

Unlocking Rwanda's Export Potential: Removing Structural Bottlenecks

Habtamu Fuje, Irena Jankulov Suljagić, Priscille Mikebanyi, Xingyu Pu,
and Gabor Pula

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IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on November 14, 2025. This paper is also published separately as IMF Country Report No 25/320.

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Prepared by **Habtamu Fuje, Irena Jankulov Suljagić, Priscille Mikebanyi,**
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ABSTRACT: Rwanda's export base remains narrow and concentrated, limiting diversification and contributing to persistent external imbalances. Despite strong growth and substantial public investment, competitiveness challenges—including high logistics costs, limited value addition, and weak integration into global value chains—have constrained export performance. This Selected Issues Paper assesses the structural and macroeconomic factors holding back export expansion and identifies policy priorities to unlock Rwanda's export potential. Reforms to improve trade facilitation, strengthen the investment climate, enhance productivity, and promote private-sector-led value addition would support diversification, improve external sustainability, and strengthen resilience in an increasingly uncertain global environment.

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SELECTED ISSUES PAPERS

Unlocking Rwanda's Export Potential: Removing Structural Bottlenecks

Rwanda

Prepared by Habtamu Fuje, Irena Jankulov Suljagić, Priscille Mikebanyi, Xingyu Pu, and Gabor Pula¹

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RWANDA

SELECTED ISSUES

November 14, 2025

Approved By African Department	Prepared by Habtamu Fuje, Irena Jankulov Suljagić, Priscille Mikebanyi, Xingyu Pu, and Gabor Pula under the guidance of Albert Touna Mama.
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UNLOCKING RWANDA'S EXPORT POTENTIAL: REMOVING STRUCTURAL BOTTLENECKS

Summary: Rwanda's export landscape is anchored in primary commodities and a small set of trading partners, prompting concerted initiatives to diversify and expand its export base. Despite progress in improving trade openness, logistics, and institutional capacity, the country continues to experience difficulty boosting its net-export earnings due to high import needs and weak export services. The government's Vision 2050 and the National Strategy for Transformation provide a strong framework to address these challenges through targeted efforts in industrial development, trade facilitation, regional integration, and capacity building. This SIP outlines strategic priorities and development initiatives to support Rwanda's export competitiveness, foster economic diversification, and promote sustainable growth.

A. Introduction

1. Owing to structural factors, diversifying and expanding the export base remains a key challenge for Rwanda. Export competitiveness is a critical pillar of the Rwanda's long-term Vision 2050 to achieve high-income status. This commitment is operationalized through the 2024–2029 National Strategy for Transformation (NST2) with a focus on industrial development and export promotion, which has started to yield some results. Despite policy efforts, the country continues to face a persistent trade deficit partly due to sticky goods imports as well as services export sector whose full potential is yet to materialize. This deficit is symptomatic of a narrow export base composed mainly of primary products, constrained by deep structural challenges including human capital gaps, geographic disadvantages such as landlockedness and distance from major markets, and the critical need to improve transport logistics and strengthen private sector participation for broader market integration.

2. This selected issues paper (SIP) provides a detailed analysis of export performance and impediments and proposes policy pathways. The SIP will assess both non-price factors—such as product composition, diversification and export survival—and price competitiveness. It identifies structural impediments to export growth and outlines policy priorities to enhance competitiveness and narrow Rwanda's external gap, drawing comparisons with regional peers.

B. Rwanda's Trade Deficit: A Structural Challenge

3. Rwanda's external position has been marked by persistently high trade imbalances. Current account deficit averaged well above 10 percent of GDP and reached nearly 15 percent in recent years, which is deeper than that of many Sub-Saharan Africa (SSA) peers—even after accounting for Rwanda's lower income level. In contrast to some East African Community (EAC) countries that have managed to narrow their external imbalances as income rose, Rwanda's trade deficit has shown only marginal improvements, indicating its structural nature.

4. The imbalance stems from weak exports and strong import demand. Rwanda's export base is narrow, dominated by a few primary commodities like tea, coffee and mineral products that are vulnerable to global price volatility. Efforts to diversify into horticulture, light manufacturing, and services are under way but remain small in scale. The weak export performance is due to structural constraints—including landlockedness, logistic challenges, high transportation costs, skill gaps, and so on—that reduce export competitiveness. By contrast, imports have expanded rapidly, driven by food, fuel, construction materials, and capital goods that underpin Rwanda's investment-led growth model. The import content of domestic production is also increasing, with consumer demand shifting toward a greater share of imported goods in the consumption basket.

5. Two structural factors explain why trade deficit has persisted despite export growth:

- Sticky imports. More than half of the increase in exports-to-GDP since 2016 came from gold and re-exports, which require high import content. Imports have therefore risen in parallel with exports, preventing an improvement in the trade balance (Figure 1).
- Limited contribution of services. Services have not generated a sufficient surplus to offset goods trade deficits. While travel and ICT exports expanded, these were fully offset by deficits in transport services.

6. The story of Rwanda's trade deficit is therefore one of a country growing faster than it can build up its exports. Rapid domestic demand and investment have outpaced the capacity of the export sector, leaving a significant gap financed by external resources. As the external resources may become more limited in the future, strengthening Rwanda's export capacity becomes essential to securing external sustainability in the years ahead. In short, Rwanda's trade deficit reflects both the success of its growth model—sustained investment and rising incomes—and one of the sources of its vulnerabilities.

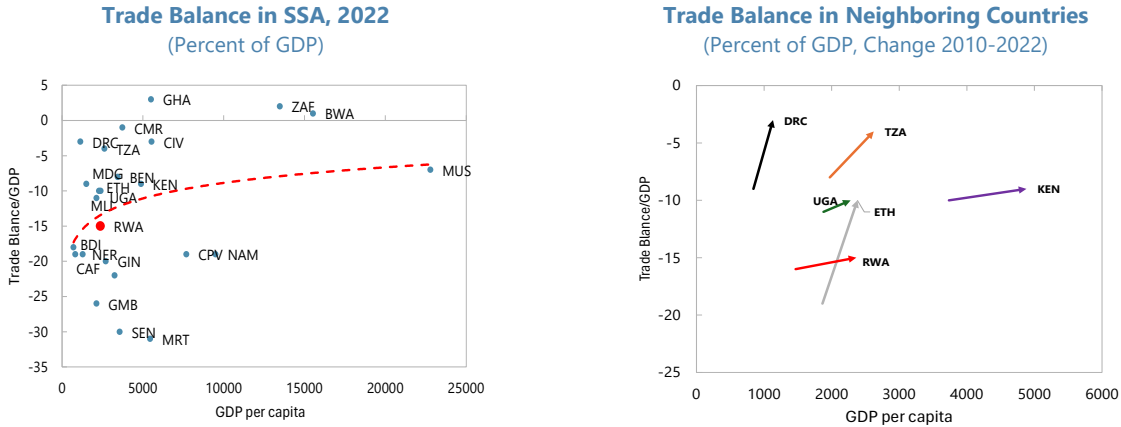
7. Export performance presents a mixed picture of growing dynamism alongside persistent structural weaknesses. Trade openness has steadily increased, with exports and imports together representing a growing share of GDP that now exceeds regional peers (Figure 1). Rwanda has also managed to increase its world goods' export market share, *albeit* from a low base, and the export sector has shown dynamism through the introduction of new products in agro-processing, light manufacturing, and digital services. Service exports—tourism, conference hosting, ICT, and transport—have gained visibility but its growth has stalled in recent years (Figure 2).

C. Structural Underpinnings of Rwanda's Exports

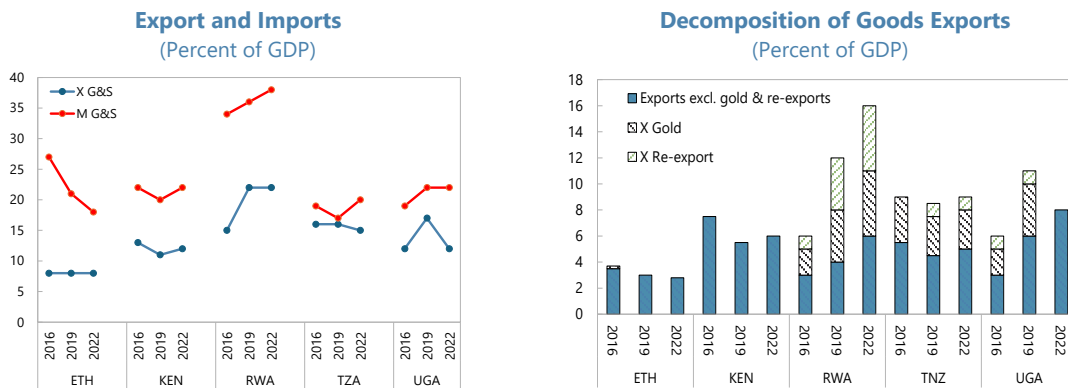
8. Growth and diversification of exports remain central to sustain Rwanda's strong economic performance and address persistent external imbalances. Cross-country evidence suggests that until countries reach advanced-economy status, diversification in production and exports is positively associated with higher per capita income (Imbs and Wacziarg 2003). More diversified production structures are also linked to lower output volatility and greater macroeconomic stability (Ghosh and Ostry 1994; Bleaney and Greenaway 2001). As it is the case for

other low-income countries (LICs) in SSA, broadening the export base is therefore critical for Rwanda in order to strengthen its resilience against external shocks and reduce persistent trade imbalances.

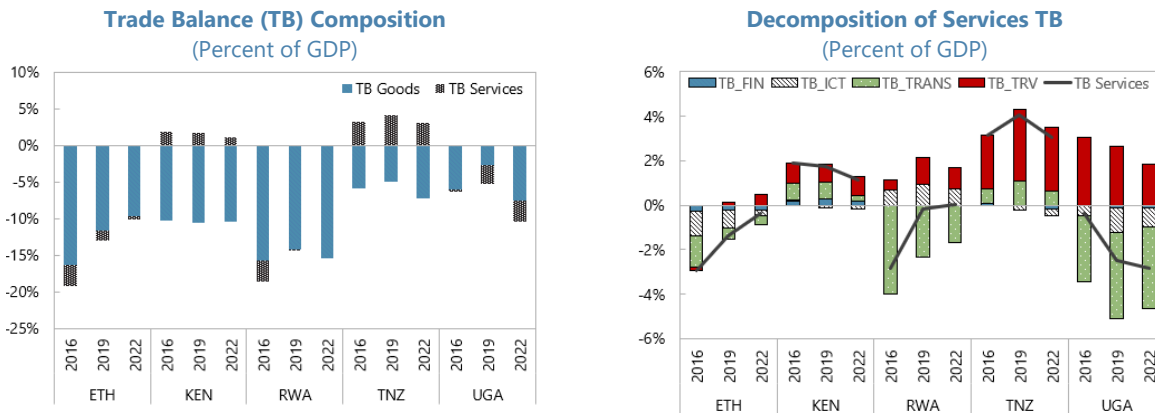
Figure 1. Rwanda: Trade Deficit Has Been Persistently Larger Than Its Peers'



Sticky imports partly explain Rwanda's persistent trade deficit ...

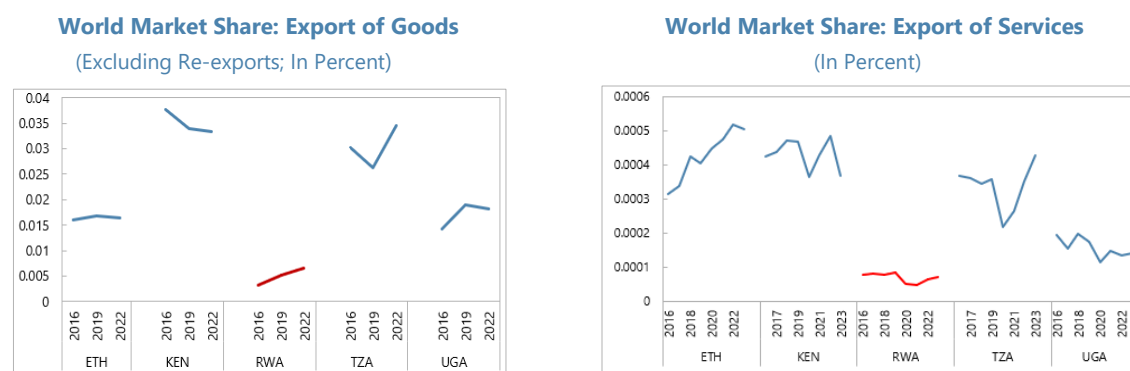


... while services trade has not created any surplus to offset the high goods deficit



Note: TB=Trade balance, FIN=finance, ICT=Information communication technology, TRANS=Transport services, TRV=Travel and tourism services, ETH=Ethiopia, KEN=Kenya, RWA=Rwanda, TNZ=Tanzania, and UGA=Uganda.

Source: UNCOMTRADE, the Growth Lab at Havard University and IMF Staff Calculations

Figure 2. Rwanda: World Market Shares in Goods Increased but Services Appear Stagnated

Source: Growth Lab at Harvard University and IMF Staff Calculations.

9. However, limited diversification in export products and trading partners continues to be intrinsic features of the external sector. Rwanda's export earnings have historically been dependent on a narrow range of traditional primary products such as coffee, tea, and minerals as well as a limited set of trading partners, like neighboring DR Congo, China and recently UAE. Rwanda's export structure has also become increasingly concentrated in recent years, with gold accounting for nearly one-third of total goods exports by 2022, up from less than 1 percent in 2010 (Figure 3). Non-traditional exports such as horticulture, light manufacturing, and ICT remain relatively small. Similarly, Rwanda's exports were spread across a relatively diverse set of partners including China, the United States, and several European and African markets in 2010. By 2022, however, exports had become heavily concentrated in the United Arab Emirates (36 percent) and the Democratic Republic of Congo (24 percent), largely reflecting gold re-exports and regional trade flows (Figure 3). As a result of elevated product and market concentrations, Rwanda's external sector continues to be exposed to structural vulnerabilities emanating from global commodity price fluctuations and market disruptions.

10. A significant share of the current export basket is also linked to downstream participation in global value chains (GVC). Rwanda imports intermediate goods, refines or processes them (e.g., gold), and then re-exports, implying a high share of foreign value-added in its exports. While this has boosted overall GVC participation, Rwanda's role remains primarily downstream. By contrast, more industrialized peers (e.g., Kenya's car assembly) are increasingly engaged in upstream activities, which carry stronger technology and productivity spillovers. However, recent large-scale FDI in strategic infrastructure illustrates Rwanda's efforts to position itself more centrally in regional and global value chains. By enhancing logistics capacity, reducing transport costs, and strengthening its role as a services and trade hub in the medium- to long-term, such investments could generate positive spillovers for both goods and services exports, provided they are complemented by broader reforms. Participation in GVC, particularly at upstream stages where domestic value-added feeds into third-country exports, enhances productivity and growth (Raei and Ignatenko 2019). For Rwanda, this suggests that deeper integration within EAC and fuller participation in the African Continental Free Trade Area (AfCFTA) could deliver substantial growth dividends (Box 1).

Box 1. Determinants of African Firms' Exports and Participation in Global Value Chains

The African Continental Free Trade Area (AfCFTA)—signed by 54 countries, covering 1.3 billion people and a \$3 trillion GDP—is the world's largest free trade area. Yet, Africa's trade remains below its potential. Exports are dominated by commodities, services exports are stagnant, and intra-African trade accounts for only 15 percent of total exports, albeit more diversified and processed than exports to the rest of the world. High tariffs (about 6 percent), large nontariff measures (roughly equivalent of 18 percent tariff), and weak trade and transport infrastructure continue to constrain integration. Against this backdrop, AfCFTA implementation could be transformational, shifting Africa from a fragmented, commodity-dependent trade structure to a dynamic and diversified continental market.

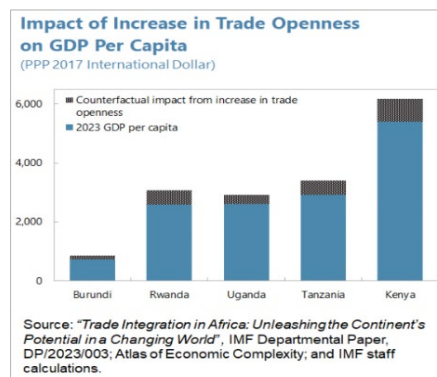
Firm-level data from the World Bank Enterprise Surveys provide insights into what drives African firms to export and participate in global value chains (GVCs). The Survey covers 96,000 firms across 45 countries during 2010–22 period. Export activity is assessed through three measures (i) exporter status (≥ 10 percent of sales exported), (ii) GVC participation (≥ 10 percent exports and ≥ 10 percent imported inputs), and (iii) export intensity (exports-to-sales ratio). The findings suggest that firm behavior is shaped much more by domestic operating conditions than by tariffs.

Key Determinants of Export and GVC Participation:

- *Trade environment.* Customs clearance times, access to finance, reliable energy and transport infrastructure, and security conditions strongly shape export behavior. For GVC participation, customs efficiency and access to imported inputs are particularly critical.
- *Firm characteristics.* Larger, older, foreign-owned firms, and those located in major cities are more likely to export. Female ownership is also positively associated with export propensity.
- *Skills and innovation.* Firms with better-trained employees, skilled managers, and those introducing new products or processes are significantly more export-active.
- *Market conditions.* Competition from informality and corruption in procurement reduce the incentives for formal firms to engage in exports.

For African firms, the decisive factors for exporting and joining GVCs lie less in tariff policy and more in the domestic trade environment. Complementary reforms to customs, finance, infrastructure, skills, and governance are essential for AfCFTA to realize its full potential. For Rwanda, improving trade and export competitiveness could translate into better living standards.

Source: IMF 2023 "Trade Integration in Africa: Unleashing the Continent's Potential in a Changing World"; Departmental Paper No. 2023/003. Washington, DC.



11. To boost economic gains from trade, Rwanda would therefore need to enhance the composition, quality, and skill intensity of its export basket. Its current export products are characterized by low technology and skills utilization, i.e., low levels of sophistication, and hence fetch low prices in the global market. Primary commodities and resource-based products dominate, while medium- and high-technology products account for less than 10 percent of exports. The overall export sophistication of Rwanda has declined largely due to the rising dominance of gold (Figure 3). To fully capture the benefits of international trade, the country needs not only to introduce new products and reach new markets but also significantly improve the quality and sophistication of its existing exports. Evidence consistently shows that goods and services with higher sophistication significantly contribute to long-term growth (Hausmann et al. 2007; Mishra et al. 2011), and that skill intensity of exports matters—with concentration in medium-skill

manufactured export products generating larger growth benefits compared low-skill intensity products (Beaton et al. 2017). This is critical for Rwanda as the high concentrated and low-skilled export basket can impede its potential economic gains from trade. Its investments in ICT and digital services are promising, but these sectors are still at an early stage and have yet to significantly alter the technological profile of the export basket.

12. Rwanda’s products have also low trade complementarity with its neighbors’ output and low survival rates. Trade complementarity with regional partners has improved in recent years, and yet Rwandan export products remain broadly similar to that neighboring Kenya, Uganda and Tanzania. Furthermore, Rwanda is characterized by low survival rate of new products, with many of which disappear after a short period, underscoring the nascent stage of industrial development, weak competitiveness and lack of scale (Figure 3).

13. Diversification into new products or industries typically proceeds gradually, through intermediate stages that build on existing comparative advantages. Standard trade theory would suggest that as Rwanda accumulates factors of production—labor, capital, and skills—its comparative advantage should evolve passively toward more sophisticated products. However, the “product space” framework developed by Hidalgo et al. (2007) highlights that diversification is not automatic: every product requires highly specific capabilities, and moving to more complex products is easier when a country already produces goods located in the dense core of the product space.

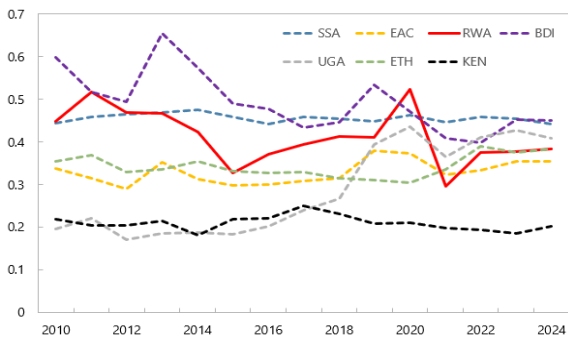
14. The implication is that upgrading Rwanda’s export base will take time and sustained policy effort. Moving from peripheral to core products will require targeted investments in skills, technology, and supporting industries. Broadening the scope of foreign direct investment and fostering linkages between services, agro-processing, and light manufacturing, could help Rwanda gradually reposition itself in the product space and unlock opportunities for structural transformation.

D. Impediments to Export Diversification and Growth

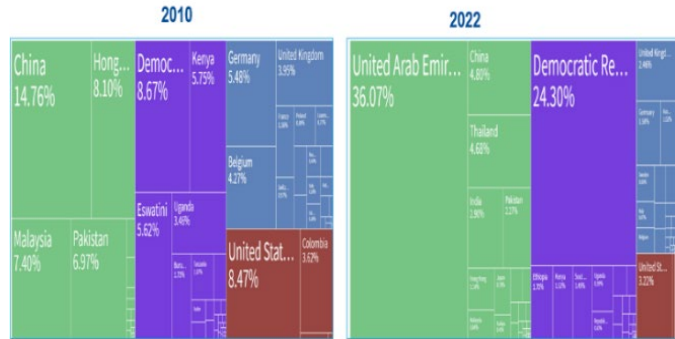
15. Export growth and diversification in Sub-Saharan Africa are driven by a combination of structural and policy factors that shape countries’ competitiveness. The IMF study (Salinas 2021) was applied to sub-Saharan countries to identify several key factors driving export growth and diversification in the region. These include logistics and infrastructure quality, human capital and skills development, institutional strength (such as governance, labor market flexibility, and the role of the state-owned enterprises/SOEs), and tariff barriers. Addressing these gaps through targeted policy reforms is essential to enhance export performance. This section examines Rwanda’s position relative to other SSA countries and its EAC peers across these key drivers of export growth and diversification.

Figure 3. Rwanda: Exports Products Remain Less Diversified and Destined to Few Markets

Export Product Concentration Index
[Index Range: 0 (lowest) to 1 (highest)]

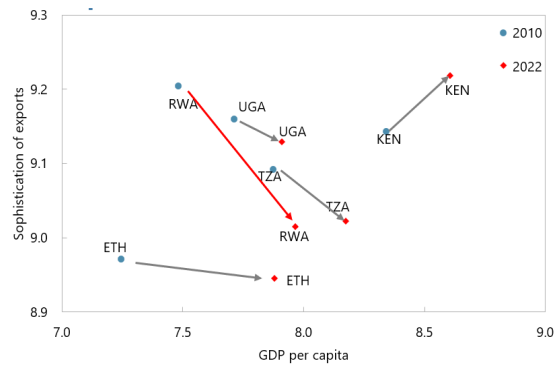


Market Concentration
(Percent of Total Export)

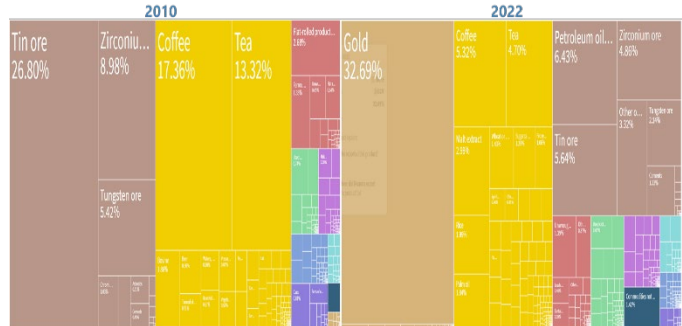


... and their sophistication has also declined partly due to growing share of gold ...

Sophistication of Exports and GDP per Capita
[Index Range: 0 (low) to +∞ (high)]



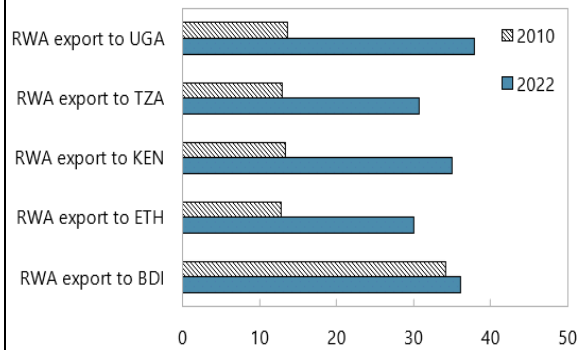
Gold Took Increasing Share of Total Goods' Exports
(Percent of Total Goods Export)



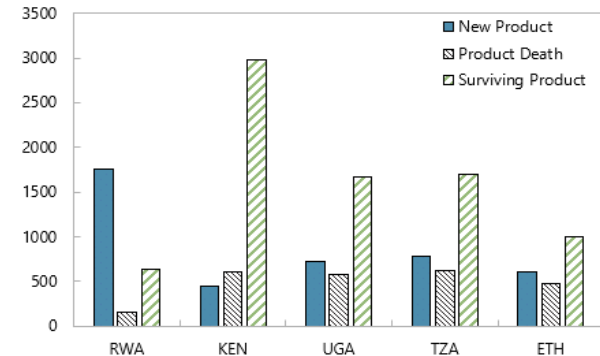
Note: In 2010, gold's share was too small (below 0.1 percent) to even show in the chart.

... and their complementarity with neighbors' products improved, but their survival rate is low

Trade Complementarity
[Index Range 1 (low)-100 (high)]



New, Extinct, and Surviving Products
(Number of Products, 2010–2022)



Source: UNCTAD, UNCOMTRADE, Growth Lab at Harvard University and IMF staff calculations.

16. Rwanda’s trade pattern reflects a set of logistics and infrastructure impediments that limited its ability to diversify its export base and markets. Evidence shows that proximity to large, high-income markets is associated with greater opportunities for technology transfer, export upgrading, and integration into global value chains (Behar and Freund 2011). Geography and landlockedness limit the scope of export growth and diversification by complicating logistics and increasing transportation costs. Much of Rwanda’s international trade flows through Kenya and Tanzania, leading to high dependence on the Mombasa and Dar es Salaam corridors. This makes Rwanda vulnerable to external shocks (e.g., regional logistical bottlenecks or border closures) and leaves the country on the periphery of the global trade network. This reduces competitiveness relative to coastal economies and constrains export expansion beyond traditional products. Regional integration—through EAC and AfCFTA—offers an opportunity to mitigate these disadvantages by expanding market size and reducing non-tariff barriers.

17. Partly owing to its geographic disadvantage, Rwanda ranks low in global logistics performance. Despite its landlocked status, its position in the global Logistics Performance Index (LPI) ranking improved from 151st in 2010 to 57th in 2018, placing it above the EAC and SSA averages, before declining to 73rd. Two LPI subcomponents primarily drove both the improvement and subsequent decline: timeliness (delivery of shipments within the expected timeframe) and international shipments (ease of arranging competitively priced international shipping). In terms of the cost of trading with neighboring countries, substantial progress was made up to 2010, largely due to a series of trade reforms (Box 2), but the momentum has since stalled (Figure 4).

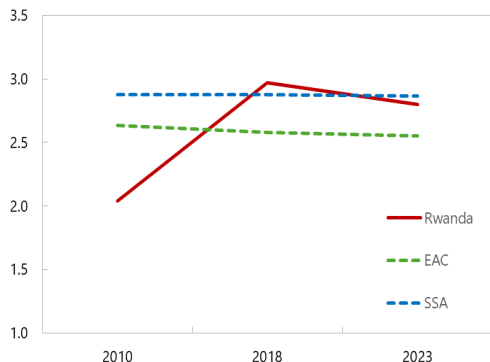
18. To fully realize its potential, Rwanda must further develop the skills required by exporters, manufacturers, and service industry. Diversification into higher value-added and more complex products requires a workforce with adaptable skills and technical capacity (Hausmann et al. 2007). While Rwanda has made important gains in education, it performs below SSA and EAC neighbors in terms of human capital (Figure 4). More investment is needed in secondary and tertiary enrollment, technical and vocational training, and STEM competencies. These shortfalls hinder the development of sectors such as ICT, agro-processing, and light manufacturing, and limit Rwanda’s participation in global value chains. Addressing skills mismatches through targeted education reform and vocational training will be critical for supporting a more diversified export structure.

19. Institutional quality is a key determinant of export diversification, as effective governance lowers uncertainty, fosters private investment, and ensures efficient resource allocation (Rodrik et al. 2004). Rwanda stands out in SSA for its strong governance indicators and ease of doing business, which have supported investment in tourism and services. Nonetheless, challenges remain in reducing the prominence of SOEs in competitive sectors, improving SOE governance, and ensuring a level playing field for private investment. Over the past few decades, SOEs have played a vital role in rebuilding Rwanda’s economy and infrastructure, spurring growth, and delivering essential services. Going forward, their roles should be redefined to limit participation in competitive sectors, advance ongoing privatization, and leverage private finance through public–private partnerships where appropriate (IFC 2019). Deepening on financial sector development and sustaining reforms to regulatory quality will also help foster private sector–led diversification.

Figure 4. Rwanda and Neighboring Countries: Structural Factors: Weak Logistics and High Transport Costs

Logistic Performance Index (LPI)

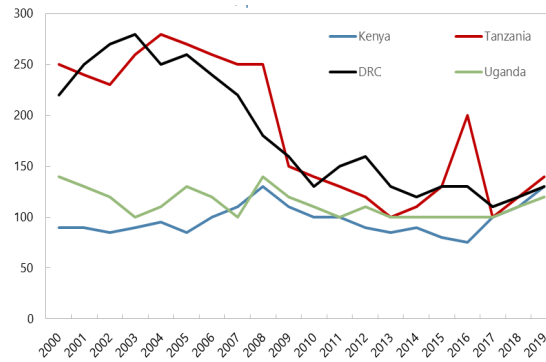
[Index range: 1 (lowest)-5 (highest)]



Source: World Bank Logistics Performance Index (LPI)

Rwanda's Trade Costs with its Neighbors

(Ad Valorem Trade Cost, percent)

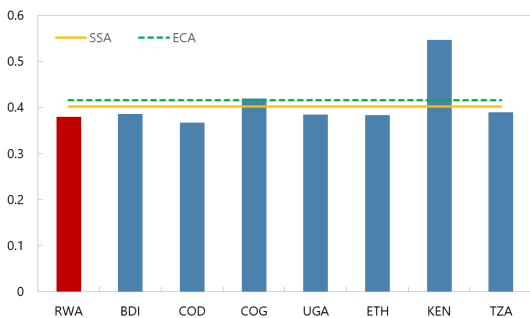


Source: WB (2022) Rwanda Economic Update, January 2022

... along with low human capital and prominence of SOEs in competitive sector pause challenges to export growth and diversification.

Human Capital Index, 2020

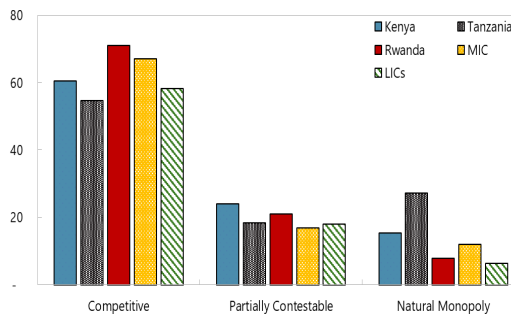
[Range: 0 (low) to 1 (high)]



Source: World Bank Development Indicators

SOEs by Sector

(Percent share of SOEs)



Source: World Bank Staff Elaboration Based on Businesses of State (BOS) database.

E. Price Competitiveness

20. Rwanda's external competitiveness has been supported by exchange rate dynamics and relative price adjustments. Since 2015, the nominal effective exchange rate (NEER) has depreciated steadily, reflecting policy efforts to maintain competitiveness and facilitate external adjustment. The real effective exchange rate (REER) has also trended downward, but to a lesser extent, as episodes of relatively high domestic inflation have partly offset gains from nominal depreciation (Figure 5).

Box 2. Selected Trade and Logistics Reforms in Rwanda

Rwanda has implemented a series of strategic trade facilitation initiatives aimed at enhancing export competitiveness, reducing trade costs, and improving the efficiency of cross-border transactions. These efforts leverage digitization, infrastructure development, regulatory reforms, and regional cooperation to strengthen the country's integration into global and regional markets.

Initiative and Policy Area	Key Action / Mechanism	Measurable Impact on Trade
A. Digital Trade and E-Commerce	Rwanda Electronic Single Window (ReSW) centralizes all import/export document submissions.	Clearance time reduced from 11 days (2012) to 1.5 days (2014).
	e-Commerce Partnerships (e.g., Alibaba's eWTP) and digital infrastructure (e.g., Huawei).	Rwandan coffee sales volumes on Alibaba rose by seven folds. Facilitates virtual trade fairs and capacity building.
B. Cross-Border and Regional Infrastructure	One-Stop Border Posts (OSBPs), like the <i>Rusumo</i> OSBP (Rwanda-Tanzania).	Truck clearance time was cut to under 30 minutes at Rusumo.
	EAC Common External Tarriff (CET)	The EAC customs union reform of 2005 removed tariffs among member states and applying a tiered Common External Tariff to non-members: (i) 0 percent for raw materials and other essential inputs; (ii) 10 percent for semi-processed goods; (iii) 25 percent for most finished products; and (iv) 35 percent for specific products that are produced locally in sufficient quantities (introduced in 2022). ¹
	EAC Single Customs Territory (SCT) fully implemented in 2017.	Transit times from Dar es Salaam and Mombasa ports reduced significantly from 21 and 18 days to 7 and 4 days, respectively. Transport costs decreased from US\$3,100 to US\$1,025. ²
	Inland dry Port Kigali Logistics Platform (KLP), a concession with Dubai Ports World.	Truck turnaround time reduced from about 2 weeks to 3 days.
	Air Cargo Hub development with Qatar Airways.	Critical infrastructure to boost air exports for high-value agriculture and horticulture (which comprise 50 percent of non-traditional exports).
Inland Container Depots (ICDs) strategy (forward-looking)	ICDs in Tanzania/Kenya/Djibouti expected to further cut transit time and logistics costs at seaports for Rwanda's goods. ³	

¹ See details on the EAC CET: [Customs Union](#).

² See details on the EAC SCT: [Single Customs Territory](#).

³ Anecdotal information gathered during consultation with trade authorities.

Box 2. Selected Trade and Logistics Reforms in Rwanda (concluded)

Initiative and Policy Area	Key Action / Mechanism	Measurable Impact on Trade
C. Streamlining Regulations	Reduction of licensing and permits	Quality/safety licenses broadly extended from 2 to 5 years. Export licenses are no longer required. ⁴
D. Business Environment and Incentives	The "one-stop shop" for private investment in Rwanda Development Board (RDB). Rwanda Trade Portal (2017)	RDB is One Stop Shop, with 22 institutions consolidated to provide 440 services. These services include facilitation for participation in African Continental Free Trade Area (AfCFTA) and assistance with securing necessary approvals, certificates, and work permits. The Rwanda Trade Portal provides up-to-date trade regulations and a Simplification Dashboard for continuous reform tracking. ⁵
	Business-friendly and multiple incentives for exports and priority sectors	Rwanda's World Bank Doing Business rank surged from 158th to 38th (2007–2020). Ranked No. 2 in Africa for Ease of Doing Business (after Mauritius). Key Strengths: High scores for ease of starting a business, accessing credit, paying taxes, and registering property. Offers a preferential CIT rate of 15 percent for companies exporting ≥50 percent of production or in priority sectors (0 percent for regional HQs). Provides 50 percent accelerated first-year depreciation and exemption from capital gains on assets sold. Enables duty-free imports of machinery and inputs within EAC.
E. Global Positioning	Liberal visa openness policy (since 2016) and African Union Protocols.	Rwanda has one of the most liberal visa regimes in Africa (leading Visa Openness index rank in 2023 and 2024), easing travel for business and promoting regional integration. Kigali ranked the 2 nd most popular MICE destination in Africa (ICCA ⁶ ranking) 5 consecutive years.
	10 industrial parks and Special Economic Zones (SEZs)	e.g., Kigali SEZ provides firms with access to affordable, serviced land, reduced regulatory compliance costs, and enhanced trade facilitation measures.

⁴ See details from the Ministry of Trade and Industry: [Export and Quality Licenses](#).

⁵ See the Trade Portal: [Rwanda trade portal](#).

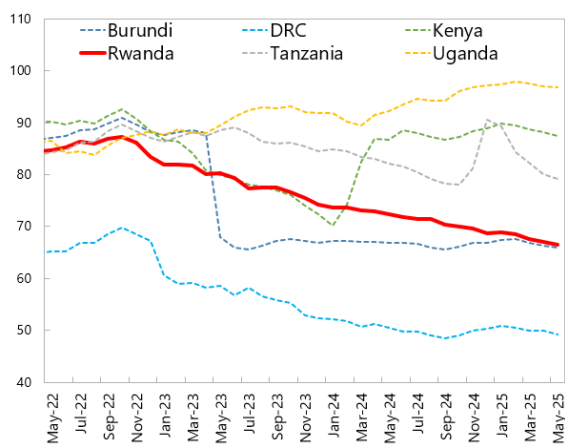
⁶ International Congress and Convention Association (ICCA).

Sources: UNOSSC (2025), East African Community n.d., Discussions with authorities, Rwanda Trade Portal n.d., Twum (2022), ALN n.d., African Development Bank Group (2024), Steenbergen and Javorcik (2017) (ALN n.d.).

Figure 5. Rwanda and Neighboring Countries: Sustained Nominal and Real Depreciation Has Improved External Price Competitiveness

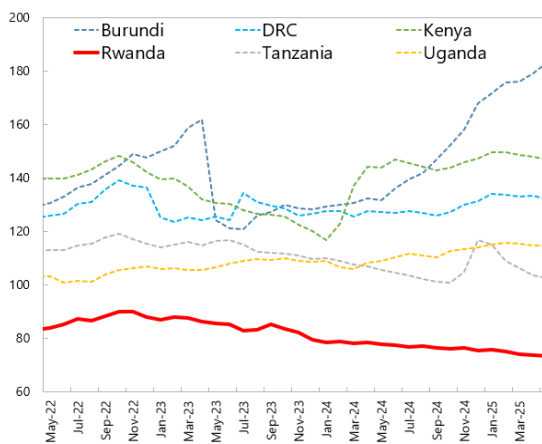
Nominal Effective Exchange Rate

(2010=100; decrease indicates depreciation)



Real Effective Exchange Rate

(2010=100; decrease indicates depreciation)



Source: IMF STA Information Notice System (INS) Database.

Note: Series unavailable for South Sudan and Somalia.

21. Despite recent REER depreciation, Rwanda's competitiveness remains impeded by structural factors. The IMF's External Balance Assessment (EBA-lite) suggests that Rwanda's REER is moderately undervalued relative to model-implied norms, consistent with a current account gap of about 3–5 percent of GDP (Annex V). These results highlight that while the exchange rate is broadly supportive of competitiveness, structural factors—such as high trade costs, limited export diversification, and quality gaps—remain the main impediments to external sustainability.

22. Maintaining price competitiveness will require anchoring inflation close to target while allowing the exchange rate to act as a shock absorber. Given Rwanda's structural current account deficit, opportunistic sterilized foreign exchange purchases can help build reserves while mitigating the risk of exchange rate overshooting during large inflows. Over the medium term, further improvements in competitiveness will depend less on relative prices and more on structural reforms to expand and diversify the export base.

F. Policy Implications

23. Overcoming impediments to export diversification and growth will require a comprehensive approach. Addressing the hard and soft obstacles entails investing in logistics and connectivity to reduce trading costs, tailoring education and training systems to address skills mismatches and meet skill demand as well as further strengthening institutions to encourage private sector-led export growth. These reforms are complementary to maintaining macroeconomic stability, which is essential for Rwanda to expand and upgrade its export base.

- Addressing logistics and infrastructure bottlenecks. The Government of Rwanda has been implementing various measures to improve logistics efficiency and ease cross-border trade,

including the introduction of Rwanda Electronic Single Window (ReSW), One-Stop Border Posts (OSBPs), EAC Single Customs Territory (SCT), Kigali Logistics Platform (KLP), and others. Despite these concerted efforts, high trade costs remain a central constraint to Rwanda's competitiveness. In the short- to medium-term, effective and relatively easier to implement measures could help ease logistics challenges: (i) the country has made progress in developing high-value, low-volume exports that leverage its air connectivity and skills base, and efforts to expand and deepen this focus should continue; (ii) the planned complementary investments in dry ports both in Tanzania and Kenya, along with customs modernization, will further enhance integration into regional and global value chains. In the long-term, completing strategic infrastructure projects such as the New Kigali International Airport and improving road and rail connectivity to the ports of Mombasa and Dar es Salaam would help reduce trading costs and broaden market access. (iii) connecting farmers to markets—though investment on storage, cold chains etc. to reduce post-harvest losses and increase their integration in the regional and global value chain; (iv) while internet coverage is high, improving digital literacy alongside increasing smartphone access is essential to fully benefit from digitized customs procedures and other digital services.

- Improving the business environment. A dynamic private sector is essential for export diversification. Key reforms include systematically reducing the role of the state in commercial activities, strengthening SOE governance, and ensuring a level playing field. Skills development and targeted investment in ICT are equally important to support both goods exports (e.g., agro-processing, light manufacturing) and services exports (e.g., ICT-enabled services, tourism), building capacity in areas such as product design, quality assurance, data analytics, and emerging technologies to foster higher value-added production and improve competitiveness across sectors. A concerted policy effort to support the sustainability of new firms and products is also essential to reduce high exit rates and ensure that entry translates into lasting export diversification, thereby sustaining Rwanda's efforts to broaden its export base.
- Capitalizing on regional integration. Regional integration can help ease Rwanda's geographic disadvantages. Deeper participation in EAC and the AfCFTA offers opportunities to expand market access, reduce non-tariff barriers, and attract FDI. Policies to improve trade facilitation, harmonize standards, and strengthen regional transport corridors would help Rwanda leverage these integration initiatives more effectively.
- Safeguarding and enhancing price competitiveness. Macroeconomic stability remains a prerequisite for external competitiveness. Maintaining inflation close to the center of the target band will help consolidate gains from nominal exchange rate depreciation. Exchange rate flexibility should continue to play a central role in absorbing shocks, supported by opportunistic sterilized FX purchases to build reserves. These measures need to be complemented by structural reforms that address underlying vulnerabilities, particularly high trade costs and the narrow export base.

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