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Policy Brief

Redesigning the Tax Incentive for Tourism Sector Investments in Rwanda for Biodiversity and Equity

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Executive Summary

Rwanda's corporate income tax holiday incentive applies to registered investors across several sectors, including energy, manufacturing, ICT, health, and tourism. This policy brief focuses exclusively on the tourism component of the instrument, which is designed to support the country's ambition to become a high-end, sustainable tourism destination. While the instrument has helped attract investment into tourism infrastructure, the developments it supports come with environmental trade-offs.

This brief proposes a strategic redesign of the tax incentive for tourism sector investments to better align it with Rwanda's environmental and sustainable development goals. The redesign would introduce a dual-track system for Rwanda's tourism tax incentive that retains benefits for large-scale investors while creating a new, lower-threshold access route for smaller tourism developers who incorporate certified green technologies. This shift would position tourism development as an even stronger driver of sustainable growth than it already is, and in practical terms, would reduce environmental risks posed by large scale developments for tourism activities.

The tax incentive is one of three instruments selected for redesign through the application of a rigorous analytical prioritisation and consultative process.[1] The tax incentive, alongside the Crop Intensification Programme (CIP) and the Clean Cooking Results-based Financing scheme (CC-RBF), and their proposed reforms, oriented towards biodiversity and social equity, align with relevant Rwandan sector policies, particularly Rwanda's Vision 2050.

Vision 2050 aims to achieve a nation that has a clean and healthy environment that is resilient to climate variability and change, and that supports a high quality of life for its society. Vision 2050 presents a sustainable growth and development pathway, centred on economic diversification, in terms of the use and management of natural resources, while building resilience to cope with the impacts of climate change. This pathway links the high quality of life desired for Rwandan people, with the quality of the natural and the built

Introduction

Rwanda's tourism sector plays an important role in economic development, contributing to foreign exchange earnings, employment creation, and the country's global brand.[2] In 2023, tourism revenues reached a significant milestone, surpassing the USD 500 million mark for the first time.[3] In line with national aspirations for low-volume, high-value tourism, investment has surged in lodges, resorts, and tourism infrastructure, particularly in and around areas of natural significance.[4] To stimulate such investment, Rwanda, among other incentives, offers a seven-year corporate income tax holiday to registered investors who commit a minimum investment within eligible sectors including tourism.[5]

The tax incentive operates as a fiscal mechanism to stimulate private investment:

- Investors must commit a minimum of USD 50 million in a qualifying tourism project, with 30% financed through equity.
- Applications are submitted to the Rwanda Development Board (RDB), which assesses proposals in collaboration with other government agencies.
- Upon approval, the seven-year corporate income tax holiday is granted.
- Ongoing compliance is overseen by the Rwanda Revenue Authority (RRA), but there are no requirements for sustained environmental performance beyond initial approval.

Unaccounted Ecological Costs

While tourism in Rwanda contributes to conservation financing and raises environmental awareness, its associated infrastructure developments and activities lead to ecological costs (listed below). *Currently, significant data gaps in measuring the impacts of tourism developments limit the ability to quantify these impacts, leading to reliance on anecdotal reports.*

- Habitat fragmentation, caused by roads, trails, and lodges, which disrupts wildlife corridors and restricts species movement.
- Vegetation clearance and deforestation, particularly around national parks and buffer zones, leading to the degradation of sensitive ecosystems.
- Water pollution, including contamination in urban wetlands. Note, Kigali's wetland area shrank from 100 km^2 in 2013 to 72 km^2 in 2019 due to encroachment, resulting in the loss of natural filtration and increased polluted runoff.[6]
- Increased human-wildlife conflict, driven by habitat encroachment and species displacement.

Local communities – despite their dependence on the affected ecosystems – are often excluded from tourism planning and decision-making processes.[7] Although Environmental Impact Assessments (EIAs) are formally required, they are reported to be biased in favour of investor interests, weakening ecological safeguards.[8] Corporate Social Responsibility (CSR) initiatives typically focus on social services rather than environmental stewardship, and there is no requirement to disclose how tax-exempt revenues contribute to biodiversity conservation or ecosystem restoration.

Recommendations for Policy Redesign

To better align the tourism tax incentive with Rwanda's environmental and green growth ambitions, a redesign is proposed to broaden access while promoting the adoption of green technologies in the sector. Currently, eligibility for the tax holiday is limited to investors committing over USD 50 million with a 30% equity requirement. This structure limits uptake and excludes smaller scale but environmentally responsible tourism developers. The revised model introduces a two-category system:

- **Large-scale investment track (current):** Maintains the existing criteria – USD 50 million investment and 30% equity requirement – as an eligibility pathway for the seven-year corporate income tax holiday.
- **Green technology track:** Introduces a new eligibility pathway for smaller tourism investments that integrate certified green technologies. This includes the use of sustainable building materials, energy-efficient systems (e.g. solar power, efficient water use systems), and other technologies that reduce environmental footprint. Investors in this category qualify for the same tax incentive benefits but at a lower investment and equity threshold, subject to REMA-defined green technology criteria and verification mechanisms.

This dual approach maintains investment scale incentives while creating a new pathway for environmentally aligned businesses to access the tax benefit.

Rwanda has made green technology a pillar of its development strategy, with government-led initiatives spanning policy, finance and partnerships. National frameworks like the Green Growth and Climate Resilience Strategy identify ecotourism and conservation as priority areas for green investment.

Recommended green technologies for the proposed green technology track are:

- Solar energy systems
- Water efficiency technologies
- Sustainable building materials and green design
- Solid waste management solutions
- Electric or low-emission transport

Without a redesign (Business as Usual) the tourism tax incentive remains out of reach for most small- and medium-scale developers. Investment continues to concentrate in a few high-capital projects, often with limited environmental innovation beyond compliance. Over time, the sector may risk becoming less responsive to Rwanda's sustainability ambitions, with limited uptake of green technologies and little incentive for developers to go beyond minimum standards. This path restricts market diversity, slows down innovation, and reduces the potential for widespread environmental benefits.

With the introduction of the Green Technology Track, a broader range of investors – particularly local and regional developers – gain a viable entry point into the market. The incentive encourages the adoption of low-carbon technologies and sustainable design practices across a wider range of tourism projects, from eco-lodges and community-based tourism to mid-sized hotels. Over time, this drives a structural shift in the sector, where environmental performance becomes a competitive advantage. The landscape of tourism investment becomes more inclusive, diverse, and climate-resilient, supporting Rwanda's vision of a green economy. REMA's oversight of standards and compliance ensures that environmental claims translate into measurable impact.

Pathways for Implementation

The action plan outlined in the box that follows aims to enable the REMA to advocate for a redesign of the tax incentive that introduces a dual-track system for Rwanda's tourism tax incentive that retains benefits for large-scale investors while creating a new, lower-threshold access route for smaller tourism developers who incorporate certified green technologies. It outlines concrete steps for stakeholder engagement, legal review, full-scale implementation, and adaptive management – ensuring that tourism development continues to contribute meaningfully to Rwanda's sustainability and equity objectives.

Conclusion

Redesigning Rwanda's tax incentive for tourism sector investments presents a strategic opportunity to safeguard biodiversity while reinforcing the country's position as an African leader in sustainable tourism. By conditioning fiscal incentives on the adoption of green technologies, Rwanda can ensure long-term resilience, community benefit, and ecological integrity – aligning tourism development with the principles of sustainability and equity embedded in Vision 2050.

Action Plan for Subsidy Redesign and Implementation

1. Align objectives for revised tax incentive:
- Initiate discussions with RDB, RRA, MINECOFIN, MINICOM, and REMA on proposed dual-track incentive design

2. Ensure institutional coordination for implementation:
- Form TWG with REMA, RDB, RRA, and other key agencies to guide policy, including private sector and conservation inputs

3. Align legal and strategic frameworks with redesigned incentive:
- Review Investment Code and Tourism Master Plan
- Draft legal changes to support green tech eligibility

4. Define and validate green technology criteria
- Draft environmental performance criteria (energy efficiency, sustainable materials, etc.) and validate with stakeholders

5. Pilot the redesigned incentive framework
- Select pilot projects integrating green tech under new eligibility
- Monitor and document lessons

6. Build compliance monitoring capacity
- Conduct trainings for REMA and RRA
- Develop digital tools for environmental compliance tracking

7. Legislate and operationalise new incentive structure
- Facilitate submission and passage of legal amendments enabling new eligibility pathway and enforcement rules

8. Implement full dual-track tax incentive
- Roll out new framework
- Communicate criteria and eligibility through RDB investment channels

9. Monitor and enforce environmental compliance
- Conduct regular audits and site visits; enforce penalties for non-compliance

10. Report publicly on results and impact
- Develop dashboard and publish annual performance and compliance summaries

11. Evaluate impact and refine policy
- Conduct a full evaluation of environmental and economic outcomes
- Revise incentive as needed

12. Scale approach and mainstream green investment incentives
- Identify sectors for replication
- Engage ministries and partners to expand use of green incentive design

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