

**The Post-COVID-19 Development Outlook in Africa:  
“Key Actions to Boost the Rwandan Informal Economy”<sup>1</sup>**

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**Abstract**

Rwanda economy is mostly dominated by informal sector, and majority of the population are employed in this sector at 89.5 percent of total employment. Further, the sector is confirmed a major source of employment. With the strike of the COVID-19 pandemic, the Rwanda informal sector has negatively been affected in various ways following the closure of businesses.

Thus, negative implications of this situation, exacerbated by extreme poverty levels (at 16 percent of the total population), have mostly manifested on poor households who earn their daily life from informal sector occupations. From the desk review research, this policy brief has come up with key recommendations to revive the Rwanda informal economy in the post-COVID-19 crisis.

**1. Setting the scene**

At present, billions of people live in poverty throughout the world and poverty remains the global distress. Particularly, 86 percent of the poor live in developing countries (World Bank 2018) and specifically, 77 percent of the labor force earn less than 2\$ per day (World Bank 2016). Although there was a decline in poverty during the 1990s across different parts of the world, the poverty rates have increased in sub-Saharan region, where millions of people fell into extreme poverty (MDG 2005). These poverty levels are mostly associated with the increased number of people working in the informal economy<sup>2</sup> (Bonnet et al., 2019). In general, informality is at 90 percent of total employment in developing countries against 18 percent in developed countries (Bonnet et al. 2019:4; Kerswell and Pratap 2019). In addition, the informal sector plays a significant role in the African economies accounting for a large share of gross domestic product (GDP) and even greater share of employment (Rukundo 2015).

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<sup>1</sup> The concept of informal sector is broadly characterized as unincorporated enterprises owned by households: ILO, Resolution on the measurement of employment in the informal sector, Fifteenth International Conference of Labour Statisticians (ICLS), Geneva, 1993.

<sup>2</sup> According to ILO, the informal economy involves businesses/organizations in the informal sector which are not registered with a local authority and not paying taxes. Also, informal sector includes the activities of companies in the formal sector that employ informal workers, that is, workers without a formal work contract and without any social protection.

Informal enterprises are therefore more salient in developing and emerging economies and constitute about half of employment (Bhattacharya 2019). According to the literature, informal businesses, activities and jobs include street vending, home-based work in global and domestic value chains, waste picking, domestic work and short-term contract work among others (NISR 2020). However, people do not work informally by choice, instead it is because they do not have other means of livelihood (Bonnet et al. 2019). It should obviously be stressed that informal workers are mostly insecure and low paid with high risks of extreme poverty (Heyzer 2006).

According to the labour force survey annual report (NISR 2019), there were in total 2,931,494 persons with informal employment in Rwanda. These represent 89.5 percent of total employment. Also, informal employment jobs were held mostly by male workers (55.3 percent). It was further indicated that three out of four people in Rwanda are employed in the informal economy, with a considerable portion of youth and women (NISR 2019; NISR 2007). Ultimately, employment in the informal sector is defined as all persons 16 years of age and over, engaged in unregistered private business enterprises that did not keep written records of accounts (NISR 2020). Thus, employment in the Rwandan informal sector was mostly in market oriented agriculture (47.9percent), followed by whole sale and retail trade, repair of motor vehicles and motorcycles (17.9 percent), construction (11.0 percent), manufacturing (6.6 percent) and in Transport and storage (6.1 percent) (NISR 2020).

The COVID-19 pandemic, has turned the world of work upside down because a big number of people have been affected in one way or another (WHO 2020). Generally, people have lost jobs especially in informal businesses as they were closed down in a bid to contain the spread of the COVID-19 all around the world. The World Bank estimates that the COVID-19 crisis could push 49 million people globally into extreme poverty in 2020, of which almost 23 million in sub-Saharan Africa including Rwanda (World Bank 2020). With a growing number of countries now facing the COVID-19 crisis, growing nation-wide or local initiatives are being taken to prevent the spread of the deadly virus (ILO 2020).

Since the outbreak of COVID-19 in Rwanda, the government released the national COVID-19 response plan that outlined strategic measures from key sectors, including health, economy, businesses and social protection to contain the outbreak. Measures included private and government institutions and all other businesses closed, except those providing food and health-related services. Since then, at the time of developing this policy brief, Rwanda has recorded more cases with Rusizi, Kigali and Rusumo being at the front of the most affected areas. This situation has impacted on the Rwandan informal sector.

As the future of informal sector in Rwanda remains uncertain in the post- COVID-19 era, this brief seeks to analyze the current situation, present key findings and give policy recommendations. It intends to inform policy makers about potential immediate actions to address the challenge of driving informal sector.

## **2. Approach**

The present policy brief on “Post -COVID-19 Informal Sector Development outlook in Rwanda” builds on document reviews. Different documents were consulted including: The revised National Employment Policy, Integrated Household Living Conditions Survey (EICV4&5), National Strategy for Transformation (NST1), the national COVID-19 response plan, reports, studies on informal businesses among others.

## **3. Findings**

Since the first outbreak of the coronavirus (COVID-19) and its spread worldwide, countries’ economies have been disrupted (Bizoza 2020). Thus, various impacts including socio-economic were observed in different parts of the globe including Rwanda.

Obviously, economies of developing countries including Rwanda were seriously affected by COVID-19 in various ways. Among the sectors that are predicted to be seriously affected include informal businesses, cross border informal trade, reduction in intensive labour force (Cullen 2020). Besides, people relying on sectors like informal business among others are highly vulnerable to the COVID-19 impacts.

In Rwanda, the majority of workers in the informal sector are mainly wage workers or self-employed, including the small-scale cross-border-trade such as in Rubavu, Rusizi, Gisoro, Gatuna among others. They are at a high risk of losing their jobs, income and hope. Evidently, they do not have employment contracts, and usually do not enjoy workers' benefits, social protection, or workers' representation as well as other employment advantages and benefits. With the outbreak and spread of COVID-19, the lockdown period/quarantine and closing of borders, caused huge negative impacts in various forms causing a web of implications.

### **3.1 Increase of poverty levels**

In Rwanda, informality is at the forefront and widespread especially in subsistence agriculture (70%)<sup>3</sup>, construction services, hospitality services like restaurants, hotels, traders, retail, manual workers, hair salons and transport services (drivers, conductors, motorists among others). Thoroughly, these particular groups fall under the poorest workers and are often employed on a seasonal, casual, or temporary basis. This makes them even more vulnerable to the economic shocks brought on by the COVID-19 pandemic.

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<sup>3</sup> NISR, EICV5

Generally, in all the secondary cities and the city of Kigali, informal employment is the dominant type of employment and accounts over 90 percent of the businesses in average. The high level of informality in all cities needs to be addressed by implementing business friendly policies to allow growth and creation of more job opportunities for the local inhabitants.

Informal workers will be among the hardest hit as lockdowns forced them out of work. Furthermore, employers failed to pay their employees especially casual workers who perform different tasks without rights at work and social protection. Their response capability is very less and their resilience is almost inexistent.

According to the fifth integrated households living conditions in Rwanda (NISR 2018), 16 percent of Rwandans live in extreme poverty and most of them are still involved in informal sector. With the spread of Covid-19 pandemic, poverty levels are projected to increase as a result of loss of jobs, lack of capitals for businesses and limited access to basic needs and facilities. This is likely to increase the number of households living under poverty line:

### **3.1.1. Loss of jobs**

The measures to contain COVID-19 pandemic crisis, have had and will continue to impose heavy consequences on businesses especially informal businesses now and in the near future. The consequences of COVID-19 on small-scale and medium informal sector enterprises could even be more unpredictable and unprecedented. The lock down period and the closure of borders in Rwanda, resulted into disruption of businesses. Hence, it caused a high risk of losing jobs as many business were closed. Given that informal businesses (trade, agriculture, among others) are still dominant, majority of people involved in the sector, especially women and youth have lost their daily jobs. Given this disturbing situation, the daily life of informal sector workers has also been negatively impacted.

Defeating the coronavirus pandemic is mostly about the strength of the public health response. However, it will also need to respond to the short and longer-term impacts on the business sector, particularly, the informal. In the short term, the government of Rwanda tried to provide basic support to the most vulnerable through social protection initiatives including food distribution. In the longer-term, there will be a need to redouble efforts to recover from the COVID-19 impacts.

### **3.1.2. Lack of starting capital**

Around 74.8 percent of Rwandans earn less that 50,000 Rwandan francs (NISR 2020) of monthly cash income from employment. With this, there is a big risk that majority will lack starting capital to resume their businesses in the post-COVID-19. It was noted that people do informal business because some of them are unable to afford the formal businesses due to different barriers. These include high taxes and lack of starting capitals as well as limited access

to bank loans. During the COVID-19, majority of informal business owners, have consumed and used their capitals for daily life such as buying food, medical treatment and other family necessities. These will be limiting factors to restart the business in the future as access to new starting capitals will be very definitely challenging.

### **3.1.3. Limited access to basic needs**

In Rwanda, access to basic needs, is a key indicator of the household wellbeing. This includes access to food, utilities like water and electricity, renewal of family health insurances (Mutuelle de santé) among others. As confirmed by the National Institute of Statistics of Rwanda (NISR 2018), 86 percent of households in Rwanda have access to improved sanitation, whilst 34 percent have access to electricity. Given the current situation of COVID-19 in sub Saharan African countries in general and in Rwanda in particular, poor households tend to have limited access to basic needs such as food and health insurance. This is due to the reduction of their monthly income mostly obtained from informal businesses.

### **3.2 Despair and loss of hope for the future**

In the post-COVID times, there is a likelihood that informal sector workers in Rwanda will remain hopeless for their future. The literature shows that majority of people involved in informal sector, earn their living from their daily activities. For most of them, the future seems uncertain and unpromising on how they will be able to resume their businesses and earn their daily life. Apart from the COVID-19 economic impact, there is also a likelihood of social and psychosocial impacts/effects for informal sector workers.

## **4. Concluding remarks**

Conclusively, there are few more important agendas for Rwanda's future than ensuring sustainable recovery from COVID-19. Thus, the farsightedness of the government means Rwanda has a strong commitment to enhance recovery from this pandemic threat. Currently, various initiatives are being put in place including the establishment of the Economic Recovery Fund (ERF), to support businesses adversely affected by COVID-19. The Fund will support the recovery of businesses hardest hit by COVID19 so they can survive, resume operations and safeguard employment, thereby cushioning the economic effects of the pandemic. This will be central to continued job creation, something which may become even more instrumental in the post-COVID-19 crisis. For all ongoing efforts by the government of Rwanda to respond to the socio-economic challenges of COVID-19 to the community, special attention needs also to be paid to the most vulnerable people in the informal economy.

This sector will need to be supported as it is one of the main sources of employment for most of Rwandans in both urban and rural areas. This Policy Brief has suggested some tangible and workable policy options for policy and decision makers to consider.

## **5. Policy Recommendations**

The informal sector development is very key in prompting the post-COVID-19 socio-economic recovery. Cognizant the predomination of information economy in Rwanda, it is clear that government needs to support and prioritize investment in the sector. This would improve and formalize the sector towards sustainable development and recovery ahead post-19 COVID Crisis. There is an urgent need to embark on a multi-stakeholder's approach in addressing the current challenges taking into account the uniqueness of Rwanda. This should mostly focus on:

### **5.1. Short term:**

- i) Identification and mapping of all informal sector workers affected by COVID-19 pandemic across Rwanda: This would help to define measures to consider in order to minimize the effects of the COVID-19 crisis on informal business situation,
- ii) Assessing the impact of COVID-19 on vulnerable informal workers/businesses, and their needs, to inform further prospects as well as policy decisions by government and other stakeholders,
- iii) Increase the share and consideration of the informal workers into the Economic Recovery Fund. This would vastly help them to access support to resume their businesses. In addition, it would provide income to individuals and their families to compensate loss or reduction of economic activity,
- iv) Considering providing psychosocial support for informal sector workers especially those who lost their jobs within COVID-19 period,

### **5.2. Long term:**

- i) Facilitating affected informal workers to access small loans with reasonable interest rates to restart up their business. This should also attract long term savings from the informal sector,
- ii) Creation of direct investment to generate more off-farm jobs for workers from the informal sector. This would contribute to poverty reduction in the post-COVID-19 crisis in Rwanda,
- iii) Expansion of social protection programs/services (like VUP and one cow per family programs) to informal workers mostly affected by COVID-19 pandemic.

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