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The Role of Non-farm Household Enterprises in Poverty Reduction, Employment Creation and Economic Growth in Rwanda

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Abstract

In this paper we consider the role that household enterprises play in Rwanda in terms of poverty reduction, employment creation and economic growth. We argue that household enterprises play a significant role in poverty reduction and providing non-farm employment. We suggest that household enterprises range from subsidiary income generating activities to owner operated businesses. We also identify three types of household enterprises: survivalist, steady employment and entrepreneurial. We conclude that their major role is in reducing poverty and providing employment. Their role in economic growth is by increasing the spending power of the operators, thereby increasing demand in the economy through the multiplier effect. Few, however, will create employment by growing into micro or small enterprises.

Key Words: *House Enterprises, Poverty Reduction, Employment, Economic Growth*

Introduction

It is clear that Rwanda needs to urgently find ways of creating employment to absorb both the existing surplus labour and new entrants to the labour market. Failure to do so will not only limit economic growth but will make it difficult if, not impossible to further reduce poverty levels and economic inequalities will remain high. The Government has correctly identified growing the private sector as the main way to increase employment as well as drive economic growth. However, it has failed to recognise the key role that Household Enterprises (HEs) play in reducing poverty and creating decent employment. To the extent it has considered HEs it has failed to recognise that they are different from enterprises that have paid employees in a number of important respects and that they need to be targeted specifically if they are to become productivity is to be increased and risks reduced.

In this paper we will look at the important role that household enterprises play in poverty reduction, employment creation and economic growth in Rwanda. Household enterprises provide non-farm income-generating opportunities and employment for those unable to earn a living from agriculture or find paid employment. We argue that it is possible to identify

three types of household enterprises: ones that provide a supplementary income for a household (thus reducing poverty), ones that provide steady employment and ones that are entrepreneurial and run as businesses. If poverty is to be reduced further and new entrants to the labour market are to be absorbed into productive employment, then support needs to be given to both the start-up of household enterprises and their on-going operation. A non-farm¹ household enterprise is an owner-operated business that is normally in the informal sector² and does not employ paid workers on a regular basis (Figure 1). Other family members may contribute unpaid labour. ‘Non-farm’ refers to those activities that are not primary agriculture, forestry or fisheries but does include trade and the processing of agricultural products even when undertaken on the farm (Gordon and Craig 2001). HEs may provide the sole employment of the operator or may be part of a strategy of individual income diversification. HEs may also be part of a household’s livelihood strategy³ and form part of the household’s portfolio of income-generating activities. In urban areas they generally provide the sole employment of the operator but in rural areas operators generally combine running their enterprise with agricultural work (Strode *et al* 2007; World Bank 2010). Those that operate from fixed locations are generally known to the authorities and pay local taxes but those that operate from home or have no fixed location have generally not registered with the authorities (FIAS 2006; Strode *et al* 2007). They may also pay VAT on goods they purchase to run their businesses and, unlike larger registered businesses, cannot reclaim this.

¹ ‘non-farm’ should not be confused with ‘off-farm’. The latter is often used to refer to all activities away from the household’s own farm, including farm laboring. For this reason we use ‘non-farm’ in this report (see e.g. Gordon and Craig (2001).

² The International Labour Organisation (2004) quotes a harmonised definition of the informal sector agreed by the Expert Group Informal Sector Statistics. The informal economy *includes private unincorporated enterprises (excluding quasi-corporations) which produce at least some of their goods and services for sale or barter, have less than five paid employees, are not registered, and are engaged in non-agricultural activities (including professional or technical activities (P17).*

³ Ellis (1999) defines a livelihood as comprising *the activities, the assets and the access that jointly determines the living gained by an individual or a household.*

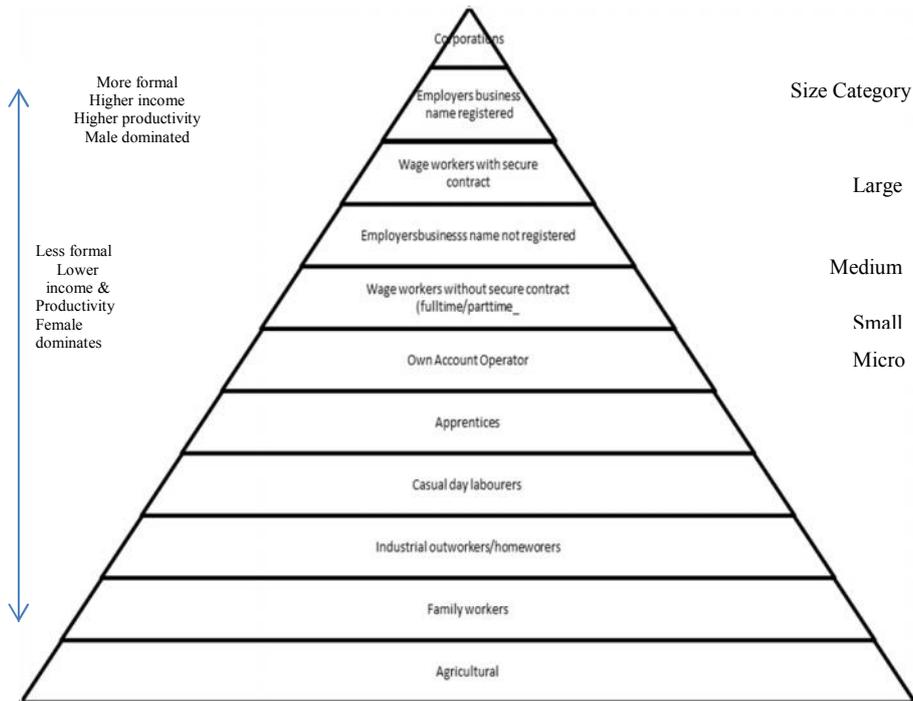


Figure 1: Degrees of Formality Segmented by Type of Work and Enterprise Size
(Source: Steel and Snodgrass 2009)

HEs can and do play an important role in poverty reduction and employment creation in rural as well as urban areas. They form an important and integral segment of the labour market, and governments need to take account of them in policy formulation, regulatory frameworks and laws as well as recognizing their diversity. In Rwanda, for example, they form the overwhelming majority of private sector enterprises and provide self-employment for about three quarters of those whose main job is not in agriculture (PSF 2008; Cichello and Sienaert 2009; Strode *et al* 2007; World Bank 2010). While their contribution to aggregate economic growth is debated (La Porta and Shleifer 2008) their importance to household livelihoods and poverty alleviation is undeniable (Snodgrass 2005). Further poverty reduction and economic growth will depend to a large extent on supporting the development and sustainability of non-farm family enterprises (Abbott and Rwirahira 2010). The need to encourage the start-up and support the sustainability and growth of HEs, especially in

rural areas, was recognised in *Vision 2020*. Indeed, there is a synergy between improving the productivity of small farms and the growth of non-farm household enterprises. Increased productivity, even on very small plots, can produce a surplus that can be sold on the market. However, beyond support with improving the productivity of their land small subsistence, farm households need support to market their goods, to set up a household enterprise. They need to know what crops to grow that will fetch the best price on the market, they need help with growing quality crops for the market, they need to be able to transport their crop to the market and they need to gain basic business skills.

The Role of Household Enterprises in Poverty Reduction and Economic Growth

Supporting the start-up and growth of HEs is important not only in providing more ‘good’ jobs (those that provide a non-poverty income) but also as providing a route out of ‘poor’ jobs and enabling individuals and households to escape poverty or at least to reduce their level of poverty. HEs can reduce vulnerability and risk as part of a household’s portfolio of activities. Households that incorporate an HE are generally better off than those that rely solely on subsistence agriculture or farm labouring (Vinck *et al* 2009). Poor households are often risk-averse, and having more than one way of sustaining their livelihood spreads risk and helps them cope with shocks.

HEs play an important role in poverty reduction, but the extent of their contribution to aggregate economic growth remains debated (Gomez 2008; La Porte and Shleifer 2008). HEs are important in providing employment for ‘surplus’ labour and may provide a route out of poverty. However, most, at best, provide an income that is sufficient for day-to-day survival, with some providing a stable income (Readon *et al* 2007). Many operators of HEs do not distinguish between personal and business finance and they do not keep records. They are operating their enterprise to pay for their daily and weekly living expenses. They are therefore vulnerable to shocks such as illness and fluctuations in demand (Gomez 2008; Cichello and Sienert 2009).

HEs can also offer income generating activities for women who operate them in combination with their other household responsibilities. Women may be running their HE in addition to agricultural work and domestic labour and do not have the time or energy to grow their enterprise (Chen *et al* 2002).

The push factors (lack of land, or of land adequate to support the household, lack of alternative employment opportunities, 'surplus' labour, risk reduction) are probably more important in driving the growth of HEs than pull factors such as a strong desire to become a self-employed entrepreneur. Further, HEs may be started to manage risk, a deliberate strategy to manage anticipated fluctuations in income by spreading risk or a coping mechanism in response to shocks (Davies 1996; Ellis 1998; Yaro 2006). HEs, especially in rural areas, are part of an individual's portfolio of activities and HE activities may be pursued seasonally when there is little agricultural work to do. Policy makers need to understand the nature and patterns of income diversification in order to produce informed policies and programmes. HEs, for example, that are undertaken because of pull factors are much more likely to result in a virtuous spiral of improved household income whilst those based on push factors are more likely to lead to stagnation or even a decline in household incomes (*et al 2007*).

The main barrier to starting up and expanding HEs have been identified as a lack of financial capital, lack of human capital (poor education), poor infrastructure (water and energy) and lack of access to markets (roads and transport) - see e.g. Steel and Snodgrass 2009.

Rwanda Country Context

Rwanda has been recognised as one of the best performing countries in Africa and as having created a very favourable 'soft' business infrastructure. Lacking natural resources it has identified building a knowledge based economy as the path it must take to sustained economic development. It has achieved political stability and is widely recognised as having a committed, credible and capable government. There has been sustained economic growth since the late 1990s, with GDP per capita increasing from US\$ 248 in 1999 to US\$ 520 in 2009 (Abbott and Rwirahira 2010) and a compounded annual growth rate of 17 per cent between 2001 and 2010 (Napier 2010). Much of this growth has been driven by the rapidly growing private sector, and not least by the growth in HEs (Cichello and Sienaert 2009). Over 75 per cent of GDP comes from services and the agricultural sector. The service sector has grown consistently over the last five years (except for 2007) but the growth in both agriculture and industry has been less consistent over the same period (Napier 2010). In 2008 agriculture account for 33 per cent of GDP, industry 15 per cent and services 45 per cent (adjustment 6 %) (Napier 2010, P22).

However, Rwanda remains one of the poorest countries in the world and is heavily aid dependent, with over 50 per cent (52.48) of revenues in 2009

coming from aid. It is resource-scarce and landlocked, both strong inhibitors to economic growth. It remains heavily dependent on rain-fed, mainly subsistence, agriculture and there is high pressure on land, much of which is degraded through exhaustion and erosion. Seventy per cent of the population are young adults and children and approximately 85 per cent of the population live in rural areas (Abbott and Rwirahira 2010). High population growth (2.8% per year) combined with many farms too small to support a family means that there is an urgent need to increase non-farm employment opportunities and grow the labour market.

To meet these challenges, there is a need to develop a competitive private sector. However, this presents a significant challenge given a limited internal market, high transaction costs, high investment risk and weak institutional capacity. Challenges that need to be overcome include: poor physical infrastructure and disadvantage geographical location, which increase transaction costs for getting goods to market both internally and externally; high energy costs; a shortage of skilled workers (Bigsten and Isaksson 2008); and low rates of saving and of domestic and inward investment. Labour productivity is low and tax rates are comparatively high (Akhalaque *et al* 2009). Other potential barriers to business start-up, including HEs, are the low proportion of the population that have bank accounts - 14 per cent in 2008 (Fin Mark Trust 2009) - poor access to IT and electricity especially in rural areas and the low ownership of telephones in rural areas (Abbott and Rwirahira 2010; Fin Mark Trust 2008; Nsengiyumva and Habumuremyi 2009). Whilst strong growth in the service sector and increased agricultural productivity provide opportunities for private sector investment and growth (including HEs) the lack of a manufacturing sector means that tools and equipment have to be imported, driving up the start-up costs for many types of business enterprise. High levels of poverty mean there is low domestic demand, with about 80 per cent of the population being mainly dependent on subsistence agriculture. This may be one reason why so many businesses, including HEs, are concentrated in commerce and trade (PSF 2008; Strode *et al* 2007).

Marginal reductions in poverty rates have been accompanied by a growth in inequalities in rural areas in recent years. In 2006, 56.9 per cent of households lived in poverty and 36.9 per cent in extreme poverty, a modest decline from the 2000 levels of 60.4 per cent and 41.3 per cent respectively. More recent comprehensive data on poverty levels are not available but there may have been a further decline in extreme poverty but little change in the overall poverty level (Abbott and Rwirahira 2010; see also: Ministry of Health *et al* 2009; Vinck *et al* 2009). The extent to which economic

growth has been translated into poverty reduction is an important issue. Pro-poor policies require that the incomes of the poor grow faster than those of the better off (Ministry of Finance 2002). Over the period 2000-6 there was a national annual consumption growth rate of 3 per cent, but also a significant growth in inequalities from a Gini of 0.47 in 2000 to one of 0.51 in 2006. However, while the Gini decreased marginally in urban areas it increased significantly in rural ones, from 0.374 to 0.439. The Gini grew most in those areas with the highest growth rates: Southern Province, with an annualised consumption growth rate of 4.3 per cent from 0.394 to 0.510; and, Eastern Province, with an annualised consumption growth rate of 6.1 per cent, from 0.382 to 0.434 (NISR 2006, P8). It is noticeable that Northern Province, which had the lowest annualised consumption growth rate (1.2%) and where there was a decrease in the Gini (from 0.417 to 0.407), also had the lowest growth in independent non-farm enterprises between 2000-1 and 2005-6, 13.5 per cent of the national total (Strode *et al* 2007). All consumption deciles experienced some growth over the period, but the poorer majority experienced less consumption growth than the richer minority (Bigsten and Isaksson 2008). Given that the majority of the poor depend on subsistence agriculture, reducing poverty further will depend to a significant extent on diversifying employment opportunities in rural areas, including supporting the growth of non-farm HEs.

Policy Context

Vision 2020 is Rwanda's ambitious programme for development and the *Economic Development and Poverty Reduction Strategy (EDPRS)* 2008 -12 is the mid-term framework for implementing the Government's long-term agenda. It explicitly recognises that economic growth alone will not reduce poverty and improve the lives of the poor and incorporates programmes to empower the poorest and support them in exiting poverty. Key elements of Rwanda's policy include economic growth, achieving the MDGs, improving agricultural productivity and creating non-farm employment in rural areas.

It has been evaluated as providing the basis for achieving the Government's development Goals but it is also recognised that it is underfunded. There is also an implementation gap and a lack of capacity in central and local government (Abbott and Rwirahira). Many of the policies and implementation strategies relevant to HEs have only recently been introduced and there has been little monitoring and evaluation.

The *EDPRS* is based on three pillars designed to accelerate economic growth and promote human development:

1. Sustainable growth for jobs and exports - investing in improving the climate for business investment, thereby achieving private-sector growth. In the shorter term the priority is reinforcing the productive and export potential of the agricultural sector, but in the longer term the goal is to diversify the economy by promoting the non-farm sector.
2. Vision 2020 *Umurenge* is a pro-poor rural development and social protection programme which aims to eliminate extreme poverty by 2020 by releasing the productive capacity of the very poor and includes public works, credit packages and direct support. It is implemented at village level and uses participatory-based methods.
3. Good economic governance is seen as a precondition for poverty reduction and development, creating a comparative advantage in 'soft infrastructure' (good governance and institutional arrangements important for private investors) compensating for Rwanda's relatively poorly developed hard infrastructure and disadvantaged geographical location (Ministry of Finance and Economic Planning 2007).

The growth of the private sector is seen as central to Rwanda's development, but the focus has been mainly on enlarging the formal sector. Most attention has therefore been given to attracting inward and domestic investment through creating a sound 'soft' business infrastructure and developing policies to support the start-up, operation and growth of entrepreneurial businesses that are in or likely to rapidly move into the formal sector and create employment opportunities (Ministry of Trade and Industry 2010). Some of the recommended strategies in the *MSE Policy and Strategy* would, however, be of benefit to HEs.

Situating Non-farm Household Enterprises in the Rwandan Economy and Labour Market

HEs, as we have indicated above, are the smallest type of enterprise and different from even micro enterprises (see Figure 1 above; World Bank 2010). It is probable that the vast majority of operators of HEs do not see themselves as running a business. Rather they see themselves as undertaking income-generating activities or possibly doing a job to earn money on which to live. It is clear that policies and programmes need to be developed to support HEs and indeed probably to support the different types of HEs. However, in Rwanda HEs are not differentiated from other micro enterprises. A number of surveys have been carried out of the informal sector (e.g. FIAS 2006, NISR 2007a) but they have included only

businesses operating out of trading centres in their samples and did not considered HEs separately from other micro businesses.

The private non-farm sector in Rwanda is very small and mainly made up of micro and small enterprises that are informal (not registered with government and therefore not paying taxes), semi-formal (having provided the government with some information, usually by local registration of the right to do business) and formal (registered to pay income tax) - see Figure 1 above; FIAS 2006; PSF 2008). The vast majority of enterprises are informal. The *2008 Rwanda Business Operator Census Report* (PSF 2008) enumerated 72,994 formal and semi-formal businesses. 90 per cent of these were micro enterprises with a majority being run by the owner without employees. However, if we include the informal sector there are about 665,000 micro enterprises providing employment for around 915,000 people (10 per cent of those in employment⁴) in 2006. About 80 of these are operated by the owner with no employees, even unpaid family members (Strode *et al* 2007).

There has been a shift in the labour market since 2000, with a decline in the proportion of workers employed in the primary sector (mainly agriculture) and an increase in employment in the secondary sector (manufacturing) and the tertiary sector (services), although this shift may have been overestimated due to changes in the question on employment between the 2000-1 and 2005-6 household surveys. Employment in agriculture fell from 90 per cent in 2000 to 77 per cent in 2006 while in manufacturing and the service sector it increased. The most notable increase was in the service sector, which increased its share of employment from less than a tenth of all jobs in 2000 to nearly a fifth in 2006 (Strode *et al* 2007). Non-agricultural jobs are on average better paid than agricultural jobs, although many non-agricultural jobs were lower-paying in 2006 compared to pay levels in 2000 (Strode *et al* 2007).

There was an increase in waged employment in the same period, from 11 per cent to 21 per cent, driven by an increase in waged farm employment (from 4% to 8%) as well as non-farm waged employment (from 7% to 11%). There was also an increase in employment in independent non-farm enterprises (from 5% to 10%). The causal mechanisms for this shift have not been researched extensively but are likely to be a combination of push

⁴ Employment in this report means work undertaken to provide for livelihood. It may or may not be remunerated and it may be undertaken for an employer outside the household, it may be self-employment (farm or non-farm) or it may be working in a family enterprise as a dependent member of the household (non-head).

factors, landholdings too small to support the household and the availability of waged employment in agriculture and non-agriculture (Clay and Kampayana 1997). This conclusion is supported by the estimation that the shift from working on a family enterprise to other types of employment accommodated the additional half million workers that came on to the labour market between 2000 and 2006 (Strode *et al* 2007).

If we consider jobs started in the last five years (excluding independent farmers), we can see that just under half (45%) were as unpaid farm worker while 12 per cent were in paid farm work; thus over 40 per cent were in non-farm employment. Twenty-three per cent were in paid non-farm employment and 19 per cent in independent non-farm work (16% as operator and three per cent per cent as dependent worker). Independent non-farm work together with waged non-farm was especially important for young people aged 21 to 30 years, with just over fifty per cent of them starting non-farm employment (author's own calculation from data in Table 4.5, P23 Strode *et al* 2007).

The Rwandan labour market, however, continues to be characterised by a deficit of decent work, with the numbers of working poor remaining high. Forty per cent of working adults have more than one source of 'income', with those in rural areas being more likely to have more than one job and men more so than women (NISR 2006, P28). In order to understand the labour market in Rwanda it is important to take account of time-related underemployment as well as unemployment. The former can provide information on the extent to which the economy can provide full employment for all those who want it and thus a better understanding of the true employment situation (International Labour Organisation 2004). There is low unemployment (people available for and seeking work), but high under-employment, especially amongst men in rural areas⁵. The average number of hours worked a week in all jobs is 31 (men 35, women 28) but this falls to 27 (30 men, 25 women) for those whose main occupation is agriculture (NISR 2006, P28). However, women, in addition, spend well over 20 hours a week on domestic duties while men spend only around

⁵ When we talk about workers we are generally referring to those above 15 years of age, unless we explicitly state otherwise. In 2006 about 10 per cent of children aged 11 to 15 years were in 'employment', 51.2 per cent of young adults aged 16 to 20 years and 80.6 per cent of adults 21 years and over (NISR 2006, P29). It is of course likely that that many children, especially in rural areas contribute to the livelihood work of the household, and boys as well as girls contribute to domestic labour, including fetching wood and water (NISR 2006 Ps 29 -30)..

five⁶ (NISR 2006, P30). Assuming a normal working week of 40 hours in productive labour this suggests that up to a quarter of the adult workforce is in reality surplus to requirements, with the vast majority residing in rural areas⁷. However, we must exercise some caution because, as Fox and Gaal (2008) point out, measuring labour force participation in countries such as Rwanda is problematic given the variety of activities in which people engage across the day, especially in rural areas, and the pattern of work across the seasons.

Whilst most men and women engage in productive labour there is a concern that underemployment may be turning into unemployment for a growing number of young people, especially in rural areas. If this is not addressed there may be even greater migration to urban areas and a large number of marginalised young people could present problems for the authorities. A 2009 report (Education Development Centre 2009) found that there is a growing pool of unemployed/marginally employed young people, especially men, who have migrated from rural areas to urban areas, including to Kigali. The Centre for Support to Small and Medium Enterprises in Rwanda (CAPMER) estimate that 85 per cent of Rwandan young people are in reality 'unemployed', with most young people in rural areas being surplus labour (Abbott *et al* 2010 Appendix 6).

There is a low level of human capital - the workforce is poorly educated, with a majority of the population having primary school education or none, and only just over two-thirds of the population declare themselves as literate (71.5% of men and 60.1% of women), with literacy rates being much lower in rural areas than in Kigali or other urban areas (Ministry of Health, National Institute of Statistics of Rwanda, ICF Macro 2009; NISR 2006). Education attainment is poor even amongst younger age groups, with many of those who have attended only primary school being barely literate (Education Development Centre 2009).

⁶ According to the latest version of the United Nations Guidelines on calculating GDP many of these activities count as economic activities but statistical agencies rarely consider them as such and households do not consider them as economic activities either (Fox and Gaal 2008).

⁷ The International Labour Organisation (2004) point out that the questions asked in surveys in Rwanda does not make it possible to calculate underemployment within the norms set by the ILO but it is possible to calculate a pseudo-underemployment rate. Using a 35 hour week they calculate that at the time of the 1988/89 *Labour Force Survey* that 63 per cent of the adult population was underemployed, 42 per cent of men and 53 per cent of women, with 93 per cent of these residing in rural areas (P 20).

There is also a mismatch between the skills of those seeking employment and the skills employers are looking for, with a shortage of skilled labour at all levels from technical and vocational to higher education (HIDA 2009; Abbott and Rwirahira 2010). It is estimated that there is a 60 per cent skills gap in the private sector and a 30 per cent skills gap in the public sector.

Household Enterprises in a Segmented and Segregated Labour Market

It is important to understand the location of non-farm HEs within the Rwanda labour market, as they comprise a distinct segment. HEs provide employment, main or supplementary, for a growing number of adults in rural as well as urban areas. They provide one important route out of agricultural work and generally provide a higher standard of living than enjoyed by those dependent on agricultural employment alone (Strode *et al* 2007; Vinck *et al* 2009; World Bank 2020). However, it is important not to see them in isolation from agricultural employment. In rural areas agricultural and non-farm employment are linked through investment, production and consumption, and both form part of complex livelihood strategies at both the individual and the household levels (Davis *et al* 2008; Vinck *et al* 2009). In urban areas HEs are more likely to be an individual's sole employment, although many households combine income from more than one type of employment, including HEs.

The Rwandan labour market has three main segments: agricultural work, own account non-farm work and non-farm employment⁸. The vast majority of workers are either self-employed or unpaid family workers, mainly in agriculture. Figure 2 shows the occupational hierarchy. The majority of workers are in agriculture (86.7% of women, 67.9% of men). Just under six per cent of women (5.7%) and 10.3 per cent of men run a household enterprise. Only 1 per cent of men and 0.3 per cent of women are employers - that is,

⁸ When talking about employment in Rwanda we need to have agreed terminology for the status of workers. We will use 'main occupation' to refer to the work that has been recorded as such in household surveys and likewise 'secondary employment'. We use 'family worker' to refer to someone who works under the direction of the head of household (independent farmer or own-account worker), 'independent farmer' to refer to someone who controls a subsistence farm, 'farm labourer' to refer to someone who works on a farm for pay (in cash or kind) on a regular basis, 'own-account worker' to refer to the head of a non-farm family enterprise, 'employee' to refer to someone who has non-farm employment for which they receive pay (in cash or kind) on a regular basis and 'owner-manager' to refer to the head of an MSME

people who own an enterprise that has paid employees. Six per cent of women and 20 per cent of men are in paid employment, with the remaining 2.3 per cent of women and 0.7 per cent of men being family workers in non-farm enterprises.

A majority of those in waged employment work in the informal sector; over 90 per cent (91.1%) of those in waged farm work are employed in the informal sector, compared with 58 per cent of those in non-waged farm work (Strode *et al* 2007, P32). The higher the level of education the lower the likelihood of being engaged in agricultural work; 10.7 per cent of those with no education compared to 96.7 per cent of those with higher education are employed outside the agricultural sector (2007 *et al*, P20).

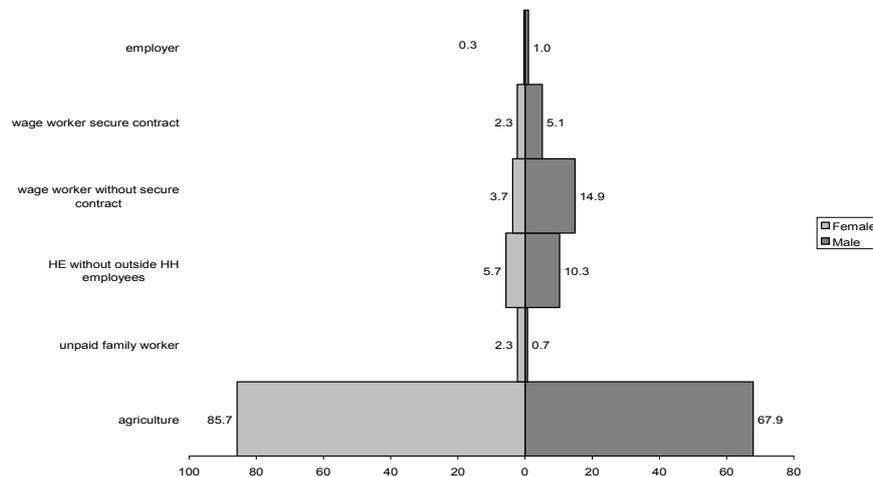


Figure 2: Rwanda Labour Pyramid Including Agriculture
(Source: World Bank 2010)

The labour market is very different in Kigali from the rest of the country, and in urban areas outside of Kigali compared with rural areas. Waged non-farm employment is heavily concentrated in Kigali where 48 per cent of workers are employed in this type of employment and 18 per cent in independent non-farm work. The proportion of workers in these types of employment varies little by province, although a slightly lower proportion of workers are in non-farm employment in the Eastern Province than the others. There is some evidence that a growth in employment opportunities attracts migrants, with Kigali and the Eastern Province⁹ attracting a

⁹ Migration to the Eastern Province is mainly to take up agricultural work as there is more land available there than in other part of Rwanda. Migration to Kigali is to take up non-farm employment including starting an HE.

significantly larger number of migrants than the other provinces and Northern Province experiencing higher rates of out-migration than the other provinces (Strode *et al* 2007, P13).

Occupational mobility appears to be mainly from working on a family farm to paid farm work, operating a non-farm enterprise or paid non-farm work. Non-farm workers are less likely to live below the poverty line than those who derive their main income from agriculture; nearly three quarters of those in paid non-agricultural employment and just under two thirds of those in independent non-farm work earn a living wage. However, a majority of those dependent on agriculture are poor, ranging from 72.4 per cent of those engaged in waged farm work to 57.9 per cent of independent farmers (Strode *et al* 2007, P42).

There is gender segregation, with women predominantly located in lower status and remunerated jobs within the segmented labour market (Human Development Department (2008). Men are disproportionately moving out of farm work and captured three quarters of the new jobs created between 2000 and 2006, as well as being more likely to start a small business than women. In total 19 per cent of workers were in paid non-farm employment as their sole or main occupation in 2006 (salaried and own account) compared with 11 per cent in 2000, but only 11.6 per cent of women compared to 27.8 per cent of men were in paid non-farm work. Median earnings are higher for men: the ratio of female to male earnings is 0.67 for those in urban areas, the ratio of rural to urban earnings is 0.49 for those in waged employment. The ratio of waged to non-waged is 1.64 for those in the tertiary sector, the ratio of secondary to primary is 2.20 and the ratio of tertiary to secondary 2.87 (World Bank, last accessed 06.04.2010).

The Household Enterprise Sector in Rwanda

HEs form the largest segment of the private sector, as we have indicated above. In 2006 there were 615,108 HEs providing employment for 706,473 people (Figure 3). Ninety-three per cent of all micro enterprises (HEs and MSEs) were HEs and they provided employment for 75 per cent of those employed by the sector. However, only 14 per cent of HEs employ family labour. HEs are the main employment for 55 per cent of their operators - 82 per cent in Kigali, 72 per cent in other urban and 49 per cent in rural areas. In urban areas for the majority of those running an HE it is their only job, whilst in rural areas only a tiny minority of HE operators (18%) have only one job. In urban areas just over a third of households incorporate an HE in their income generating strategies whilst 27 per cent do so in rural areas (World Bank 2010).

The importance of HEs in the labour market becomes even more evident when we consider non-agricultural employment. Nearly 40 per cent of women in non-agricultural employment and 32.1 per cent of men are owner-operators of an HE. They are the largest single type of non-agricultural employment for women, and the only type of non-agricultural employment that is more important for men is waged employment without a secure contract, which provides employment for 46.3 per cent of men (Figure 3).



Figure 3: Main Occupations Men and Women Excluding Farm
(Source: EVIC 2)

The vast majority of HEs are in rural areas (a reflection of population distribution), but the highest level of growth in HEs has been in urban areas outside Kigali (Table 1).

	Number of HEs			Number of Workers Employed in HEs		
	2000	006	% change	2000	2006	% change
Kigali	41,618	1,311	47.3%	48,783	73,773	51.2%
Other urban	15,949	6,341	378.7%	18,037	86,373	378.9%
Rural	176,906	77,455	169.9%	211,780	546,327	158.0%
Total	234,473	15,108	162.3%	278,600	706,473	153.6%

Table 1: Size of HE Sector and Number of Workers Employed by Area, 2000 and 2006

(Source: World Bank 2010)

Although migration was higher than anticipated between 2000 and 2006, with around 500,000 internal adult migrants, they are not over-represented amongst HE managers. Nine per cent of migrants are operating independent non-farm enterprises and one per cent are unpaid family workers in these enterprises (Strode *et al* 2007). Amongst the main reasons given for

migrating are lack of employment and lack of land, which is consistent with population pressure forcing younger people to seek non-farm employment.

In rural areas a majority of households have more than one source of 'income' (NISR 2007b) and those that do not are at greatest risk of extreme poverty (Vinck *et al* 2009). The changing employment patterns in rural areas seem to be driving an increase in inequalities between those households dependent on agriculture and those households whose portfolio of livelihood strategies combine non-farm employment and/or a non-farm family enterprise with subsistence agriculture (Figure 2) (Clay and Kamaayana 1997; NISR 2007b; Vinck 2009). There was a growth in inequalities between 2000 and 2006 in rural areas and this seems to be associated with an increase in non-farm employment (NISR 2007b).

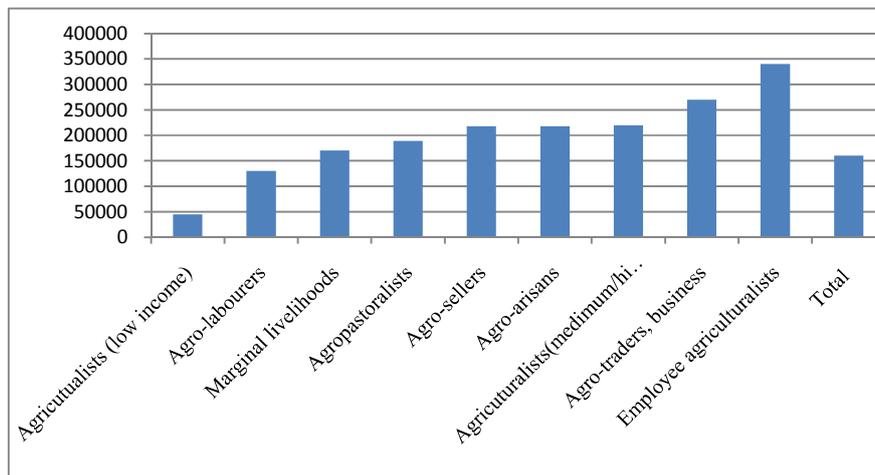


Figure 4: Average Household Income by Livelihood Group (excluding Kigali)

(Source: Vinck *et al* P46)

Key Characteristics of Non-Farm HEs

Independent non-farm work is an important route out of agricultural employment for both men and women, and HEs are especially important for women. Women captured only 25 per cent of the opportunities to move into non-farm paid employment between 2000 and 2006 but 40 per cent of new small enterprises were founded by women, mainly HEs. In 2000 nearly 77 per cent of HEs were managed by a man but this had declined to just over 54 per cent by 2006. In contrast, over the same period the decline in male management of MSEs was only 6.5 percentage points. HEs clearly provide an important route for women into non-farm employment (Strode *et al* 2007).

HEs clearly provide an important form of employment for young people, many of whom are surplus to the labour needs of the family farm. In 2006 the vast majority of the operators of HEs were aged between 21 and 45 years. Between 2000 and 2006 there was an increase in the proportion of those aged 15 to 30 operating HEs and a decline in older age groups.

However, HEs are also an important part of livelihood diversification. HEs provide employment for surplus labour in two senses. Firstly they can provide employment to individuals who would otherwise be unemployed, and secondly they can provide additional employment for those whose main employment is not full-time and/or does not provide an income sufficient to bring the household out of poverty. Importantly, the operators of these types of HEs may not regard them as businesses.

The education level of HE managers is slightly higher than the national average but only 11.8 per cent have post-primary education. The average education level of HE managers declined between 2000 and 2006 even though average education levels in the country rose over the same period. This may be because a high proportion of new managers come from rural areas where education levels are generally lower and/or because of the increase in female managers, as women on average have a lower level of educational achievement than men. Regression analysis suggests that education has a positive impact on income from an HE, with both men and women who have secondary education having higher hourly income than those without (World Bank 2010).

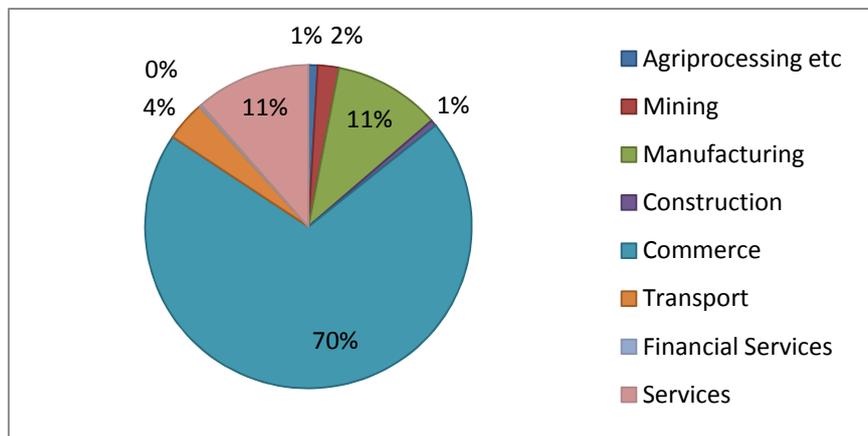


Figure 5: Industry Distribution of HEs
(Source: World Bank 2010)

Commerce has the highest number of HEs, accounting for 70.1 per cent, followed by services (11.4%), which include among others maintenance and repair, domestic services and art and handicraft (Figure 4). Whether this concentration is related to demand- or supply-side factors is not clear, but commerce is clearly an activity in which those with little education can engage.

Poverty and HEs

The growth of the HE sector has poverty-reducing consequences, as the earnings from non-farm HEs tend to be significantly higher than those from agricultural waged labour and subsistence agriculture (World Bank, 2009; African Development Bank, 2009). In 2006 HEs were predominantly in the top two richest consumption quintiles. There is strong evidence that those households that operate a non-farm household enterprise as their sole means of livelihood or as part of a portfolio of activities are less likely to be poor than those who are dependent on subsistence agriculture. Dabalén *et al* (2004), using EEICV 1 data, found that the non-farm self-employed had significantly higher average earnings than farm workers or non-farm employees, and that households with farm and non-farm enterprises were less likely to be poor. Vinck *et al* (2009) in considering livelihood strategies in rural areas also found that households that combined agriculture with non-farm HEs were better off than those who relied on subsistence agriculture or farm employment. However, the median earnings of managers of HEs are lower than those of managers of micro- enterprises (World Bank 2010).

Discussion

HEs clearly play an important and growing role in providing non-farm employment. There is evidence that they provide one source of employment for the growing pool of 'surplus' labour. Starting an HE is a strategy that seems to be available to better-off households, as the capital for starting one generally comes from savings or borrowing from parents (Abbott *et al* 2010).

HEs provide an important route out of agricultural employment for women as well as men. Women, however, are less likely than men to operate an HE as their main employment and on average work fewer hours. This suggests that, as has been found in other countries, running an HE may be being combined with domestic and other responsibilities by some women. There may also be cultural barriers.

HEs clearly play an important role in poverty reduction, as households that incorporate an HE tend to be better off than those that are dependent on agriculture.

There is little evidence to confirm what role that HEs may play in economic growth. Few employ family members, suggesting that at best they provide employment for one person, and the vast majority seem to operate from domestic premises or no fixed location. Few even pay local taxes, as they are not 'visible' to the local authorities. However, in the absence of panel data it is not possible to determine what proportion, if any, of HEs become more productive, provide more stable employment and become micro or even small enterprises.

The HE sector is clearly heterogeneous and there is evidence to support the typification of HEs as survivalist, steady employment and entrepreneurial but not to indicate the proportions fitting in each category. Our typification is:

1. Survivalist HEs will be found mainly in rural areas, they will be part of a portfolio of livelihood activities undertaken by a household that lives in poverty. The main concern is with generating additional income. Income will be spent as it is earned and no records will be kept. In urban areas survivalist HEs will mainly be those engaged in hawking and other marginal activities who are barely able to earn enough to survive. Operators will use their income to live on and keep no record of their income and expenditure on non-farm livelihood activities ;
2. Steady employment HEs will be found in urban as well as rural areas and will generally be the main livelihood activity of the operator although the household may have a portfolio of livelihood activities. The household will not be living in poverty. However, the operator will have no plans to expand the enterprise and income will generally be spent on day-to-day living expenses with no spare business accounts being kept. Some, however, may pay Pantene (local taxes);
3. Entrepreneurial HEs will be found predominantly in urban areas, be the sole occupation of the owner and the owner will have plans for expansion. The operator will see his or her HE as a business and some may keep separate accounts. The majority will pay Pantene and some will be registered with the Rwanda Revenue Authority. Owners are likely to be saving some income and these are likely to be the HEs that have borrowed or would wish to borrow from micro-credit institutions.

2.9 Conclusions

Rwanda is facing the challenge of combining high economic growth and poverty reduction with reducing the large income gap. The creation of new employment opportunities is a key challenge given high levels of underemployment (or hidden unemployment) and the fact that labour supply is projected to grow significantly year on year. If not remedied, growing income gaps and rising underemployment and unemployment risk creating social tensions and conflict, with a large group of marginalised young people who are surplus to the requirements of their households' need for agricultural labour and are unable to find alternative employment. At the same time there is a need to focus on rural development, given the high concentration of the population in rural areas, both in terms of increasing agricultural productivity and creating off-farm employment opportunities to absorb the growing pool of surplus labour.

HEs provide one potential source of employment for young people coming onto the labour market. They also provide an opportunity for households to invest in non-farm enterprise as part of a strategy to improve their standard of living and utilise their labour capacity to the full. They are especially important for women, providing opportunities for young women entering the labour market and for women working as dependent agricultural workers. HEs have the potential to reduce poverty and provide decent employment if the Government and other stakeholders invest in raising their productivity and reducing risk.

We have pointed to the important role that HEs play and that they can be supported to play more adequately in poverty reduction and employment growth. We have also raised concern that the Government and its partners, including the Private Sector Federation, are insufficiently aware of the important ways in which HEs differ from other enterprises, requiring that policies and programmes are specifically tailored to their needs - most crucially that HEs are more concerned with income generation and making a living than running a business. There is a need to consider the needs of the different *types* of HEs, as indeed the Government has done to some extent in the Rural Micro and Small Enterprise Promotion Project. However, while the Government has pointed to a number of policies and other initiatives that they see as supporting the development of HEs, we would argue that a more coordinated focus on supporting HEs and ensuring that their specific needs are met is needed. The Government is clearly challenged by a policy implementation gap; implementation is still in the early stages and it is difficult to measure impact (See Abbott *et al* 2010).

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We alone are responsible for the content of the paper.

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