

論文

The Role of Effective Policies in Transitioning Informal to Formal Employment in Rwanda

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Abstract: Employment has been considered as critical for economic transformation for majority in African developing countries. The increase of unemployment rates every year in African developing countries doesn't give a clear prospect of future development, but it shows some indicators of economic deterioration and hopeless generation which may put countries into economic, political, and social challenges. However, all countries strive to provide employment opportunities for their people (Chen, 2004: 15).

Unemployment and underemployment are growing concerns in Africa (ILO, 2006). The challenge of youth unemployment in Africa is very high and a burden to the economic development of African countries. However, that issue must be addressed differently according to possible approaches that would be appropriate to those countries (Cristina 2008: 140). As a case study of Rwandan informal sector, on how formalization process would be possible through implementation of inclusive policies with the aim of economic transformation and not leaving anyone behind, this research combines two possible crucial approaches for reliable development. One is through reliable effective public policies that are spearheaded by good governance with the aim of aligning all economic development initiatives with the benefits of the people. The second is to put much emphasis on the business that employs many nationals with the aim of gradually transforming the business from indecent and informal to more decent, formal, and inclusive.

アブストラクト：ルワンダ人口の51.5%は女性である。したがって、女性の社会・経済的なエンパワーメントがこの国の発展にとって不可欠であるといえる。ルワンダにおける雇用機会の強化は、失業問題一般の解決のみならず、とくに人口の多数を占める脆弱な人々の経済的エンパワーメントに資する点で極めて重要である。多くのアフリカ諸国では、依然としてインフォーマル・セクターが雇用・経済を支えている現実が存在するが、そこに従事する女性のほとんどが十分な教育を受けられないがゆえに、正規雇用に就けずにいることが深刻な問題となっている。その一方で、現時点ではインフォーマルな労働以外に彼女たちにとって暮らしを支え、家族を扶養する術がないということも事実である。本論文の目的は、ルワンダにおける女性のエンパワーメントを通じたインフォーマル・セクターの健全な発展、さらにはそのフォーマル化に向けたガバナンスの在り方を明示することである。

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Introduction

Informal business is critical to the livelihood of the majority of people in developing countries, especially in Africa. The protection of informal business, in consideration of many people who depend on such business, is very important since informal employment is normal in their development and income accumulation (Johannes 2009). The main objective of this paper is to demonstrate the significance of informal employment in economic development of informal employees and informal business owners in developing countries of Africa in a case study of Rwanda. The essence of informal employment in developing countries like Rwanda, is aiming to provide the solution to the unemployment rate growing every year. Informal sector indicates potential economic changes since it has engaged many citizens. Any intervention which intends to provide employment to the people involves the raise of demand and supply of those targeted people in future which brings development.

The informal employees do not often enjoy decent work, since the priority is given to the means of survival while governments do not collect sufficient revenues from informal sector and labor exploitation of family workers, and employees in informal enterprises are not covered by social protection at their work (Jayati Ghosh 2021: 6). Therefore, these are main problems that affect both sides (government and private sector), and most of developing countries' authorities, in the enforcement process, tend to collide with informal workers. The result is an increase in the business attrition rate in developing countries. Informal businesspeople tend to stop their business for not meeting the country standards of operating.

The author's main objective is to demonstrate the contribution of informal employment towards economic transformation for the informal employees and informal business owners, and much emphasis is put on aligning public policies with the aim of creating positive employment and poverty reduction.

- To do that, this paper puts specific elaboration on how developing countries of Africa can build their economic muscles from below, and puts much emphasis on roles of informal sector and policies that have potential to employ many nationals, to achieve economic transformation for all. This research will introduce how small companies (companies that employees 10 and below employees), which provide informal employment, can be transformed in a peaceful manner without harming either government, or informal employees. In strategies of economic muscles from below the emphasis should be put on economic decentralization governance. This is an approach of governance that can be a core for economic transformation for low-income earners who are majority, and it can create employment opportunities through the following models:
- *District informal empowerment model*: This model should be established in each district and distributed to lower local levels, with aim of 1) identifying the informal employment potential businesses at the local level; 2) identify the challenges that they have; 3) capacity building empowerment and regulations compliance training.

- *District employment autonomous model:* Local levels should have a reasonable autonomy in creating conducive environment for employment opportunities. This should be done under the department of business development office, with financial assistance and budget allocation from central government. The aim is to empower the small businesses in their problems both technically and operationally.

The problem of unemployment rate in Rwanda can be dealt with when the interventions are decentralized and built from where most people can afford, like small and informal employment that can help people to transform their lives economically (Shah 2006: 165).

It is believed that good governance can be a tool to integrate the government administrative and private sector, and basic reforms can be done by empowering a sector that can provide unemployment solutions to the Rwandans in future. Decentralizing employment mechanisms to the district levels should be coupled with suitable administrative and economic empowerment. (e.g., ability to monitor and evaluate informal employment opportunities). Good governance should be connected to economic policies with the aim of economic transformation by transforming informal traders into dynamic formal traders. It is under good governance that makes it possible to set the minimum standards of business establishment, and much consideration should be on the economic capabilities of majority population (Shah, 2004: 15). Such economic transformation was realized by Europe and Japan after World War II in what known as mass production in 1970s (Chen, 2004: 15). The role of government in reforming informal employment is mostly needed in the informal regulatory field, creation of possibilities, and enabling these economic activities to expand.

The Concept of Informal Sector

The following key concepts in this paper are very important to understand the aspect of informal employment in African developing countries. As to informal employment and people who own the informal enterprises, the following definitions are obtained from the official definition of resolutions of 15th International Conference of Labour Statistics Under ILO 1993 (Razmar, 2013: 63): enterprises owned by individuals or households not operating under legal boundaries; enterprises that are producing goods and services for sale; enterprises that are below a size threshold that is normally determined by the government (in this paper, workers should be fewer than 10 employees); enterprises that are not registered in a specific formal of legal entity (no business licenses, taxation, social protection for workers). All enterprises matching these criteria are classified under informal enterprises (Adams, 2013: 64).

The concept of informal sector is broadly characterized as unincorporated enterprises owned by households. In such economic units, the fixed capital and other assets of the enterprise do not belong to the production units as such, but to their owners, and may be used both for production and personal purposes. Pro-

duction expenditure can hardly be separated from household expenditure. In practice, in the labour force survey, employees are considered to have informal jobs if the kind of jobs they have is not under the scope coverage of national labour legislation, income taxation, social protection, or entitlement to certain employment benefits (Melis, 2019: 5). Un registration means not being registered with the Rwanda Revenue Authority or not paying PAYE/TPR. Domestic workers engaged by households are excluded from the classification of employment in the informal sector. In addition, the employment in agriculture is also excluded in the formal/informal definition of this analysis (LFS Rwanda 2019).

Informal sector employment terms are simply explaining the part of employment that is characterized by the small, competitive, individual, or family member workers and firms, petty retail trade and services, labor intensive enterprises with dominance of traditional technology and low capital, free entry and exit of competitors, and price is determined by force of demand and supply in the market (Todaro, 2020: 855).

Policy is the stated description, usually in writing, of how an organization will act, respond, or define a given set of facts and circumstances (Visser et al, 2010).

Governance is formulation and execution of collective action at the local and central level of the country in all sectors (Shah et al. 2006).

Formalization is the kind of activities that are legal bind and recognized by the government authorities. In this paper the word formalization denotes a kind of employment that gives employees access to the rights and benefits associated with employment in labour law and social security.

Informal Sector is the part of the commercial intended activities characterized by small, competitive, individual, or family firms, petty retail trade and services, labour intensive methods, free entry, and market-determined factor and product prices (Todaro, 2020: 855).

Informal Employment is a form of employment with a diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by a state (Ghosh, 2021: 5). Informal operation is one that is not fully in compliance with laws and regulations governing the operation of businesses or is not fully governed by law (Bacchetta et al.2009: 52).

This paper is composed of two sections. Each section highlights its themes and issues to be discussed and provides ideas of its scope. The first part shows objectives (both main and specific ones). The second part provides basic ideas on how informal employment can contain various positive factors in innovation of people's business which will lead a country to a reliable economic transformation. It is in this section that the author's own field survey results are demonstrated which was undertaken in six districts of Rwanda. Furthermore, this section provided the policies actions with proof of implementation facts based on the information obtained from field work and the possibilities of business-friendly policies which provide suitable interventions in accordance with the nature of countries' business policies.

1. THE RATIONAL APPROACH TO THE RELIABLE FORMALIZATION

If most of the citizens rely on informal business for their survival, and governments do not gain sufficient direct revenues from the traders, there should be an appropriate economic model to change the economic structure and harmonize what benefits majority and how governments should adopt those benefits. Are inadequate government revenues equal to the loss of jobs for majority citizens? Of course, the justifiable answer would be no. A good model would be to increase the domestic demand in the country and creating employment of people. This can be achieved by enhancing the labour-intensive businesses which will raise the income of the people (Hinh, 2013: 56).

Most Africans are still under informal employment and nonregistered business for the sake of their survival. Garcia argues that countries in sub-Saharan Africa are overwhelmingly poor, and total population of 650million are estimated to live on less than \$2 a day, and 300million live below poverty line of \$1 a day (Garcia, 2008: 144). Based on economic relevancy of informal employment in Africa, with its significance in economic transformation for the time being, it has been a fundamental means for poverty reduction in African developing countries, especially for youth and women. Informal employment has been considered as enabler linkage between business new entrants and entrepreneurs (Adams 2008). Initially informal sector and informal employment is considered as the occupation for those who are unable to find employment in formal sector. However, informal employment has the potential to bridge the gap between insufficient formal jobs and entrepreneurs. According to ILO, in 2016, 86% of employment in Africa was in informal sector (Cilliers 2021: 197). Research shows that in sub-Saharan Africa the informal economy contributes 75% of non-agriculture employment, 61% of urban employment and up to 92% of new jobs (Diane et al. (2014). In Rwanda the results of the survey show that there were about 2,254,401 employed persons in the informal sector, corresponding to about 76.2 percent of total employment (RLFS, 2017).

It is very true that what people need might not be in the same line with the government policies. Thus, the main point here is to consider the benefits of survival for most taxpayers and as well to consider the long run economic transformation which will transform lives of a large number, instead of going with few and leaving behind the majority which will be the burden to the government in future (Birkland 2001: 6).

Sustainable Development Goals 1 stipulates that the world's target is to end poverty in all its forms everywhere. "Number of extremely poor in Africa has steadily increased since 1960 and likely to continue to so until 2032" (Cilliers, 2021: 149). Africa is largely still suffering from extreme poverty and hunger among its people. It is very hard to think of their full participation in formal jobs and decent jobs immediately. The priority should be a quick solution to firstly create jobs for the majority, and later formalization and decent jobs will be achieved.

In nations where formal employment is not enough to absorb all unemployed people, starting up a small business or own account informal enterprise might be law violation but necessary decision for many survivalists

(Diane et al, 2014: 11). In emerging and developing countries in Africa, the majority of people have to start small businesses, and their business grows with time.

Empirical research has shown that workers in informal economy face a higher risk of poverty than those in the formal economy, but informal employment in developing country of African communities is not by choice but considered as a last resort for their survival (Vegard et al. 2021: 361). Vegard argues that “in both the case of urbanization without economic growth and that of urbanization without industrialization, vast numbers of urban residents find employment in the informal economy’ (Vegard et al, 2021: 361). However, this is a stage where most African countries are lying. African communities are still under the traditional societies, in Rostow’s stages of growth (Todaro, 2021: 118).

Informal employment is considered as an element of economic enabler of social economic mobility. Vegard defines social mobility as the ability to move from a lower to a higher level of education or occupational status, or from a lower to a higher social class or income-group, the hope of economic development and the mantra of a good society (Vegard et al. 2021: 361)

2. REVIEWING THE ROLE OF INFORMAL EMPLOYMENT BASED ON CONDUCTED RESEARCH IN SIX DISTRICTS IN RWANDA.

Rwanda is one of developing countries in Africa, which is made up of the majority that are low-income earners. Since the 1994 genocide against Tutsi onwards, Rwandan education system has been progressively improving to date, through the government investment in public education and capacity building. Literacy/Unemployment rates are 68% / 14.5% (Doing Business, 2020). Rwanda is a landlocked hilly country its population is 13,246394, and its population density is 495/KM², (Todaro 2020:334). Many Rwandans are agrarian, and they rely much on rainfall for their agricultural survival like many other Africans, therefore, they live in a risky livelihood under the impacts of climate change. Such rural uncertainties contribute to the rising of informal employment in the urban areas in Rwanda. A few decades after the genocide against Tutsi, the Rwandan labor market has started to be flooded with job seekers, especially in the urban areas of Kigali and the secondary cities of Huye, Musanze and Nyagatare (Rwanda Labor Force Survey, 2017).

Majority of informal employees in Rwanda are women and youth due to fewer alternatives for their survival like many Africans (Hallward, 2013). Women in sub-Saharan Africa face particular challenging environment, due to disparities in education and property rights.

2.1 Informal Employment from Six Districts in Rwanda

This section focuses on the role of informal employment as a route to the survival and development of low-income earners in Rwanda. It draws upon interviews and observation data collected during extended field

work in Rwanda from six districts of Gasabo, Nyarugenge, Kicukiro in Kigali city, Nyagatare District in Eastern province, Huye District in Southern province, Musanze district in Northern province. This section also sheds much light on the responsibilities of government institutions in development of their people in a process of informal transformation. The major role of government is to stimulate employment opportunities. Informal employment in Rwanda needs some government intervention like modification of tax policies and registration procedures (Bryman, 2016: 693).

This section explores the potential of informal employment to economic transformation of people and suggests inclusive policies that should be translated into employment creativity not leaving the nationals behind. The process of formalization should be implemented gradually by doing the following consideration:

- ◆ Lower costs of doing business in Rwanda
- ◆ Registration friendly system and improved transparency in doing business.
- ◆ Good governance and decentralization of business advisory offices
- ◆ Clear administrative procedures
- ◆ Creation of private labour jobs through the potential employment informal sector
- ◆ Employment potential incentives
- ◆ Formalization mentoring and capacity building.

2.2 Tailoring and employment

Tailoring in Rwanda is one of critical occupational trades that employees a big number of low- income earners in non-agricultural economic activities. In fact, the initiative of made in Rwanda was introduced with more of reliability on tailoring and it is a government intervention to enhance all tailors in the country. Tailoring in Rwanda is affordable and doable since it doesn't require the big start-up capital, and its training both life span and costs are also affordable. This research considered many factors including the role of tailoring in reduction of dependence and poverty reduction in Rwanda.

2.3 Methodology of the fieldwork

This research builds on the author's field survey undertaken in the six districts of Rwanda. Specifically intending to observe the contribution of informal employment towards the economic transformation for the informal employees and informal producers, the much emphasis is on inclusive public policies made with the aim of creating positive employment and poverty reduction. First, observation data were collected across the six districts in four parts of the entire country, and 275 correspondents were interviewed. All interviewees were under tailoring and informal employees and informal producers (entrepreneurs).

Rwandans generally have sought to preserve their clothing styles from generations. Rwandans do tailor as one way to protect their dressing culture, and in modern era, the tailoring is employment sector for majority of

women and youth for employment purposes. Due to cultural and economic ties. The government of Rwanda “initiated the made in Rwanda” initiative which attracted majority of women and youth to be involved in tailoring. Tailoring in Rwanda has become one of the highest employer of low-income earners in Rwanda. Tailoring is a subsector in Rwanda that takes a short period of time for training (about 6-12months).

2.4 Observational data

This section also reflects the author’s observation on a range of informal employment and informal producers seen during the research field survey in Rwanda. The research undertook in-depth observation not only on tailoring and how economically transformed peoples’ lives, but also on their customers they interact with in their communities. Structured interviews were used, and all 275 interviewees were asked questions. And then through interviews, the author explored some critical answers on the sources of their capital that enabled them to start their business. The interviews took place at their workplace, with the aim of their comfortability and as an advantage for observing nonverbal responses which were very helpful in analysis. The questionnaires were designed in a non-threatening way. No questions about income volume were asked to avoid some suspicious tax collector investigations. The interviews were conducted in both English and Kinyarwanda, and all Kinyarwanda questions were transcribed into English for analysis. The consent was attained verbally, and no signature were requested.

3. FINDINGS AND FIELD ANALYSIS

Table 1: Number of employees employed by tailoring in informal in Six Districts.

District	Total	Male		Female	
		Number	Percentages	Number	Percentages
Nyarugenge	71	17	23.9	54	76.1
Gasabo	69	12	17.4	57	82.6
Kicukiro	79	20	25.3	59	74.7
Huye	22	22	100.0	0	0.0
Musanze	24	10	41.7	14	58.3
Nyagatare	58	9	15.5	49	84.5
Total	323	90	27.9	233	72.1

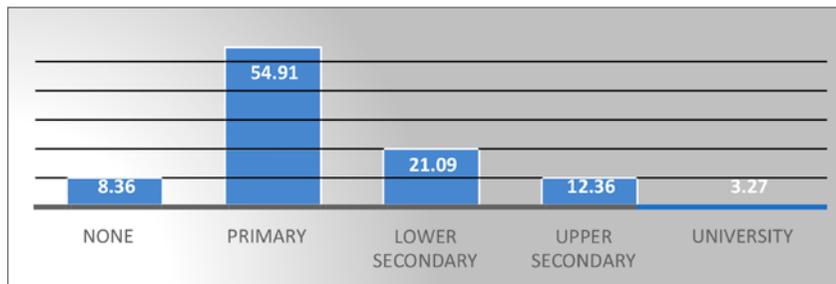
Source: the author’s analysis based on the data from the field.

Table 1 highlights the total number of employees, employed by the tailoring businesses in informal sector by district. As shown, 323 employees are employed by 275 businesses, roughly 1.17 employee to the owner by each business in tailoring informal sector. Females are more likely to be employed than males in tailoring, and 72% of those are female while 28% of them are males. From the gender perspective, it shows that females

in Rwanda are beneficiaries of informal employment relative to males. This is due to many reasons including the cultural, legal, and traditional technologies that all need to be enhanced as time goes on. Chen argues that women's employment has been considered as national economic contribution and integration of majority of people into labour market (Chen, et al., 2004: 14-20).

It is very true that those who are working in informal sector are more exposed to vulnerable and non-protected from risks (ILO, 2002a). However, the informal employment in Rwanda is due to survival not by choice. In a process of formalization, policy makers should adjust the legal process, and give women the legal basis to own the land, and government facilitations about school turnout should be continued and increased.

The dominance of women in informal employment is not a unique factor to Rwanda, instead it is a general problem in many African countries. African communities are still marginalizing women, and they are vulnerable and exposed to informal employment. As elaborated well in the following Graph 1, education would be the reliable intervention for amicable economic transition towards formalization.



Graph 1: Education level of employees in tailoring informal sector

Source: the authors' analysis based on the data from the field

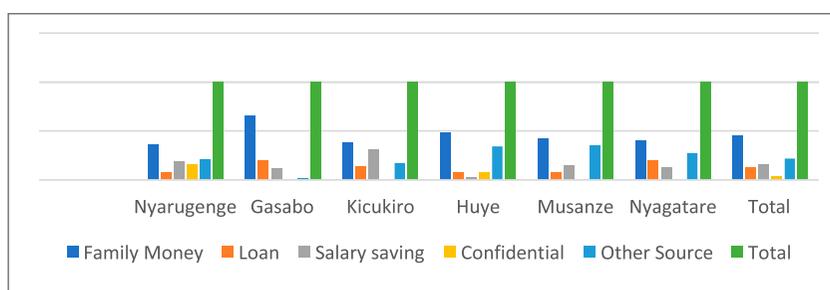
The graph 1 shows that the most employees in tailoring have completed primary school with a proportion of 54.9%. Followed by lower secondary with 21% of the total employees in tailoring, and there is percentage of 3.3% for employees who completed university studies. There is no doubt about the importance of education to job creation in Rwanda and in other African developing countries at large. With reference to the survey conducted in Rwandan in the six districts, three from capital city Kigali and three from secondary cities of Huye, Musanze and Nyagatare about the informal employment in relation to the education levels, the results suggest that the higher the level of education, the lower the possibilities of being informally employed. This means that improvement of education both in quality and level, can reduce unemployment rate in Rwanda. Furthermore, informal employment can be easily and amicably transformed if education improvement among the citizen can be assured and handled by the highest efforts. These efforts are demanded from government officials particularly to deal with mismatch of skills demanded by employers with those who are looking for employment opportunities. The mismatch can be solved by industrial attachment and apprenticeship programs.

Education is a way to go for formalization and poverty elimination in African countries. Education can

bring an enabler factor in developing communities and make innovation easier and more achievable. Educated people tend to be flexible and resilient to critical changes whether those changes are economic, political, or social, and therefore, transformative change from informal employment to formal will be achieved by education.

In order to fastening fully employment in developing countries of African and specifically Rwanda their communities need to ensure that they put much emphasis in education and acquiring skills. The major role of government is to integrate its people with a fair development policy (Brundenius, 2017: 199).

As indicated in Graph 1, 54.91% of the informal employed people in the six districts are primary graduates, and only 3.27% of the university graduates are employed in informal sector. This gives more credit to education; the more people are educated the more chances they have to transform their families from informal to formal activities.

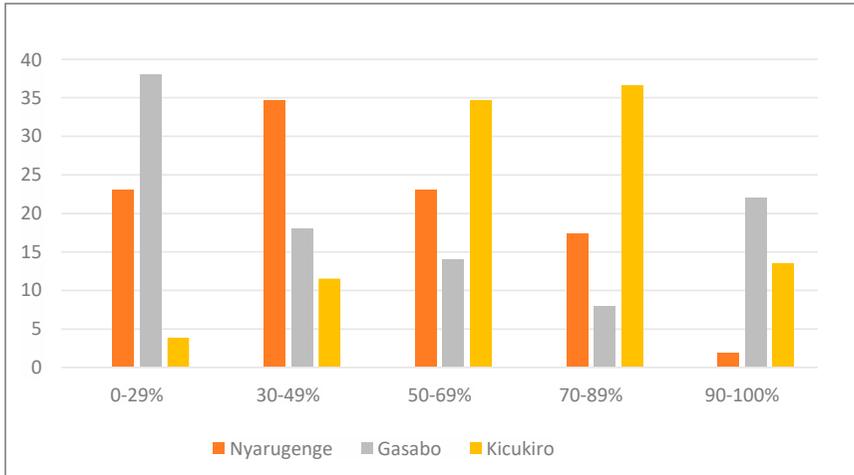


Graph 2: Source of the initial capital

Source: the author's analysis based on the data from the field

The figures in Graph 2 describes the sources of the initial capital in tailoring informal business owners. The largest source of capital is the family money. 12.7% comes from loan, 16% from salary saving, and 21.8% from other sources that are not mentioned. The most important information here is that families highly support the informal sector employment for their sustainability. This is due to many economic reasons including the fact that the families are supporting those business for their survival as their source of income, and others are supporting the informal sector to save their relatives from unemployment. The dominance of family informal business support is concentrated in Kigali which is linked with the fact that higher income earners whose employment is informal are in Kigali than in upcountry. Much attention should be paid also to Gasabo which depends more on family money than the other districts (66.6%). This is simply because Gasabo is a district that is composed of both cities and rural areas almost equally. This is understandable, especially gives people from Gasabo district high employment opportunities to benefit from urban and rural areas.

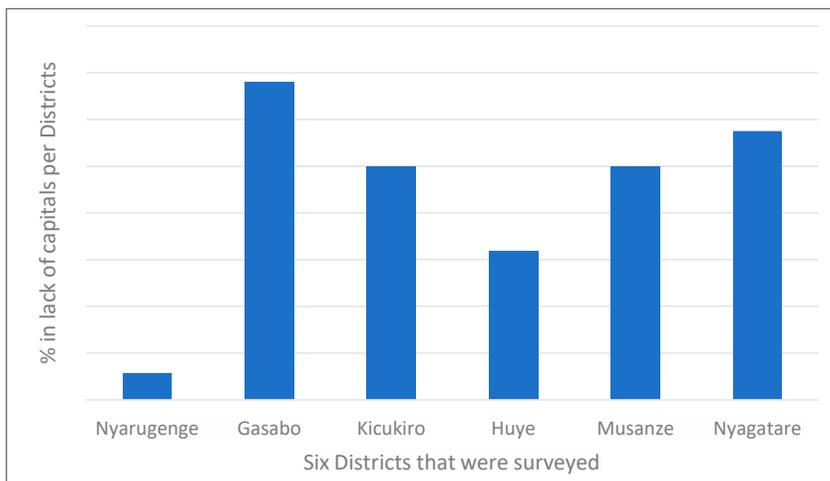
The informal employment data in Kigali city is composed of data obtained from the three districts: Gasabo, Kicukiro and Nyarugenge. The most favored people under informal employment according to the field survey information, are in Gasabo district (38.0%), compared with 34.6% in Kicukiro and Nyarugenge. The dominant contribution of informal employment in Gasabo is due to its uniqueness as a big district a half which is covered



Graph 3: The level of dependency on informal employment in the Kigali 3 districts
 Source: the author’s analysis based on the data from the field

by city of Kigali while the remaining part is covered by the Kigali rural areas. This puts Gasabo district in a position of having many areas that are less developed than the rest of the two districts in Kigali city. Gasabo has a large number of micro and individual start-up businesses, while in the other two districts most of the businesses are formal, and cooperatives owned.

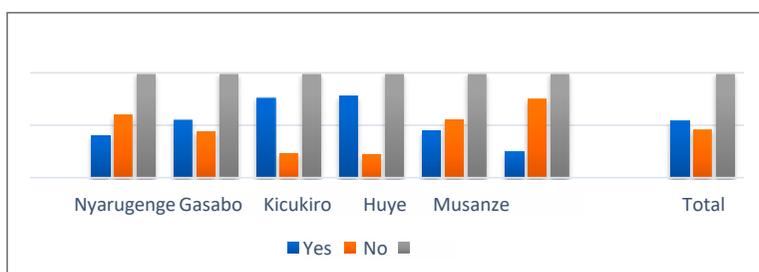
Graph 4 shows the percentage of the lack of capital to expand business of the respondents from each district. This graph represents the respondents’ lack of capital that were obtained from the six districts. The economic implication is that the districts from the rural areas show higher percentage of lack of capital, which is due to many reasons as follows:



Graph 4: Lack of capital to expand their business per district respectively.
 Source: the author’s analysis based on the data from the field

1. The rural areas are dominated by agriculture, and agricultural products are not considered reliable enough as bank security for the owners to get loans to expand their business.
2. In most of the rural areas they don't own land and land is one of the bank requirements for the loans.
3. Majority of the informal workers in Rwanda, especially the tailors are women, and in Rwandan community the dominancy of men in family properties is still influential mostly when it comes to trade and strong decisions which can affect the family properties like the family land as a bank security to the loans.

The district, which is the most insufficient in capital, according to the data obtained from the field survey is Gasabo followed by Nyagatare. Gasabo is a district that combines both urban and rural areas and is at the same time a district where the majority of youth have no occupation.

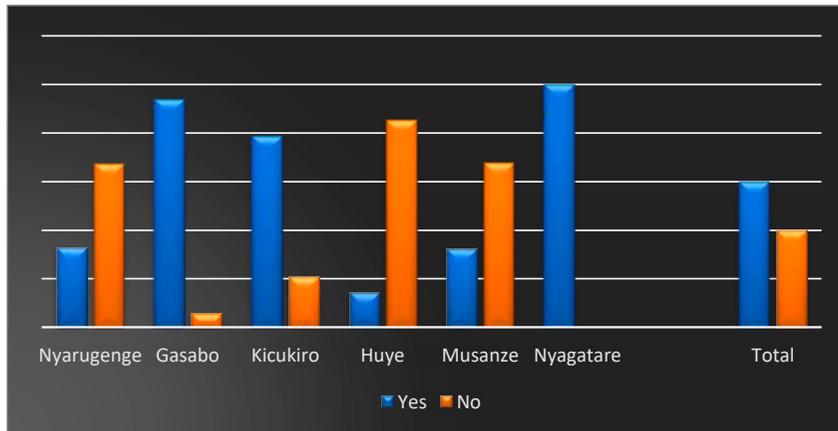


Graph 5: District bank access for financial support

Source: the author's analysis based on the data from the field

According to the information obtained from the field survey, out of the six districts, Huye district shows the highest percentage of financial institution access (78.1%), followed by Kicukiro (76.9%), and Gasabo (56.0%). Generally, these three districts have many factors in common. All these districts are dominated by working and business class people, two of them are in Kigali city while Huye is of Rwanda's secondary cities. These are Districts whose citizens are aware of the roles of financial institutions (banks) and they know very well how to utilize those banks. Another reason is that they have experience of doing business and they have bank securities. The fact that 45% of the respondents from Musanze have access to financial support implies that there is a long way to go to connect the informal businesspeople with the financial institutions. Nyarugenge is more cooperative area than any other part of Rwanda, and therefore, cooperative financial accessibility is easier than individuals.

Nyagatare is still behind in accessing banks and financial institutions, since businesses in Nyagatare district are still incipient since it is a young district.



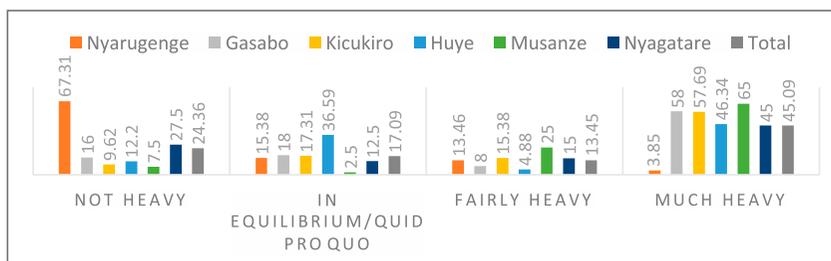
Graph 6: The economic progress from informal sector per district

Source: the author's analysis based on the data from the field

Graph 6 represents the economic progress per district. Nyagatare is a district from Eastern Province which is mainly dominated by agriculture, and under this research only 58 tailors in Nyagatare District were interviewed, and all of them linked their economic progress to informal employment.

As to Gasabo, 94.0% of the interviewed people aligned their economic progress to informal sector employment. This implies that 65 people out of 69 respondents in Gasabo identified informal sector employment as an enabler factor for their economic progress. The significance of their responses is in how their lives have changed economically. Kicukiro District is one of Kigali city districts and 78.9% of the interviewees confirmed the economic significance of the informal sector to their lives. The remaining three Districts respectively responded with the following percentages: Nyarugenge 32.7%, Musanze 32.5% and Huye 14.6%.

Informal employment and informal economy in Rwanda are very important and allow the economic activities to be transformed from a low level to a higher level, and it transforms the lives of the people from poverty to development. The formalization process under normal circumstances should be done in **gradual absorption process**. This is a process which takes time to accommodate all beneficiaries or at least considering the large number of people in economic transformational process. First, the emphasis should be put on developing human capital empowerment and giving people the relevant skills (Bacchetta, 2009: 131). Second, strong integration of a country's trade to other countries, when the trade integration is open to the informal businesspeople, will willingly transform their business to achieve the broad benefits. Third, government should increase the incentives because majority of informal businesspeople will be attracted by reasonable incentives to formalize their business. Fourth, putting in place infrastructures, and alleviating regulations for formalization process, and basing on the nature of rural informal business, government needs to build up infrastructures like roads that can connect micro business to the markets.



Graph 7: The heaviness of the taxation in tailoring sector in six districts of Rwanda

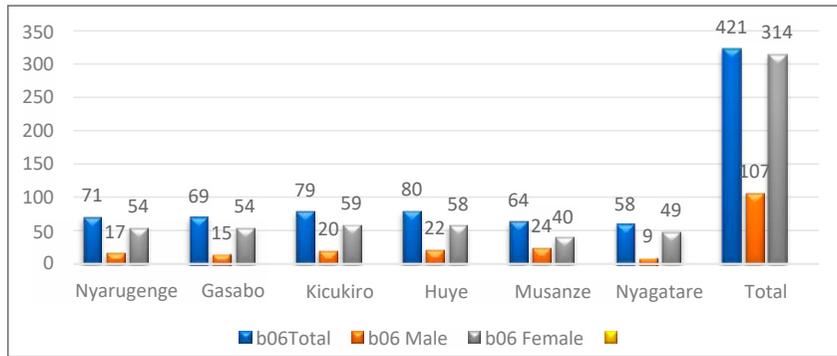
Source: the author's analysis based on the data from the field

The focus in Graph 7 is four folds but emphasis should be put on the last fold whereby the respondents showed their concerns on heavy tax on their business as a burden that hinders their business flourishing and kills employment opportunities for the future. Much extreme/heavy tax burden has been identified in Musanze tailoring companies by 65%, Gasabo tailoring companies by 58%, Kicukiro tailoring companies by 57.69%, Huye tailoring companies by 46.34%, Nyagatare tailoring companies by 45% and finally Nyarugenge tailoring companies by 3.85%.

The high burden of tax has been identified in rural areas in Musanze, and large part of Gasabo is also a rural area and some parts of Kicukiro as well. This signifies the little understanding on the importance of tax and shows heavy tax and lack of consensus in tax collections and finally heavy tax to the small business.

Rwandan employment highly depends on informal sector. Thus, the tax policy adjustments are very critical to enhance the effectiveness of tax collections for better future economic growth.

The most important point here is to think about employment and how most of the youth can get jobs and employment opportunities, and those occupations will provide taxation after their establishment and on the take off stage. Formalization of informal sector in a developing country like Rwanda would not be easily and quickly realized in a short-term period but the empowerment informal sector is a precondition of economic transformation which will be realized in a long-term period by economic progress of communities (OECD, 2009: 22). As shown in the survey obtained from the 6 districts of Rwanda the informal employment is caused by many factors including the financial dependence and insufficient formal employment opportunities. In the process of transforming informal employment into formal one, there should be initiatives of reducing the tax burdens to the taxpayers. This can be possibly achieved by implementation of grace periods to the small and potential promising business. The policy of one stop center (where all legal documents of doing business can be obtained in one office) which intends to simplify the issuing of registration licenses. The policy of administrative tolerance in tax collection for informal potential business. The minimum wage regulation policy is also needed.



Graph 8: The percentage of female and male in tailoring in Rwanda

Source: the author’s analysis based on the data from the field

Graph 8 shows the dominance of females in tailoring informal subsector. This implies that majority of women depend on informal sector. Therefore, for avoiding economic marginalization of women in the economic transformation, this informal subsector should be enhanced to continue absorbing a large number of people who need employment opportunities.



Graph 9: The Source of initial capital from six Districts

Source: the author’s analysis based on the data from the field

Only 12.7% of correspondents confirmed their source of capital from loan. This means only a small number of people have excess to financial institutions. And this is linked to low-income, poverty and vulnerability that will continue taking place in Rwanda if there are no quick interventions to link people with financial institutions. The reliable ways of linking informal employees to financial institutions to put reasonable conditions which favours those people (e.g., including micro credit services).

The labour force surveys of Rwanda show trend of informal sector in Rwanda from 2017 to 2020 that, there were more employment opportunities in rural than in urban. The big difference might have been caused by much dependence on agricultural sector, and that sector is more concentrated in rural. The other cause might have been relaxed policy enforcement in rural compared to the urban areas, and people may tend to migrate from urban to rural areas in order to smooth their informal business especially after the outbreak of the

Covid-19 pandemic. Since Rwanda is an agrarian economy, it is very true that most of the population reside in rural areas (Rwanda Labour force survey (2017-2020)).

Under informal employment enterprises, the government needs to enhance all informal potential business with the aim of achieving the long-term objectives of all participants. The main objective for informal entrepreneurs is profit maximization and the survival of themselves and their families.

Traditional and affordable technology is appropriate one to enable employment and reasonable income to citizens. Traditional technology is any technology that can be done at a household level and facilitates the owners to earn some income. Government is responsible to train the informal employers through the Rwandan private sector federation in collaboration with NGOs how to use adopt and use that traditional technology. To achieve this, there should be two policy approaches. One is long-run and is associated with education policy whereby education for the citizens must be more of hands-on-skills which will help them to have practical skills. The second approach is rapid solution whereby policies are intended to ease the rules and regulations of informal formal transformation process. Therefore, there is a need of a strong harmonization of informal employees and policy makers to set up the rules that will benefit both sides. For instance, establishment one stop centers to facilitate informal businesspeople to get all government requirements in one authorized office.

4. CONCLUSION

The conclusion section is policy actions which the government of Rwanda should adopt to secure the inclusive development of its people. It is very clear that the fundamental economic role of governments of African developing countries is to ensure that its citizens can benefit from flexible and friendly policies which try to transform their economy into one with empowered private sector.

There are key institutions that should take a lead in formalization process of Rwandan small business, and each institution has its mandate as a custodian in each mission in the country. We can start with Ministry of Commerce and Trade (MINICOM), which should emphasize and initiate in the Rwandans the spirit and abilities to consume. These massive abilities to consume will come from the conducive environment to work and to produce. The ability to consume is bound by the power of production and employment. Therefore, when citizens of a country are employed, there will be increase in saving, and this will bring more investment, will bring more production, and this circular flow will end up again in more consumption, hence the economic reliance and development. Development of Rwanda can be built from the small sector where there are potentials to employ many Rwandans. It is true that small businesses may not meet the decent standards today, but in a gradual process, there will be possibilities to transform many Rwandans.

Ministry of Finance and Economic Planning (MINECOFIN) can also take an important role. This Ministry, in collaboration with Rwanda revenues authority, can create effectiveness of flexible production in

the country in accordance with the ability of Rwandans. This can be done through citizen-centered initiatives like tax grace awareness, linking small business and commercial institutions, monitoring, and regulating the interest rates of the banks and other financial institutions in the country in a harmonious way with the ability of Rwandans.

The Ministry of Public Service and Labour (MIFOTRA) in collaboration with Ministry of Education (MINEDUC) and its affiliated agencies comes next. The two policy making institutions, and their affiliated agencies, are recommended to initiate quality education which is vital in development of this country and is one of the keyways to its sustainable development. Ministry of Education of Rwanda can enhance and make education sector a hub for the reliable human skills development. This Ministry can as well emphasize the modern technology and make the self-sustaining growth and strong capacity building of Rwandans. Quality education in Rwanda will make formalization of informal sector very possible, and at the same time will make a fair income distribution among Rwandan citizens. Then life expectancy will increase, and generally, employment opportunities will be guaranteed both for governments workers and for self-employment, and even the Rwandans will be able to work with many international organizations.

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