2022); NBR website.

The overlapping shocks from the lingering effects of Covid-19, global commodity price hikes induced by the ongoing Russia–Ukraine war and the recent tightening of global financial conditions are threatening Rwanda's economic growth, and bringing about further pressures on the country's inflation, public debt and food security concerns (see IMF, 2022a). Unemployment has been elevated, at 18% as of August

<sup>1</sup> Author's computations based on data from the International Monetary Fund (IMF) database of country fiscal measures in response to the Covid-19 pandemic as of September 2021. The fiscal measures include resources allocated or planned in response to the pandemic since January 2020, which will cover implementation in 2020, 2021 and beyond (IMF, 2021b).

2022, compared with the pre-pandemic level of 15% (NISR, 2022). Inflation has been rising since the beginning of 2022, reaching 15.9% as of August 2022, which exceeded the 2–8% inflation target band of the National Bank of Rwanda (NBR). Inflation has been driven by higher prices of food, energy and imports (NBR, 2022a). In response, the NBR raised its policy rates by 50 basis points to 5% in February 2022 and by 100 basis points to 6% in August 2022 (*ibid.*).

Based on the latest external sector data from the NBR (2022a), during the first half (H1) of 2022 Rwanda's merchandise exports (except gold) rose by 37.2% to \$708 million compared with 2021H1, benefiting from increases in global commodity prices and value addition in minerals. Services exports also expanded by 43% on the back of recovery from Covid-19 and resumption of international meetings hosted in Rwanda. However, goods imports likewise increased, by 22.5% to \$1.8 billion, driven by a combination of high global oil prices and increased import demand from the recovery of domestic activities from Covid-19 (*ibid.*). In this context, the goods and services trade deficit reached (\$1 billion). Despite this, the overall current account deficit improved slightly (declining by 6.7% to \$535.6 million in 2022H1), owing to higher inflows of remittances, government grants and foreign direct investment (FDI). Higher foreign exchange receipts meant the Rwandan franc depreciated only modestly (by 3.8%) against the US dollar in 2022H1, and foreign reserves reached \$18.5 million (or 4.8 months of imports) as of June 2022 (*ibid.*).

**Table 2 Selected macroeconomic performance and forecast in Rwanda**

	2019	2020	2021	2022f	2023f	2024f	2025f
Real GDP (% growth)	9.5	-3.4	10.9	6.0	6.7	7.0	7.5
Total investment (% of GDP)	23.5	25.1	26.3	25.8	28.4	29.4	28.6
Average consumer prices (% growth)	2.4	7.7	0.8	9.5	8.0	5.0	5.0
Government revenue (% of GDP)	23.1	23.9	24.6	26.0	23.5	23.4	23.8
Government expenditure (% of GDP)	28.2	33.4	31.6	32.3	29.2	28.6	28.0
Gross fiscal balance (% of GDP)	-5.1	-9.5	-7.0	-6.4	-5.7	-5.2	-4.2
Gross government debt (% of GDP)	49.8	65.6	66.6	68.1	68.6	69.4	67.5
Current account balance (% of GDP)	-11.9	-12.1	-10.9	-12.6	-11.7	-10.3	-8.9

Note: f indicates forecast.

Source: IMF (2022b).

The fiscal deficit as a proportion of GDP in 2022 is estimated at 6.4%, a slight improvement from 2021 (7.0%) (Table 2). The International Monetary Fund (IMF) and the World Bank have assessed public debt as being at moderate risk of debt distress, in recognition of rising public debt levels, but this is somewhat balanced by the high concessionality of loans combined with strong government efforts on strengthening debt management capacity (IMF, 2022a; World Bank and IMF, 2021).

Rwanda's GDP is estimated to slow to 6% in 2022, driven by lower demand for exports and the spillover effects of the Russia–Ukraine war on commodity prices, and corresponding public expenditure to preserve the food security of the most vulnerable (IMF, 2022a). Compared with pre-pandemic, Rwanda is forecast to achieve lower annual average GDP growth, at 6.8%, over 2022–2025, as the scarring effects of the recent crisis may drag economic activities, with growth to be largely supported by private consumption and investment (*ibid.*). Nevertheless, this growth rate is still higher than the 3.9% IMF forecast for sub-Saharan Africa over the period (IMF, 2022b).

Against this backdrop, the next section (Section 2) presents Rwanda's trade landscape and business environment. This is followed by a more focused discussion of Rwanda's intra-African trade performance and progress on AfCFTA implementation. Section 4 identifies Rwanda's strengths, weaknesses, opportunities and threats in relation to maximising benefits from the AfCFTA, and trade and investment more generally. Section 5 concludes.

## 2 Trade landscape and business environment

### 2.1 Trade landscape

On average, from 2011 to 2021, total trade (i.e. exports + imports) in Rwanda contributed 54.2% of GDP annually. As of 2021, trade in goods and services reached 41.9% and 11.8% of GDP, respectively (Figure 1). Rwanda has been a net importer of goods and services. During the pandemic, the trade deficit in goods narrowed to 13.7% of GDP in 2020, from 12.9% in 2019, with expansion of exports (mainly gold) marginally offsetting the rise in goods imports. By 2021, growth in imports (by 13.9%) had outpaced that of exports (8.7%), widening the trade in goods deficit to 12.9% of GDP.<sup>2</sup>

The importance of total trade in services in Rwanda was increasing in the years prior to the pandemic, contributing around 20% of GDP between 2015 and 2019 (Figure 1). Tourism receipts comprised 60% of services exports during the same period.<sup>3</sup> This reflects government investment in conference facilities, transport networks and streamlining immigration/tourist visa procedures to position Rwanda as a regional and international conference hub.<sup>4</sup> Outside tourism, Rwanda also has relatively lower restrictions for trade in services in government priority sectors such as commercial banking, distribution and road freight (Djiofack and Niyibizi, 2022). However, the pandemic restrictions adversely affected services trade, with exports and imports of services contracting by a similar magnitude (about 50%) during the pandemic in 2020, and remaining subdued in 2021 (Figure 1). In this context, the total trade deficit in goods and services widened to 13.8% of GDP in 2021 compared with 11% of GDP in 2020.<sup>5</sup> Nevertheless, the latest data from the NBR (2022a), for the first half of 2022, indicate an expansion of goods exports and imports (partly because of increases in global commodity prices), and growth in services exports with the resumption of international meetings hosted by Rwanda.

Focusing on goods trade, 10 products made up 71.1% of Rwanda's exports between 2017 and 2021, comprising mainly unwrought gold (31%), black tea (11%) and not roasted or decaffeinated coffee (8%).<sup>6</sup> At the peak of the pandemic in 2020, the share of gold in total Rwandan goods exports rose substantially, from 38.6% in 2019 to 59.7% in 2020 (Figure 2). This was driven by the increase in value of unwrought gold exports by 120% to \$665.5 million in 2020, as global gold prices increased during the year.<sup>7</sup>

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<sup>2</sup> Computed using United Nations Conference on Trade and Development (UNCTAD) data.

<sup>3</sup> Computed using tourism receipts from the World Development Indicators (World Bank, 2022b) and services export data from UNCTAD.

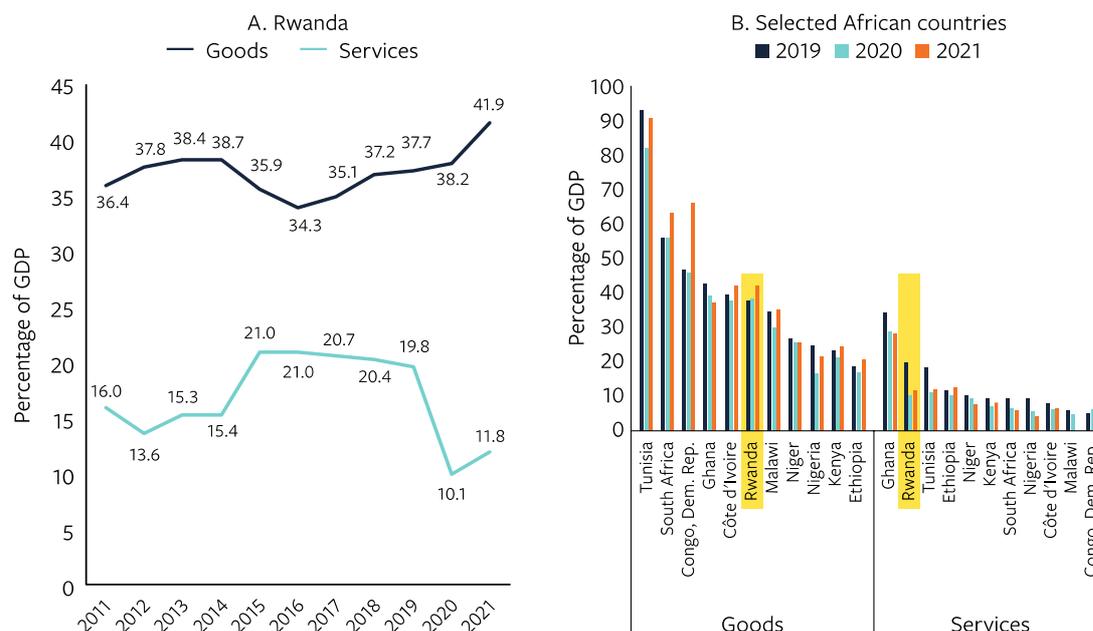
<sup>4</sup> Based on the Rwanda Development Board website.

<sup>5</sup> Computed using UNCTAD data.

<sup>6</sup> Computed using UNCTAD data. Annual average share (%) of Rwandan exports from 2017 to 2021.

<sup>7</sup> Computed using UNCTAD data for Rwandan gold exports and the World Bank ('Pink Sheet') for global gold prices, which increased by 9.7% in 2019 and 27% in 2020.

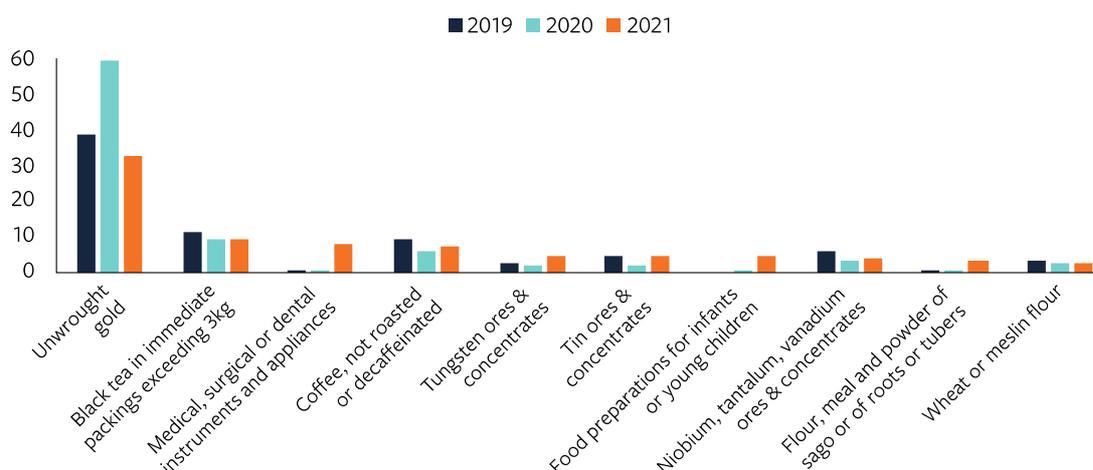
**Figure 1 Rwanda and selected African countries' total trade (exports + imports) in goods and services (% of GDP)**



Source: Author's computations based on UNCTAD data.

Notably in 2021, Covid-19 may have induced significant exporting of Rwandan products, which had comprised less than a 0.5% share of total exports prior to the pandemic. This included exports of medical, surgical or dental instruments and appliances; food preparations for infants and young children; and flour, meal and root crop powder, which together contributed 15.5% of total goods exports in 2021 (Figure 2). Rwanda had already been exhibiting increasing efficiencies (e.g. in terms of revealed comparative advantage, RCA) in producing these products between 2017 and 2021,<sup>8</sup> and may be further supported in this through export promotion or intervention to increase competitiveness.

**Figure 2 Rwanda's top 10 export product (% of total goods exports)**



Source: Author's computations based on UNCTAD data (six-digit product category).

<sup>8</sup> The top 25 products are based on the annual average percentage of total exports in the six-digit category from 2017 to 2021, while world demand refers to world imports of such products sourced globally during the same period. Data are from the World Integrated Trade Solution (WITS).

Major destinations for Rwandan exports aligned with the composition of top export products. As of 2021, 39.5% of goods exports went to the United Arab Emirates (UAE); this was followed by Democratic Republic of Congo (DRC) (13.1%) and Tanzania (8.5%).<sup>9</sup> Rwanda's top exports to respective countries are as follows: gold to UAE, wheat or meslin flour to DRC and medical, surgical or dental instruments and appliances to Tanzania.

Rwanda's top imported products are petroleum oil products (13.9% of total goods imports), unwrought gold (11.9%), sugar (2.5%), medicaments (2.5%) and vegetable oil (2.1%), on average from 2017 to 2021.<sup>10</sup> The high share of imported unwrought gold may be explained largely by Rwanda's imported gold for processing (World Bank, 2021). During the same period, more than half (56%) of Rwanda's total imports were sourced from six countries: China, India, Tanzania, UAE, Kenya and Uganda.<sup>11</sup> Top Rwandan imports from these countries were mobile phones (China), oil products (India and UAE), unwrought gold (Tanzania and Kenya) and cement (Uganda).

## 2.2 Foreign direct investment

FDI in Rwanda has increased steadily over the past two decades, although growth slowed during the pandemic. In 2020, FDI inflows declined by 23% to \$274 million, with FDI stock reaching \$2.7 billion (Table 3). The financial and information and communications technology (ICT) sectors were the dominant recipient of FDI stock and inflows. Mauritius is the leading source of FDI, comprising more than a third of both FDI inflows and stock in Rwanda as of 2020 (Table 3). Recent data on investment commitments suggest an increase from \$1.3 billion in 2020 to \$3.7 billion in 2021, 72% of which was in the construction, real estate and manufacturing sectors (CGTN, 2022).

**Table 3 FDI flow and stock, by origin and sectoral recipient, in Rwanda**

	FDI inflows				FDI stock		
	2019 \$ million	2020 \$ million	2020 % share		2019 \$ million	2020 \$ million	2020 % share
<b>Total</b>	<b>354</b>	<b>274</b>			<b>2,545</b>	<b>2,707</b>	
<b>By origin</b>							
Mauritius	169	110	40.2	Mauritius	911	955	35.3
Kenya	63	32	11.7	Kenya	242	268	9.9
United States	3	25	9.3	South Africa	180	182	6.7
United Kingdom	4	19	7.1	United States	110	132	4.9
Belgium	22	12	4.3	Netherlands	107	113	4.2
Nigeria	23	11	4.1	Togo	63	68	2.5
Netherlands	1	7	2.7	Ghana	67	67	2.5
UAE	11	7	2.5	UAE	60	66	2.4
Others	58	50	18.1	Others	805	858	31.7
<b>By sector</b>							
Financial	108.3	108.9	39.7	ICT	750	745	27.7
ICT	120.4	47.7	17.4	Financial	543	619	22.9
Agriculture	17.9	36.6	13.4	Manufacturing	310	330	12.2
Manufacturing	13.0	31.6	11.5	Electricity	277	305	11.3
Electricity	46.7	25.0	9.1	Wholesale	207	209	7.7
Transportation	8.6	9.3	3.4	Tourism	199	198	7.3
Wholesale	27.7	5.8	2.1	Agriculture	74	100	3.7
Others	11.2	9.0	3.3	Others	188	196	7.2

Source: NBR (2022b).

<sup>9</sup> Author's computations/analysis based on UNCTAD data.

<sup>10</sup> Author's computations/analysis based on UNCTAD data.

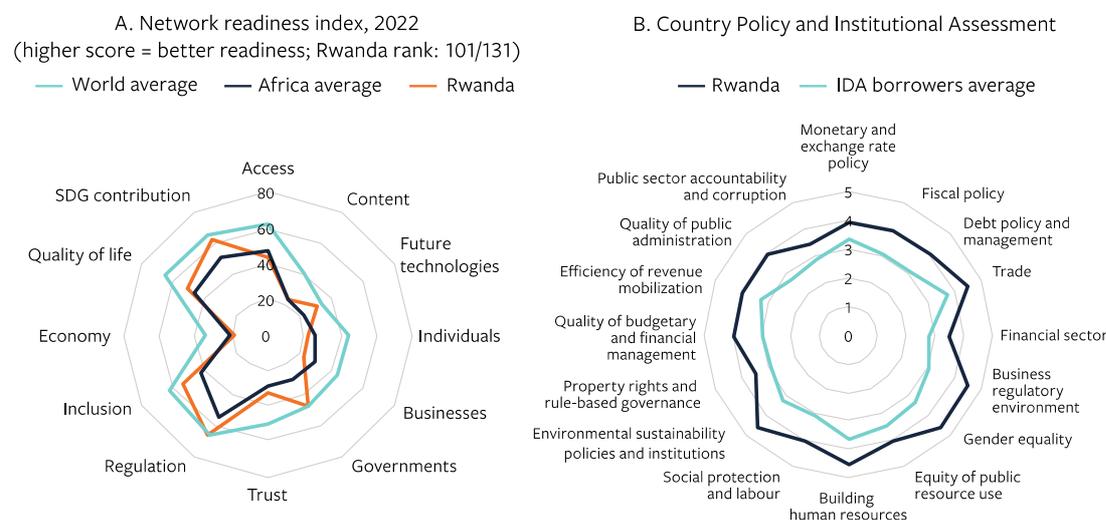
<sup>11</sup> Author's computations/analysis based on UNCTAD data.

Return on equity in FDI in Rwanda decreased during the pandemic, to 9.7% from 11.6%, but this was still higher than global trends during the pandemic (NBR, 2022b). For example, the world average rate of return on inward FDI as of 2020 was at 4.9% (UNCTAD, 2022). In 2021, Rwanda secured a green project with BioNTech (Germany), which will construct its vaccine production facility in Kigali (BioNTech's first vaccine facility in Africa) at an estimated cost of \$79 million (ibid.; Mugabi, 2022).

### 2.3 Business environment

Overall, Rwanda ranks better than its African counterparts on several indicators of trade logistics, digital readiness and regulatory environment, with better than world average scores on specific indicators. Rwanda scored higher than other African countries on the World Bank's measure of trade logistics performance – ranking 57th among 160 countries in 2018 (and third best performer in sub-Saharan Africa after South Africa and Côte d'Ivoire). Rwanda has also exhibited relatively higher performance in terms of preparing for future technologies, government usage of ICT and putting in place regulations and policies to promote participation and inclusivity of the network economy (Figure 3A). For instance, Rwanda's investment in digital infrastructure has helped the country achieve the highest 3G and 4G network coverage in Africa, giving mobile broadband access to nearly all Rwandans (World Bank, 2022a). These indicators are in parallel with the latest World Bank Country Policy and Institutional Assessment (CPIA) as of 2021, wherein Rwanda scored higher than International Development Association (IDA) borrowers on average, but especially higher on policies related to trade and business environment and human capital (Figure 3B).

**Figure 3 Digital readiness and quality of policy and institutions, 2021 (higher score = better performance)**



Sources: Figure 3A data based on World Bank database, Figure 3B based on NRI data in networkreadiness.org by Portulans Institute. Aggregate scores (world and Africa) are simple average.

Based on the World Trade Organization (WTO) Trade Policy Review for Rwanda, legislation approved between 2011 and 2018 to improve the business environment covered taxation, duties and charges on imports, investment regimes, government procurement, and sanitary and phytosanitary measures (WTO, 2019). The United Nations Conference on Trade and Development (UNCTAD) highlights Rwanda's efforts to attract FDI, including providing preferential tax rates to investors who will undertake investment consistent with the Sustainable Development Goals, such as in the generation, transmission and distribution of energy, whether peat, solar,

geothermal, hydro, biomass, methane or wind (UNCTAD, 2021a). Rwanda also has a relatively open services trade regime, especially in commercial banking, distribution and road freight (although it imposes restrictions on cross-border data transfer and processing) (Djiofack and Niyibizi, 2022). In February 2021, Rwanda revised its Investment Code to introduce new priority sectors and activities and adopt several new tax incentives for philanthropic investors, angel investors and strategic investment projects (ibid.).

At the firm level, an International Finance Corporation (IFC) survey of Rwanda-based investors highlighted the country's stability and regulatory environment as their primary reason for investing in Rwanda (IFC, 2018). The survey also highlighted that the majority of investors found Rwanda 'attractive' or 'very attractive', more than Kenya, Tanzania or Uganda. However, it also flagged major challenges regarding the country's small market size, difficulties in accessing quality local labour and high production costs related to airfreight, financing and electricity. This is consistent with investor perception (IP) surveys in recent years covering the period of the pandemic (2019–2021). On the one hand, the highest IP score was given for the country's governance (NBR, 2020; 2021b; 2022b), perhaps reflecting the government's fiscal package support, expedited vaccination programmes to help resume economic activities and tax exemptions under the 'manufacture and build to recover' programme. Investors assigned lowest IP scores for domestic resources (e.g. access to and cost of raw materials, access to skilled labour, small domestic market size). The pandemic may have exacerbated the constraints in accessing skilled labour, as employment shifted away from contact-intensive services towards agriculture (World Bank, 2022a). The challenge related to small domestic size may be magnified in the context of rising inflation, which may lower household consumption and overall domestic demand.

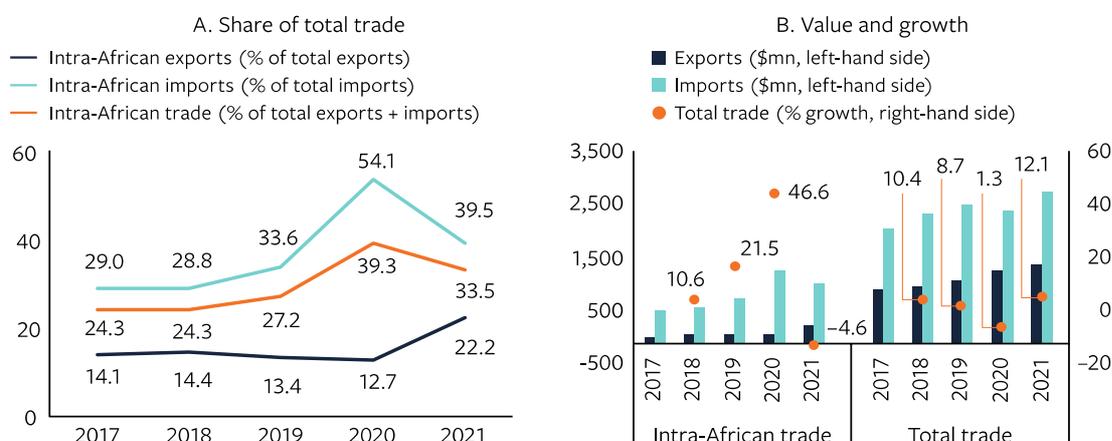
# 3 Intra-African trade performance and the AfCFTA

## 3.1 Background: Rwanda's goods trade with Africa

Rwanda has been a net importer of goods from other African countries – with imports and exports reaching \$1.1 billion and \$341.2 million, respectively, as of 2021 (Figure 4). On annual average between 2017 and 2021, 37% of Rwanda's imports were from Africa, whereas 15.4% of its exports were bound to African countries (Figure 4). Notably, at the peak of the Covid-19 pandemic in 2020, Rwanda's intra-African imports increased significantly in terms of share in total imports (54.9%) and growth (53.4%) compared with previous years (Figure 4). This was driven by significant increased imports of unwrought gold for processing, in view of high global prices of gold during the year.

Based on data from the World Integrated Trade Solution (WITS), Rwanda's top five export African destinations between 2017 and 2021 were DRC (42.2%), Uganda (15.4%), Tanzania (10.5%), Kenya (10.3%) and South Sudan (4.8%). By product, Rwanda's top exports to African countries included wheat or meslin flour, black tea in immediate packaging in excess of 3 kg, sharps and residues of leguminous plants and Portland cement, which together comprised around a third of export products to African countries between 2017 and 2020. In 2021, however, Rwanda exported medical, surgical and dental instruments significantly from \$361,166 in 2020 to \$87.5 million, reaching 25% of total intra-African exports during the year. These products went almost entirely to Tanzania.

**Figure 4 Rwanda's intra-African trade in goods**



Note: For consistency across the period, 'intra-African' in this figure refers to Rwanda's trading with 29 African countries with complete goods exports and imports data from 2017 to 2021. These countries comprised 96% to nearly 100% of Rwanda's total intra-African trade each year over the period.

Source: Author's computations based on data from WITS.

Meanwhile, the top five sources of Rwanda's imports from the continent between 2017 and 2022 were Tanzania (28.2%), Kenya (26.2%), Uganda (13.8%), South Africa (10.4%) and Egypt (4.9%). By product, more than a third of all imports from Africa comprised unwrought gold; this was followed by Portland cement (5.3%), sugar (5%) and rice (2.3%) on an annual average during the same period.

The trade-weighted most favoured nation (MFN) tariff rates imposed by Rwanda on its imports from African countries ranged from zero for Equatorial Guinea to 40.4% for Angola as of 2020.<sup>12</sup> Rwanda extends preferential tariffs to 14 African countries<sup>13</sup> that, like Rwanda, are members of at least one or all regional communities – the East African Community (EAC), the Economic Community of Central African States (ECCAS) and the Common Market for East and Southern Africa (COMESA). As part of the AfCFTA, tariffs will be liberalised in stages, apart from for 'sensitive' and 'exclusion list' products. Tariffs will be liberalised (to zero) for 90% of tariff lines over a period of ten years for least developed countries (LDCs), five years for non-LDCs, and 15 years for six selected countries<sup>14</sup> (Hartzenberg, 2023). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with an intra-Africa import value limit of not more than 10% (ibid.).

Figure 5 shows the top 10 imports by Rwanda from African countries, which accounts for half of Rwanda's imports from the continent. Effectively applied tariff rates (AHS) are defined by the WITS database as the lowest existing preferential tariff rates or applied MFN tariffs. Figure 6 also shows that the AHS imposed by Rwanda on imports from Africa are lower than the AHS imposed on imports from the rest of the world by 17–50 percentage points, making it sensible for Rwanda to import these products from African neighbours. However, this raises the need for further investigation on the issue of whether Rwanda may have diverted away from a more efficient supplier (but without preferential treatment, being outside a trade agreement) towards a less efficient supplier (but with preferential treatment within a trade agreement). The 15.8% trade-weighted AHS on Rwanda's imported unwrought gold reflects the 25% AHS imposed on three main sources – Burkina Faso, Cameroon and South Africa, which together comprised an annual average 48.5% share of Rwanda's import of this product from the continent in 2019–2021.

Figure 6 shows ad valorem equivalent<sup>15</sup> trade costs that incorporate not only international transport costs and tariffs but also other trade costs, including direct and indirect costs associated with differences in languages, currencies and cumbersome import or export procedures.<sup>16</sup> Based on this measure, trade between Rwanda and Botswana involves additional costs amounting to about 900% of the value of the goods, compared with when these two countries trade goods within their borders. In other words, trading with Botswana is about nine times more expensive than trading within Rwanda's borders (and vice versa).<sup>17</sup> The figure also suggests that, except for a few COMESA and/or EAC members, Rwanda's bilateral trading costs are higher with most partners from Africa than with those outside the region (e.g. the US, China, the UK) especially on non-agricultural products. This resonates with an IMF analysis on the significant role of prevalent non-tariff barriers

<sup>12</sup> Based on the WITS database. Data are based on tariff year 2020, weighted by trade in 2019.

<sup>13</sup> The 14 countries where Rwanda has preferential tariffs are Burundi, DRC, Djibouti, Egypt, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe.

<sup>14</sup> Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe.

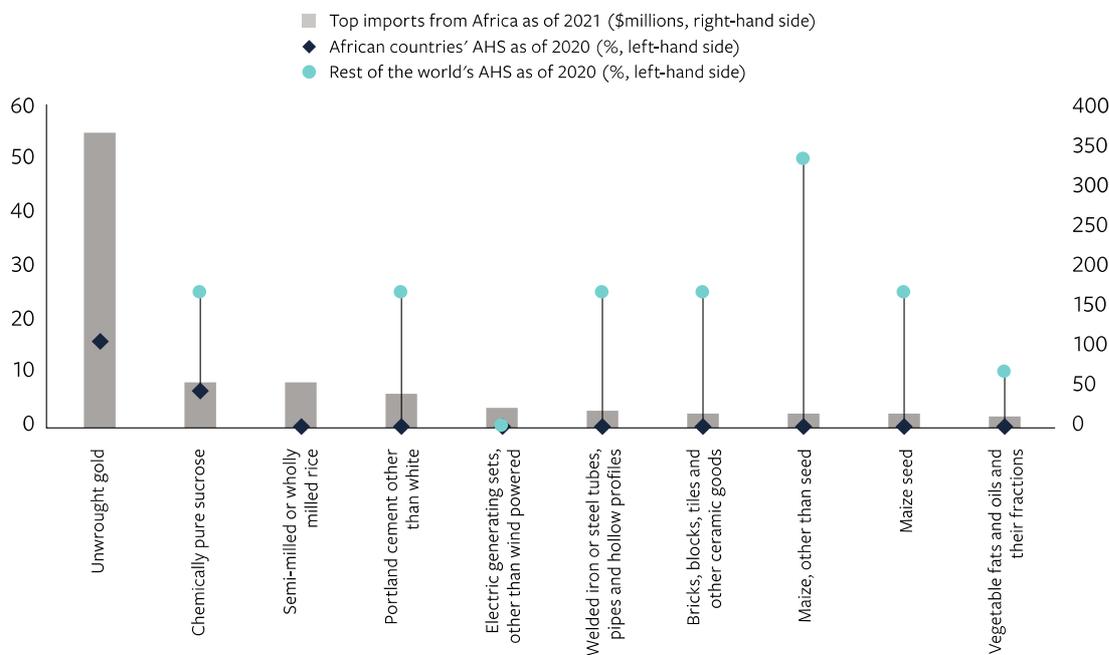
<sup>15</sup> Or as a proportion of the estimated value of the goods.

<sup>16</sup> It should be noted that the measure is an average for all traded goods, some of which may not be traded (or traded very little) in practice owing to prohibitively high trade costs. This measure, developed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Bank in 2017, includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

<sup>17</sup> See Arvis et al. (2012) for full discussion of the methodology.

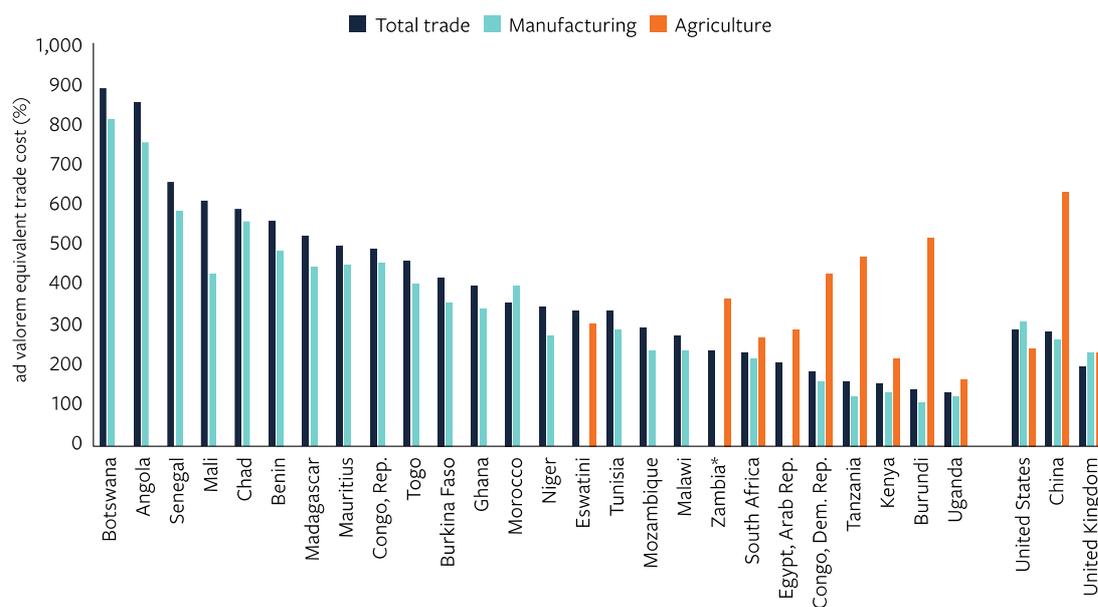
(particularly technical and phytosanitary barriers), large infrastructure gaps and trade-related transaction costs (especially on ground transportation), poor trade logistics and less developed financial infrastructure (e.g. harmonisation of cross-border payment systems) in Africa that hinder continental trade (Abrego et al., 2020).

**Figure 5 Effectively applied tariff rates (AHS) on Rwanda’s top imported products from Africa and the rest of the world**



Notes: Unwrought gold is all imported from African countries as of 2021; there are no available data for AHS on imported rice from the rest of the world except African countries; AHS refer to tariff year 2020, weighted by trade as of 2019. Source: WITS.

**Figure 6 Bilateral ad valorem trade costs between Rwanda and respective partners, 2019**



Source: World Bank database.

### 3.2 Status of Rwanda's AfCFTA implementation

The Rwandan government deposited its instrument of ratification to the African Union Commission (AUC) on 26 May 2018. As of February 2023, 54 out of the 55 African countries (except Eritrea) had signed the AfCFTA and 46 countries had deposited their instruments of ratification to the AUC (Tralac, 2023).

Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. As of January 2022, 87.7% of tariff lines had been agreed, with tariff lines pending in textiles, automotive, sugar and tobacco (AU, 2022a). Negotiations are ongoing, in which 46 countries had submitted their provisional schedules of tariff concessions as of February 2023 (AU, 2023).

A World Bank (2020) simulation suggests that Rwanda's gains from the AfCFTA (relative to a non-AfCFTA scenario) in terms of income, exports and imports will be at the lower end compared with other African countries. For instance, Rwanda's real income will improve by 3.3% by 2035 under the AfCFTA scenario compared with the baseline scenario of no AfCFTA – lower than the comparable change in income for the whole continent (7.1%) (with the highest gain expected for Côte d'Ivoire, 13.7%).

Rwanda is also one of the 10 (of 24) countries expected to experience declines in tax revenues from imports under the AfCFTA scenario compared with the baseline (World Bank, 2020). Employment in Rwanda's recreational and services sector – which tends to be labour-intensive and to employ women – is expected to decline under the AfCFTA scenario (ibid.). Another study, by Shinyekwa et al. (2020), suggests that, under the AfCFTA, Rwanda is likely to incur tariff revenue losses, and experience trade diversion and negative welfare effects.

The Rwandan government and the private sector have been taking steps to increase AfCFTA awareness. In June 2022, the Rwandan Ministry of Trade and Industry (MINICOM) developed the National AfCFTA Implementation Strategy and presented it for validation to government officials, academics, the private sector and media representatives (UNECA, 2022). The strategy highlights potential gains in agro-processing of food products; mining and mineral processing of high-value extracts like coltan, tantalum and cobalt; construction materials like cement, iron, steel and ceramics; and light manufacturing of textiles, leather products, pharmaceuticals and electronic equipment (ibid). In addition, Rwanda has developed a detailed Policy Guide for trade in services within the AfCFTA market (MINICOM, 2022). This highlights Rwanda's priority sectors in the context of the AfCFTA, such as business and financial services, transport, ICT, and travel and tourism; opportunities and competition with AfCFTA markets in these priority sectors; and a gap analysis of the policy environment with trade in services (ibid.).

Online portals have also been developed, to help facilitate participation in the AfCFTA. The Rwanda Revenue Authority has made necessary AfCFTA-related documents for exporting available online ([rwandatrade.rw](http://rwandatrade.rw)) (Kagina, 2022). Aligned with Rwanda's national trade policy and its AfCFTA implementation strategy, MINICOM has also developed a trade facilitation website ([www.tradefacilitation.rw](http://www.tradefacilitation.rw)), aimed at promoting transparency, simplification, harmonisation and standardisation of cross-border operations, which are expected to reduce trading time and cost.

However, more than one year since the AfCFTA took effect, commercially meaningful trade has not commenced (AU, 2022b). In this regard, the Ninth Meeting of the AfCFTA Ministers of Councils, in July 2022, announced the AfCFTA Secretariat Guided Trade Initiative (GTI). This was subsequently launched in

October 2022. Rwanda, along with seven other countries (Cameroon, Egypt, Ghana, Kenya, Mauritius, Tanzania and Tunisia) will participate in the initiative (ibid.). The GTI aims to (i) allow commercially meaningful trading under the AfCFTA; (ii) test the operational, institutional, legal and trade policy environment under the AfCFTA; and (iii) send an important positive message to African economic operators (ibid.). The products earmarked for trade under the GTI include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits and sisal fibre, among others, aligned with the AfCFTA focus on value chain development (AU, 2022c). While the GTI needs to cover more products and countries, this is nonetheless a positive step in generating longstanding business relations, especially among countries in the continent with weaker trade links (Mendez-Parra, 2022). On 30 September 2022, Rwanda exported its first consignment of goods of premium coffee to Ghana under the AfCFTA (AU, 2022c).

At the regional level, the EAC (of which Rwanda is a member) is currently negotiating the AfCFTA as a bloc. In February 2022, the EAC adopted the EAC tariff offer for 90.2% (5,129 tariff lines out of the total of 5,688 lines) of Category A products that will be liberalised in 10 years after the start of trading under the AfCFTA (EAC, 2022a). This has enabled the EAC to meet the minimum requirements for Category A to start trading on a provisional basis under the AfCFTA. To help operationalise the AfCFTA, Rwanda has also initiated a process to adopt the proposed preferential tariffs and the elimination of non-tariff barriers within ECCAS (Kagina, 2021). From the private sector side, the business councils of the EAC, COMESA and the Southern African Development Community (SADC) formed an African Tripartite Business Council (ATBC) in August 2022. The ATBC aims to spearhead the inclusion of private sector policy proposals during AfCFTA negotiations (Ivudria, 2022).

In November 2022, the AfCFTA Council of Ministers in charge of Trade adopted the AfCFTA protocols on investment, competition and intellectual property rights (IPR) (GMI, 2022). Based on ODI interviews, it is understood that the AU Heads of State noted these protocols in November 2022, and, pending a legal review, they are expected to be formally adopted in February 2023. Following this, the member states will need to ratify the protocols. Compared with other countries in Africa, Rwanda is relatively well prepared for the next phases of AfCFTA negotiations in terms of having relevant legislation in place.

Rwanda has a competition law (Dawar and Lipimile, 2020), enacted its Investment Code in 2015 and has had a protection of intellectual property law since 2009 (WTO, 2019). Rwanda amended the Investment Code in February 2021, introducing priority sectors and activities (e.g. mineral exploration, construction or operation of industrial parks, transport, logistics and electric mobility, horticulture and cultivation of high-value plants, creative arts, skills development) (UNCTAD, 2021b). The new Investment Code also introduces various new tax incentives, including several aimed at establishing Kigali as a regional financial hub and tax incentives for philanthropic investors, angel investors and strategic investment projects, among others (ibid.). In terms of the digital economy, Rwanda put in place its Data Revolution Policy in 2017, and has been gaining momentum in transforming itself into a digital hub (Banga et al., 2021).

To enable smooth implementation of the AfCFTA, Rwanda may benefit from expediting the implementation of its national AfCFTA strategy as well as undertaking a gap analysis comparing commitments with AfCFTA provisions and domestic legislation and regulations.

# 4 Opportunities and challenges for Rwanda's trade and investment

Based on the analysis in the previous sections of Rwanda's macroeconomic performance, trade and investment landscape, and AfCFTA implementation, Table 4 summarises Rwanda's strengths, weaknesses, opportunities and risks for key stakeholders (e.g. policy-makers, traders/investors, international donors) to consider for Rwanda to make the most out of trade, investment and the AfCFTA.\

**Table 4 Rwanda's strengths, weaknesses, opportunities and risks**

Strengths	<ul style="list-style-type: none"> <li>• built up years of strong political, social and human capital</li> <li>• strong and fast growth before the pandemic, with quick (V-shaped) recovery at 10.9% GDP growth in 2021; projected 6.8% annual average GDP growth in 2022–2025, which is higher than the 3.9% forecast for sub-Saharan Africa</li> <li>• above African average performance in terms of trade logistics, business environment and conduciveness of institutional and regulatory frameworks</li> <li>• prepared AfCFTA implementation strategies and Policy Guide for Trade in Services with AfCFTA markets, with identified priority sectors in goods and services</li> <li>• existing legislation and policies on competition, investment and digital data, which are relevant for the next phase of AfCFTA negotiations</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• country's small market size</li> <li>• difficulties in accessing quality local labour</li> <li>• high production costs related to transport, financing and electricity</li> <li>• less diversified goods exports (e.g. substantial share and increasing gold exports, especially since the pandemic) and services exports (e.g. more than 50% from tourism receipts), exposing the economy to global demand shocks</li> <li>• increased pressures on inflation, public debt and food security concerns amid spillover effects of the Russia–Ukraine war and global financial tightening</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>• membership of several regional communities in East, Central and Southern Africa, which can be leveraged to capture continental market base</li> <li>• higher than world average return on FDI in Rwanda</li> <li>• significant increase in exports of prepared food products and medical and surgical instruments in 2021, potentially triggered by increased demand during the pandemic; this demonstrates increasing efficiency in these products, which may be further supported through export promotion or interventions to increase competitiveness</li> <li>• investment opportunities in the services sector, leveraging relatively low trade restrictions in commercial banking, road freight and distribution, and strong performance prior Covid-19 of the tourism sector (including capacity in hosting international conferences and exhibitions)</li> </ul>
Threats (risks)	<ul style="list-style-type: none"> <li>• A significant decline in external demand for exports and/or lower tourism activities owing to increasing inflation worldwide, or further oil price shocks (in the event of a protracted or escalated Russia–Ukraine war), which would widen the trade deficit</li> <li>• public debt at already moderate risk of debt distress, which may be put under more pressure with higher public expenditures to preserve the food security of the most vulnerable, combined with a higher cost of borrowing</li> <li>• adverse weather conditions that may affect major agricultural exports</li> <li>• slower-than-expected medium-term growth if significant scarring effects emerge from overlapping Covid-19 and Russia–Ukraine war shocks</li> <li>• delays in trading under the AfCFTA or higher preference to trade outside the AU owing to relatively higher costs of intra-African trade and/or domestic legislative constraints</li> </ul>

## 5 Conclusion

Rwanda has rebounded strongly from the pandemic with 10.9% GDP growth (at par with pre-pandemic 9.5% growth in 2019), supported by accelerated vaccination, the lifting of restrictions, recovery of external demand for Rwandan exports and accommodative policies. However, overlapping shocks from the lingering effects of Covid-19, global commodity price hikes induced by the ongoing Russia–Ukraine war and the recent tightening of global financial conditions are threatening Rwanda’s economic growth, and putting pressures on the country’s inflation, public debt and food security concerns. Despite the challenges, Rwanda is expected to have an annual average GDP growth of 6.8% over 2022–2025, which is higher than the average forecast (3.9%) for sub-Saharan Africa.

The relatively better growth prospects for Rwanda than those for its counterparts in Africa also reflect Rwanda’s capacity and attractiveness for trade and investment. A year after the peak of the pandemic in 2021, there was a significant increase in Rwanda’s exports of medical instruments and appliances as well as prepared food products, most of which were exported to African countries, reflecting Rwanda’s capacity to respond to external demand. Services exports started to expand again in 2022 with the resumption of Rwanda’s hostings of international meetings. Rwanda continued to attract investment commitments and greenfield projects in relatively productive sectors such as manufacturing (including vaccine production) and construction, and returns on FDI were relatively higher (9.7%) than the world average (4.9%) as of 2020.

Like many signatories to the AfCFTA, Rwanda has not had commercially meaningful trade under the AfCFTA since its launch in January 2021. To address this, Rwanda joined eight other countries in the AfCFTA Secretariat’s GTI in October 2022, which is aimed at boosting trading under the AfCFTA. The government has also taken positive steps by launching its National AfCFTA Implementation Strategy and Policy Guide for Trade in Services within AfCFTA markets with identified priority sectors, as well as creating online trade portals with necessary documents and guidelines for trading under the AfCFTA. However, the country needs to expedite validation and implementation of the AfCFTA strategy, including through extending firm-level facilitated assistance to enable trade under the AfCFTA. Rwanda also needs to prepare for the next phase of AfCFTA negotiations, on investment, competition and IPR, which may require examining the consistencies of domestic laws and regional and continental commitments in these areas.

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