IFPRI Discussion Paper 02415

May 2026

Gender, Youth, and Growth

Unpacking the Productivity–Transformation Nexus in Rwanda

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ABSTRACT

The relationship between labor productivity and economic transformation, and their combined impact on labor market dynamics, remains insufficiently understood and highly country specific. This study applies an economywide analytical framework, using Rwanda as a case study, to examine how youth and women's productivity influence economic growth and structural transformation, and how this transformation process, in turn, affects these groups.

The results indicate that labor productivity gains—whether economywide or concentrated among youth—shift growth toward the industrial and service sectors, while growth in the agricultural sector is minimal. Increases in productivity of women' labor generate more balanced growth across sectors and substantially enhance women's industrial participation. Productivity gains of youth labor induce stronger structural shifts, as young workers move from agriculture to expanding industrial and service sectors, though this transition partially displaces adult workers.

In general, labor income in these simulations rises broadly in line with GDP, with youth and women benefiting most under targeted scenarios. Sector-specific growth strategies yield distinct distributional effects, however: industry-led growth benefits women and adults, while service-led growth favors the versatile youth. Overall, productivity-driven structural transformation in Rwanda fosters welfare gains, although potential trade-offs between inclusiveness across gender and age groups and aggregate economic performance warrant further investigation. In conclusion, policy design in Rwanda should ensure that gains in aggregate economic growth are balanced with inclusive outcomes for women, youth, and adults.

Keywords: Transformation, labor productivity, gender, youth, Rwanda

ACKNOWLEDGMENTS

This work was undertaken with financial support from the CGIAR Science Program on Policy Innovations. We would like to thank all funders who supported this research through their contributions to the CGIAR Trust Fund (www.cgiar.org/funders). We thank Paul Dorosh, a Research Fellow Emeritus at IFPRI, for his constructive input.

1 INTRODUCTION

Raising labor productivity is essential for poverty reduction in most developing countries. Early development literature placed labor markets and human capital at the center of theories of development and growth (e.g., Lewis 1954; Harris & Todaro 1970). Moreover, the composition of the labor force—along gender and age dimensions—shapes the pace of economic growth and structural transformation. These processes are also shaped by factors such as access to capital, technological innovation, and government policy (Gollin & Kaboski 2023; Agte et al. 2024).

In developing countries, labor markets are marked by low human capital, limited formal wage employment, but also frictions in labor markets. Low human capital reduces firm profitability and constrains job creation (Ofori et al., 2024), while wage rigidities and missing markets generate misallocation and informality (Breza & Kaur, 2025; Fields, 2011), and weak labor demand further depresses participation. Within this context, gender and age are central determinants of structural transformation, as women and youth are systematically disadvantaged (Agte et al., 2024; Heckert et al., 2020; Breza & Kaur, 2025), being more likely to work in low-wage and informal employment. Evidence also suggests that short-term experiences—such as unemployment during youth—can have long-lasting adverse effects on future earnings (Mroz & Savage, 2006). Wage rigidities and missing markets lead to labor misallocation and informality (Breza & Kaur, 2025; Fields, 2011), while weak labor demand can further depress participation. These constraints are central to understanding growth and employment gap.

Structural transformation reflects the joint evolution of productivity growth and labor reallocation, and their implications for labor market outcomes. Productivity gains reshape sectoral composition, while the movement of workers across sectors feeds back into wages and employment opportunities across demographic groups.

Conceptually, these mechanisms operate through a common chain: shifts in labor composition and productivity changes alter relative sectoral costs and prices, which induce reallocation of production and labor across sectors, ultimately shaping employment outcomes across demographic groups. This process operates through two closely related channels: the source of growth and the sectoral pattern of productivity differences, both of which determine how structural change unfolds and how labor is reallocated across sectors and demographic groups. Annex Figure 1 presents a simple conceptual diagram linking productivity change to labor market outcomes.

In practice, two aspects of this nexus in developing countries are worth exploring further. First, labor composition and productivity underpin both growth and the reallocation of workers from low-productivity sectors, such as agriculture to higher-productivity sectors, including manufacturing and services. These dynamics are shaped by systematic heterogeneity: men and women, as well as youth and adults, allocate their time differently across sectors and over time but also among economies at similar development levels (Heckert et al., 2020). Such differences, together with variations in productivity, shape both the pace and pattern of structural transformation.

Second, growth and structural transformation also feed back into labor market outcomes. Early research (Alvarez-Cuadrado, 2011; Boehlje, 1999) on structural transformation primarily focused on shifts in the sectoral composition of GDP, from agriculture to manufacturing and services. However, beyond these shifts transformation in developing countries can also occur within the dominant agri-food system, as production becomes more market-oriented. The pace of this transition can be accelerated or slowed by a variety of factors, including sectoral policy bias, resource endowments, and infrastructural constraints (Romano and Trau, 2017; Martins, 2018).

Despite this substantial body of work, research on economic transformation still pays limited attention to the quality and distribution of employment. Understanding how structural change affects employment opportunities—and how these effects differ across gender and age groups—remains essential for developing countries. In this regard, the source of transformation plays a critical role (Boundi-Chraki and Perrotini-Hernandez, 2025; Walsh, 2004). Demand-driven growth tends to expand employment, whereas productivity-driven growth generates more ambiguous effects, potentially displacing labor while also creating jobs through lower prices, increased demand, and the emergence of new tasks. These dynamics interact with persistent cross-sector productivity gaps (Samaniego & Sun, 2016), which govern the direction of labor reallocation and produce heterogeneous employment outcomes across sectors. As a result, structural transformation has uneven implications for men's and women's labor market transitions, as well as for youth and adults (Heckert et al., 2020). For example, although findings are mixed, rural transformation may increase employment opportunities for adults, particularly men, given their greater access to productive assets both within and outside agriculture. Nonetheless, while economic growth can help narrow certain gender gaps, it may not eliminate them automatically (Agte et al., 2024), underscoring the need for context-specific and carefully considered evaluations of alternative development pathways.

These broader patterns are also evident in Rwanda. Despite an overall employment-to-population ratio of just 62.9 percent nationwide, men's employment rates exceed women's by 15.5 percentage points (NISR, 2024). Moreover, women remain disproportionately concentrated in agriculture, where they access around 85 percent of farmland—25 percent individually and 60 percent jointly (ROR, 2019—while men are more heavily represented in industry and services, with considerable differences across sub-sectors. Age-based disparities further shape these outcomes: Rwandan data show that a workers age strongly influences their likelihood of employment in specific sectors, reflecting differences in education, financial resources, and social capital across age groups.

This study explores these issues employing an economywide analytical framework, using Rwanda as a case study. The analysis addresses two central questions: (i) *How do youth and women's productivity influence economic growth and structural transformation?* and (ii) *How do different patterns of structural transformation, in turn, affect youth and women?* To explore these questions, the analysis considers changes in labor productivity across different worker categories as well as alternative sectoral growth pathways, following a productivity-driven growth approach vs a demand-driven growth. By jointly evaluating these channels, the study contributes to a deeper understanding of how gender and youth dynamics interact with productivity improvements and the broader process of structural transformation in Rwanda.

The remainder of the paper is organized as follows. Section 2 maps Rwanda's labor market structure, with particular emphasis on the employment patterns of men, women, youth, and adults. Section 3 presents the modeling approach and outlines the scenario design developed to address the research objectives. Section 4 discusses the model results, and Section 5 concludes with key policy recommendations.

2 LABOR MARKET STRUCTURE IN RWANDA

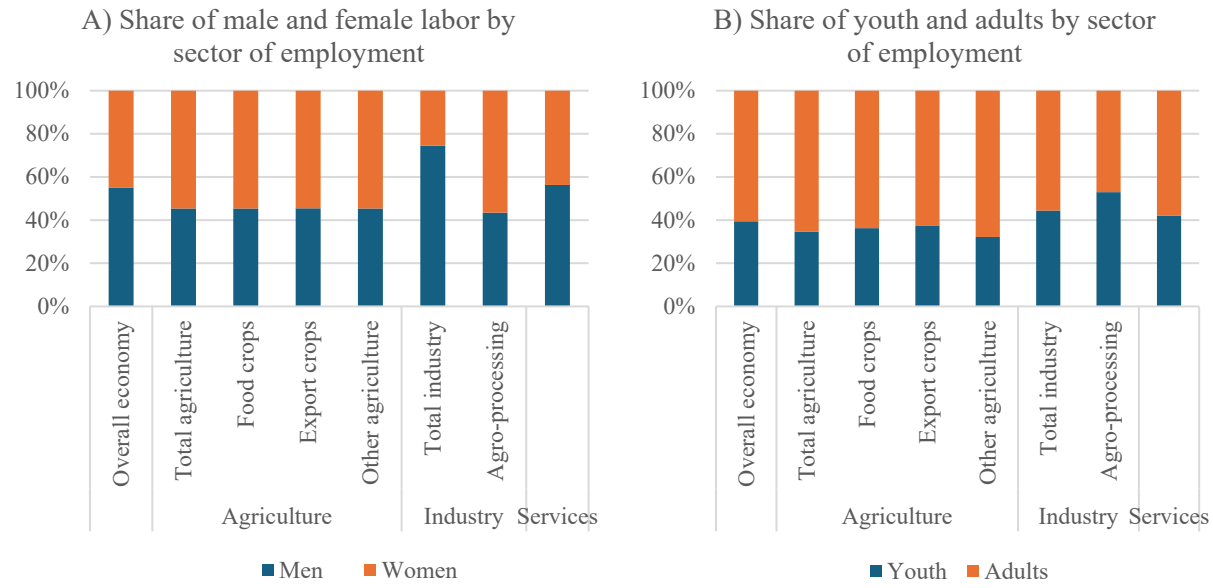
Effective labor market functioning is central to Rwanda's development agenda, including its Vision 2050 (ROR, 2020) and the National Strategy for Transformation (NST2) (ROR, 2024). Both strategies aim to sustain the country's transformation through economic growth, urbanization, and the strong integration of gender equity, women's empowerment, and youth inclusion. The contributions of different sectors to this transformation, as well as the roles of various types of labor within each sector, are critical to achieving these outcomes.

The services and agriculture sectors, which account for 52 percent and 24 percent of Rwanda's GDP, respectively, have been the main drivers of the country's economic growth in recent years. Although the importance of agriculture has declined with the expansion of the services sector, it continues to provide employment and livelihoods to approximately 40 percent of the labor force, making it a cornerstone of Rwanda's economic transition. With a poverty headcount rate of 38 percent in 2016/17 (NISR, 2018), alongside persistent undernourishment and limited dietary diversity, enhancing labor productivity and fostering sustainable economic transformation—both within and beyond agriculture—remain essential for broad-based and inclusive development.

With a population of over 14.7 million, Rwanda's demographic profile mirrors that of many African nations, characterized by a relatively fast-growing population, increasing at an annual rate of over 2.5 percent (NISR, 2025). Approximately 27 percent of the population falls within the 16–30 age range, representing the country's youth demographic. According to the recent Labor Force Survey (LFS) (NISR, 2024), Rwanda's employment-to-population ratio reached 63 percent, with an estimated 5.2 million active members in the labor force, of which 4.4 million were employed. The proportion of the working age population participating in the labor force has been steadily increasing since 2022. Despite gradual improvements in access to education, the workforce remains largely low-skilled and less productive, showing a limited alignment with the country's economic development needs.

According to the 2024 Rwanda LFS (NISR, 2024), overall, men dominate Rwanda's labor force, accounting for over 55 percent of all workers. They are disproportionately represented in the industry and services sectors, where they comprise 75 percent and 56 percent of the workforce, respectively (Figure 1, Panel A). However, gender disparities vary across specific sub-sectors. For instance, while men constitute 75 percent of industrial employment, the agro-processing subsector exhibits a more skewed gender distribution towards women, highlighting the increasing opportunities it provides for women. In contrast, women remain dominant in agriculture, where they represent 55 percent of the labor force and has access to about 85 percent of farmland either jointly or individually (ROR, 2019).

Figure 1. Employment share by labor type and sector in Rwanda



Source: Rwanda Labor Force Survey 2024 (NISR, 2024).

Likewise, Panel B presents the distribution of youth and adults in employment across different sectors of the economy. Contrary to the youth's substantial share in the overall population, adults consistently dominate employment in all sectors, largely due to youths' limited experience, lack of networks, resources, and access to capital needed to start or sustain businesses. At the economywide level, youths account for 40 percent of the labor force. Their representation is lowest in agriculture (35 percent)—reflecting challenges such as restricted access to land and a growing preference among youth to exit the sector—and highest in industry (45 percent), particularly in agro-processing.

Table 1 presents the distribution of each labor type by sector of employment in Rwanda. Men are predominantly employed in the services sector (44 percent), which the Government of Rwanda identifies as a key driver of growth by building knowledge-based economy (Behuria and Goodfellow, 2017). Consistent with its contribution to GDP, agriculture employs approximately 33 percent of men in the workforce. Women display a different sectoral pattern: agriculture is their larger source of employment (48 percent), followed by services (42 percent). Although women are less represented in industrial activities, particularly in physically demanding sectors such as mining and construction, they have a higher share of employment in agro-processing compared to men (2.5 percent versus 1.5 percent for men).

The Rwanda LFS also highlights distinct employment patterns between youth and adults across sectors. The services sector employs the largest share of both young men and women (approximately 46 percent). In addition, a higher proportion of youth are engaged in industrial activities, including agro-processing, compared to adults. In contrast, a substantial share of men and women adults remains employed in agriculture and related activities, reflecting the sector's continued importance for older segments of the labor force.

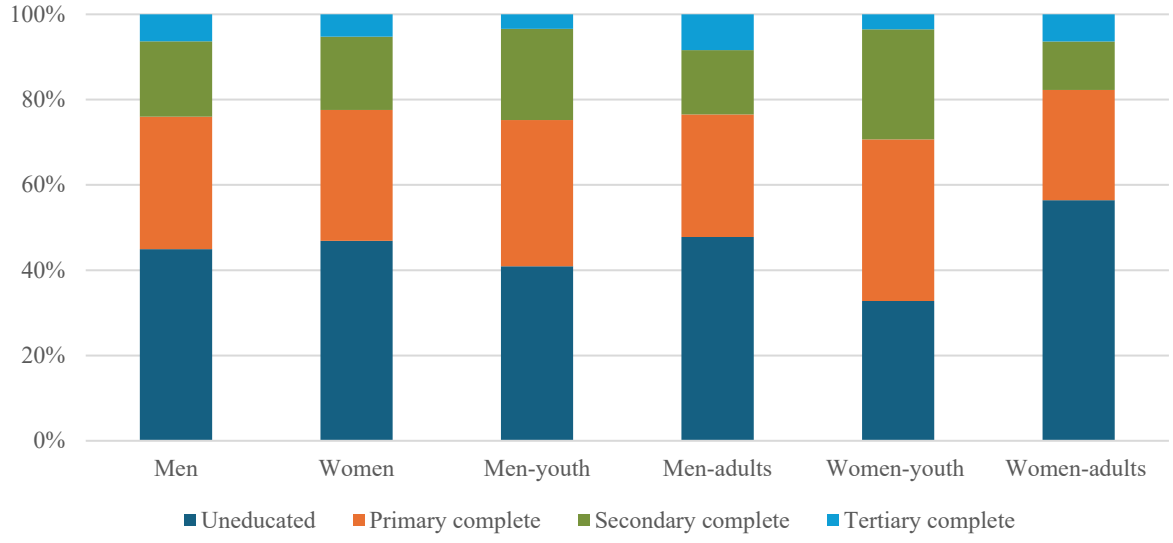
Table 1. Allocation of labor by sector of employment (%)

	Men	Women	Men		Women	
			Youth	Adult	Youth	Adult
Agriculture	32.6	48.1	29.2	34.9	41.7	52.1
Food crops	15.3	22.6	14.1	16.1	20.8	23.7
Export crops	3.0	4.4	2.8	3.1	4.2	4.5
Other agriculture*	14.3	21.1	12.2	15.7	16.7	23.9
Industry	23.1	9.7	25.0	21.9	12.0	8.3
Agro-processing	1.5	2.5	1.7	1.4	3.8	1.6
Services	44.3	42.2	45.9	43.2	46.3	39.6
All sectors	100.0	100.0	100.0	100.0	100.0	100.0

Note: *'Other agriculture' is inclusive of sectors such livestock, fishery, and forestry.
Source: Rwanda Labor Force Survey 2024 (NISR, 2024).

The sex and age composition of the labor force, combined with its skill profile, plays a crucial role in shaping the impact of labor market interventions on Rwanda's structural transformation process. The country's workforce comprises 45 percent uneducated men and 47 percent uneducated women (Figure 2). The share of workers declines sharply as educational attainment increases, with only 6.3 percent of men and 5.2 percent of women having completed higher education. Most youth—both men and women—occupy the middle levels of the education ladder, while adult workers, particularly women, are disproportionately represented in the uneducated category, which has potential implications for the average productivity of sectors where they are concentrated. Conversely, the share of adults with tertiary education is notably higher than that of youth, reflecting the cumulative benefits of education and skills development opportunities acquired over time in the labor force.

Figure 2. The distribution of labor by level of education



Source: Rwanda Labor Force Survey 2024 (NISR, 2024).

3 METHOD OF ANALYSIS

3.1 Rwanda economywide model

This study applies IFPRI's standard computable general equilibrium (CGE) model. CGE models are widely utilized for economic policy formulation and analysis (Dixon and Parmenter, 1996; Devarajan and Robinson, 2010). They offer a simulation laboratory and capture the interlinkages between sectors, households, and rural-urban economies, making them well-suited for assessing the economywide effects of policy and external shocks. IFPRI's CGE model has recently been used to inform policy analysis in Rwanda, including agri-food investment prioritization (Aragie et al., 2022) and COVID-19 impact and recovery analysis (Aragie et al., 2024).

The Rwanda model used in this study is calibrated to a modified version of the 2022 Social Accounting Matrix (SAM) for the country (IFPRI, 2024). The model represents the economy through a set of disaggregated sectors, encompassing 33 agricultural sub-sectors, which include 24 individual crops or groups of crops, six livestock production sectors, as well as forestry and fisheries. The model also incorporates 36 industrial sectors—including 17 agro-processing activities—and 12 service sectors, which include food-related areas such as trade, transport, and restaurant services. This detailed representation of both the on-farm and off-farm components of the broader agrifood system permits detailed analysis of agrifood value chains, from primary producers to processors and traders to final consumers.

To accurately reflect the structure of the labor market and address the research objectives, the initial eight labor categories—disaggregated by rural-urban location and education level—are further subdivided by gender and age group, resulting in a detailed 32-type labor classification. Each rural and urban labor type is classified by gender (men and women) and age group (youth and adult), in addition to the four education levels ranging from no formal education to tertiary completion. This additional disaggregation by gender and age cohort is essential for policy analysis, as it highlights disparities in wages, sectors of employment, and productivity levels. Moreover, this classification enables a more precise assessment of targeted interventions and their impacts on labor market dynamics and sectoral performance.

The Rwanda model also distinguishes 15 representative households, each of which is an aggregation of a group of households captured in the 2016/17 Fifth Integrated Household Living Conditions Survey (EICV5) (NISR, 2018). These households are categorized into rural and urban, with rural households further divided into farm and non-farm groups based on their reliance on agriculture as a primary source of income. Finally, each household group is further disaggregated by per capita expenditure quintiles. In the model, households earn labor income and receive returns on their assets, which include land and capital, as well as domestic or foreign transfers.

To monitor changes in poverty headcounts, the CGE model is linked in a top-down manner with a poverty microsimulation module. Following the methodology of Arndt et al. (2012), changes in poverty are estimated by connecting the microsimulation module to key CGE model outcome variables—household income, prices, and consumption. The changes in real consumption across commodities, generated by the RIAPA model, are applied to corresponding households from the 2016/17 EICV5 survey (NISR, 2018), which are mapped to 15 representative household groups within the CGE framework. Subsequently, the updated poverty status is computed for all sampled households.

3.2 Scenario design

Analyzing the nexus between labor productivity and economic transformation, and their ultimate impact on the labor market, requires a set of carefully designed counterfactual experiments. Conceptually, all scenarios follow a common transmission mechanism: productivity shocks alter relative costs and prices, which induce sectoral reallocation through production and demand linkages, ultimately shaping labor demand and employment outcomes across demographic groups. We model two main sets of policy scenarios. The first set examines labor productivity interventions across different worker categories: (a) all-workers, (b) youth, and (c) women. The second set explores alternative pathways of structural change, namely: (a) agriculture-led growth, (b) industry-led growth, (c) services-led growth, and (d) balanced growth. Unlike the first set of scenarios, which focuses on increases in labor productivity, this set of simulations assumes an increase in total factor productivity in the targeted sectors, driven by productivity-enhancing policy reforms and investments. In each scenario, either labor or sectoral productivity is increased—depending on the type of scenario—until overall GDP rises by an equivalent rate of 1 percent. This assumption of a comparable growth rate across scenarios allows for meaningful comparison of their respective sectoral composition and labor market outcomes.

Increased labor productivity scenarios

All labor (Sim 1.1): This scenario is labor-type neutral, assuming productivity gains across all categories of labor regardless of gender or age. Labor productivity is increased until overall GDP rises by 1 percent. Such gains can result from investments in education, skills development, and process improvements. Despite its labor-neutral nature, the scenario may still induce sectoral shifts in employment and production, depending on the distribution of labor types across sectors and the strength of intersectoral linkages—thereby influencing the pace and pattern of economic transformation.

Youth only (Sim 1.2): Youth productivity is vital for economic development, as it enables young people to realize their potential and contribute fully to economic growth. In this scenario, productivity-enhancing interventions are assumed to target both young men and women across all sectors of the economy.

Women only (Sim 1.3): Enhancing women's productivity can strengthen their contribution to economic growth, improve overall human capital, and expand employment and economic opportunities for women. In this scenario, women's labor productivity is increased to a level that yields a one-percent rise in total GDP.

These scenarios represent labor productivity shocks that operate through transmission channels grounded in standard labor demand theory and firm-level behavior. Higher productivity increases the effective contribution of the targeted labor group to production, raising its marginal productivity relative to other inputs. These adjustments propagate through changes in relative wages and labor demand (Lewis, 1954; McMillan et al. 2014), generating reallocation of workers across sectors and demographic groups.

Transformation or sector productivity scenarios

Agriculture-led growth (Sim 2.1): This scenario reflects a slower structural transformation in Rwanda, in which agriculture remains the primary driver of economic growth. Like many developing countries, Rwanda continues to promote agricultural development to ensure domestic food security and sustain food availability. The sector also serves as the foundation for the gradually emerging agro-processing industry. Consequently, Rwanda has a strong rationale for anchoring its gradual economic transformation in a robust agricultural sector. In this scenario, agricultural productivity is increased to achieve a one-percent rise in overall GDP.

Industry-led growth (Sim 2.2): Industrialization is a central component of economic restructuring that transitions a country from an agrarian base to a more modern and developed economy. Industry-led growth is driven by productivity-enhancing investments in high-potential industrial sectors, supported by improvements in infrastructure, technology, and effective public policy. In this study, this scenario is modeled by proportionally increasing productivity across all industrial sub-sectors until the overall GDP rises by 1 percent.

Service-led growth (Sim 2.3): This growth strategy drives economic transformation by sustaining expansion in the services sector, particularly when manufacturing competitiveness and opportunities decline. Rwanda, in fact, promotes service-led growth as a key driver of economic development, with a primary focus on tourism, information and communication technology (ICT), and finance—areas in which it has achieved notable success. For simulation purposes, under this scenario, productivity in the services sector is assumed to increase further, such that—through its linkages with other sectors of the economy—it becomes the main engine of overall economic growth.

Neutral growth (Sim 2.4): This represents a balanced growth scenario in which productivity-enhancing investments are distributed across all sectors of the economy without preferential treatment. The ultimate contribution of each sector to overall growth depends on its backward and forward linkages with other sectors and the specific growth opportunities it faces. As sectors expand at varying rates, they exert differing impacts on the labor market, potentially creating employment and income opportunities for certain segments of the workforce—such as women or youth—more than for others.

These scenarios represent sectoral productivity shocks. Higher productivity increases sectoral output capacity and reduces unit production costs, which affects relative prices and sectoral competitiveness. These price changes propagate through input-output linkages and induce reallocation of production and labor across agriculture, industry, and services (McMillan et al. 2014). Overall, whether sector specific or labor-specific, productivity shocks propagate through the economy via relative prices, intersectoral linkages, and factor demand, ultimately shaping employment patterns across gender and age groups.

3.3 Model closure rules

The model closure rules and market-clearing conditions adopted in this study define how key macroeconomic and labor market variables adjust to shocks in the simulations and are central to the interpretation of the results, as they determine the equilibrium mechanisms through which the economy responds.

Regarding savings and investment, a standard savings-driven investment closure is applied, an assumption typically appropriate for developing countries where financial markets remain underdeveloped. This implies that the level of savings determines the level of investment. This closure is preferred over an investment-driven alternative, where investment is exogenously fixed, because it better reflects the limited depth and responsiveness of financial intermediation in low-income settings.

With respect to Rwanda's participation in international trade, the country is treated as a price taker in both import and export markets. The exchange rate is assumed to be flexible to ensure current account balance. Consistent with the small open economy assumption, Rwanda is treated as a price taker in international markets due to its small size, implying that it does not influence international price formation.

A fixed internal balance is also assumed, meaning that government savings are held constant while government expenditures adjust accordingly. Under this closure, fiscal policy is passive, with government spending acting as the residual adjustment variable in the model. Since the current analysis is not closely

related to government revenue and spending, this closure assumption is expected to have little impact on model results.

In the labor market, full employment is assumed for simplicity and ease of tracing model results, although we acknowledge that unemployment—particularly among uneducated workers—remains a significant development challenge in Rwanda. This full employment assumption means employment changes are sectoral reallocations, not net job creation. We also considered a slightly upward sloping labor supply curve subject to elasticity of labor supply to capture the possibility of change in labor hours as wage rates change. Under this closure, labor market adjustments occur exclusively through sectoral shifts in employment and wages, rather than changes in aggregate employment levels.

Labor supply elasticities play a key role in shaping labor market adjustments in the model. Consistent with previous CGE studies in low-income countries, they are set at lower values (0.2-0.4), in line with the ranges commonly used in the literature (McClelland and Mok, 2021). Further, to test the robustness of model results to labor market assumptions, a sensitivity analysis was conducted allowing for unemployment among uneducated labor in both rural and urban areas. This switching of the employment closure could increase the responsiveness of labor supply to changes in key model variables. However, we find that the results remain broadly consistent with those under the full employment assumption, with only a slightly larger magnitude of change observed in the economic variables discussed when unemployment is introduced.

4 MODEL RESULTS

4.1 Effects of increased productivity of youth and women on economic growth and transformation

4.1.1 Sectoral level effects

In this section, we examine the impact of youth and women's labor productivity on the sectoral composition of the economy and its growth. This allows us to assess how the economy transitions when productivity-enhancing policies and investment interventions target different segments of the labor force. Table 2 shows that an increase in productivity—whether economywide (Sim 1.1) or among youth only (Sim 1.2) —shifts growth primarily toward the industrial and service sectors. For instance, a targeted 1 percent increase in overall GDP through increased labor productivity under these two scenarios is largely driven by a 1.3–1.4 percent rise in industrial GDP, while the increase in agricultural GDP is only 0.9 percent.

The strong performance of the industrial sector reflects not only direct labor productivity gains but also indirect benefits, such as cheaper agricultural inputs, increased domestic demand from import substitution, and enhanced export potential given the tradable nature of most industrial goods. Within agriculture, the export crops subsector grows disproportionately faster (up to 1.2 percent) compared to the rest of the sector, benefiting from foreign demand due to its tradable nature. The similar overall impact observed under both youth-focused and broad-based labor productivity growth scenarios arises from the comparable contribution patterns of men—who constitute 55 percent of the labor force—and youth (see Figure 2).

By contrast, increasing women's productivity generates more modest and balanced growth across agriculture and industry (Sim 1.3). This moderately balanced growth rate effect is because women mainly employed in the services sector (Table 1) that has stronger linkage effects on industry and agriculture (Table 5). Agro-processing (a component of the industrial sector) expands at an even faster rate of 1.4 percent. This strong performance of the agro-processing sector is driven by robust growth in primary agriculture and the relatively active participation of women in this segment of the economy.

Table 2. Changes in sectoral GDP under labor productivity scenarios (%)

	Initial value (bil. $)	Percentage change from baseline		
		Sim 1.1	Sim 1.2	Sim 1.3
Total GDP	12.7	1.00	1.00	1.00
Agriculture	3.4	0.78	0.90	1.05
Food crops	2.3	0.70	0.82	0.94
Export crops	0.3	1.08	1.21	1.41
Other agriculture	0.8	0.72	0.84	0.92
Industry	3.1	1.35	1.34	1.22
Agro-processing	0.9	1.12	1.18	1.24
Services	6.2	0.94	0.88	0.86

Source: Rwanda CGE model results.

4.1.2 Factor market effects

An increase in productivity across all labor types leads to a robust rise in employment within the industrial sector, while employment in agriculture and services stagnates or slightly declines (Sim 1.1). This expansion in industrial employment aligns with the sector's relatively faster GDP growth (see Table 2). Moreover, as productivity gains in agriculture reduce labor demand, the released workers are absorbed by the expanding industrial sector. This reallocation of labor contributes to the rapid increase in industrial employment, indicating a strong potential for accelerated structural transformation in Rwanda if labor productivity continues to improve. Women's employment in industry in particular increases more markedly—by up to 1.4 percent—compared to a 1.1 percent increase for men. The results also show a slightly faster gain in employment among adults, who account for about 56 percent of total industrial employment.

Increases in youth and women's labor productivity have markedly contrasting impacts on employment across the economy. Consistent with the effects of economywide productivity gains, most of the employment expansion occurs in the industrial sector. However, the employment response within the targeted labor segments varies substantially. Under the youth productivity scenario (Sim 1.2), employment for youth men and women in industry rises by 2.6 and 1.4 percent, respectively, accompanied by a significant decline in youth employment in agriculture—2.5 percent for youth men and 2.2 percent for youth women —as they transition to the expanding industrial sector. Youth employment in services also increases (by 1.3–1.6 percent). However, this shift toward industry and services displaces some adult employment, as more productive youth become relatively more attractive to employers. In addition, youth are generally more educated (Figure 2), making them fit in the growing service and industry sectors. Conversely, the reduction in youth employment in agriculture is partly offset by increased adult participation, contributing to the sector's modest growth (see Table 2).

By contrast, productivity targeting women shifts their employment composition toward industry and services, with agricultural employment declining by more than 1.6 percent (Sim 1.3). The increase in women's employment in industry and services is particularly strong among adults, at 4.4 and 1.2 percent, respectively. Overall, the employment effect of these interventions at the national level remains limited since we assume near-full employment in the labor market.

Table 3. Changes in employment by sector and labor type under labor productivity scenarios (%)

			Initial value ('000)	Percentage change from baseline		
				Sim 1.1	Sim 1.2	Sim 1.3
Agriculture	Men	Youth	289.4	-0.1	-2.5	0.9
		Adult	513.7	-0.1	1.0	1.0
	Women	Youth	322.1	-0.1	-2.2	-1.6
		Adult	642.4	0.0	0.8	-1.4
Industry	Men	Youth	247.4	1.0	1.4	1.3
		Adult	321.9	1.1	-0.1	1.3
	Women	Youth	92.5	1.3	2.6	3.6
		Adult	102.8	1.4	-0.4	4.4
Agro-proces.	Men	Youth	37.8	0.5	1.3	0.1
		Adult	48.4	0.6	-0.4	-0.1
	Women	Youth	49.3	0.7	2.3	2.9
		Adult	46.1	0.8	-0.9	3.5
Services	Men	Youth	454.8	-0.2	1.3	-1.1
		Adult	636.2	-0.2	-0.5	-1.2
	Women	Youth	357.7	-0.1	1.6	0.8
		Adult	487.9	0.0	-0.7	1.2
Total	Men	Youth	991.5	0.1	0.3	0.1
		Adult	1471.8	0.1	0.1	0.1
	Women	Youth	772.2	0.1	0.1	0.1
		Adult	1233.0	0.1	0.1	0.1

Source: Rwanda CGE model results.

Table 4 presents changes in labor income under the three productivity scenarios. The results indicate that labor income growth is broadly proportional to GDP growth, particularly under the all-labor productivity scenario. In this case, men and adults experience slightly higher incomes gains than other groups, reflecting their relatively larger shares in the total labor force and their stronger involvement in the rapidly expanding industrial sectors.

Productivity increases targeting youth substantially boost their incomes—by 1.9 percent at the national level, and by 2.3 and 1.5 percent for young men and young women, respectively. The faster income growth among young men reflects their greater participation in industry (74.5 percent for men versus 25.5 percent for women; see Figure 1) and services (56.3 percent versus 43.7 percent), both of which expand more rapidly than agriculture under this scenario. In contrast, adult labor incomes rise at a slower pace, as more productive youth increasingly replace adults or capitalize on newly created employment opportunities in the growing economy.

Similarly, productivity-enhancing investments targeting women yield notable income gains for women, with women's labor income rising by 1.3 percent—0.5 percentage points higher than the overall labor income growth of 0.8 percent. Interestingly, despite stronger growth in adult women's employment under this scenario (see Table 3), young women's incomes increase at a faster rate. This reflects the relatively higher concentration of young women in the rapidly expanding industrial sector (Table 1), compared to adult women.

Table 4. Changes in labor income by labor type under labor productivity scenarios (%)

	Initial value (bil. $)	Percentage change from baseline		
		Sim 1.1	Sim 1.2	Sim 1.3
Men	4.54	1.0	0.9	0.5
Youth	1.30	1.1	2.3	0.8
Adult	3.23	0.9	0.3	0.4
Women	2.46	0.7	0.9	1.3
Youth	0.89	0.8	1.5	1.5
Adult	1.56	0.7	0.5	1.2
Total labor	6.99	0.9	0.9	0.8
Youth	2.20	1.0	1.9	1.0
Adult	4.80	0.8	0.4	0.7

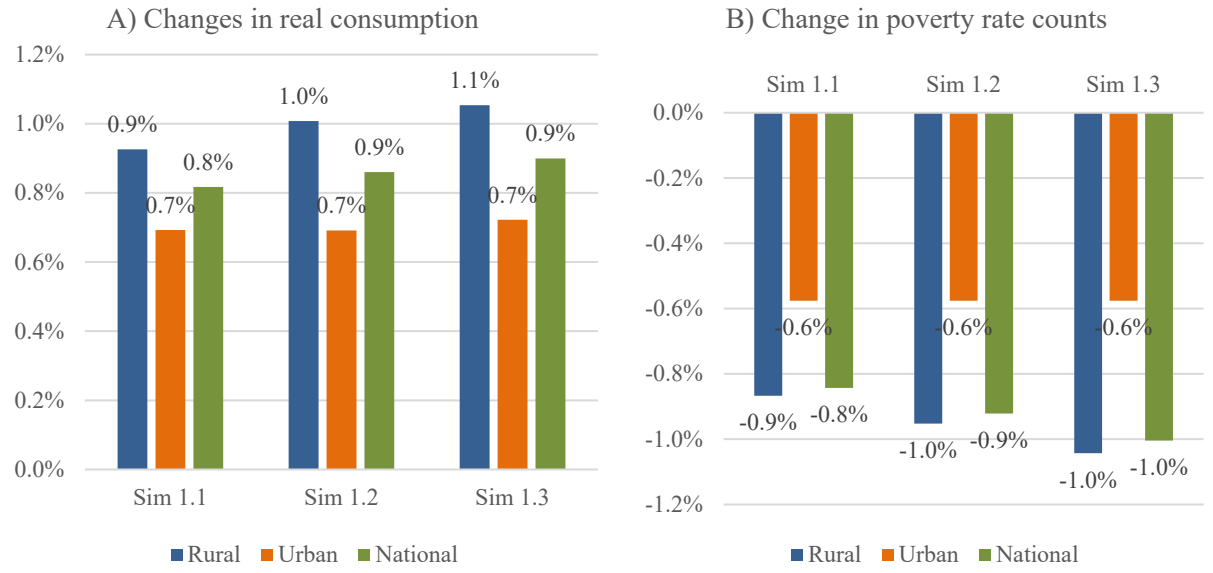
Source: Rwanda CGE model results.

4.1.3 Household level effects

We also assessed the household-level impacts of the various labor productivity scenarios, focusing on changes in real consumption expenditure and poverty. Panel A of Figure 3 shows a stronger increase in consumption among rural households across all productivity scenarios, with real consumption in rural areas rising by 0.9 to 1.1 percent. This relatively stronger effect occurs despite faster growth in urban-based industries and services. The more pronounced rise in rural real consumption likely reflects price effects rather than income effects, as rural households benefit from declining prices of food and agricultural products—items that constitute a larger share of their consumption basket.

This price effect is further reinforced under the women's labor productivity scenario, where relatively faster agricultural GDP growth produces a modest yet meaningful income gain, amplifying the consumption effect in rural areas and showing the added benefit of investing in women. In contrast, under the other productivity scenarios, consumption effects in both rural areas and at national level remain broadly comparable but somewhat weaker than those observed under the women's productivity scenario.

Figure 3. Changes in real consumption and poverty headcounts under labor productivity scenarios



Source: Rwanda CGE model results.

Panel B of Figure 3 shows a pattern of change in the poverty headcount that closely mirrors the observed changes in real consumption. Poverty declines across rural, urban, and national levels are broadly proportional to the corresponding increases in consumption. The reduction in poverty is more pronounced in rural areas—by about 0.3 percentage points compared to urban areas—resulting in a 0.8–1.0 percentage point decrease in the national poverty headcount.

Consistent with the consumption effects, interventions that enhance women's labor productivity lead to a relatively faster reduction in poverty, particularly in rural areas. This outcome reflects the increased employment of women in industry under this scenario and their gradual shift out of agriculture (see Table 3 on employment effects).

4.2 Effects of structural transformation on youth, women and the overall economy

4.2.1 Sectoral level effects

In contrast to Section 4.1, where we assessed the effects of labor-specific productivity gains on the economy and labor market, this section focuses on the impacts of alternative structural transformation scenarios on sectoral growth, employment outcomes, and household welfare.

The agriculture-led growth scenario (Sim 2.1) —representing a delayed transformation path in which agriculture remains the main driver of growth—shows a robust 3.5 percent expansion in agricultural GDP, sufficient to generate the targeted 1 percent increase in overall GDP, even as the industrial and service sectors remain stagnant under this growth pathway (Table 5). Accompanying the acceleration in agriculture, the agro-processing sub-sector grows modestly by 1.3 percent. Overall, agriculture-led growth reinforces the sector's formidable contribution to the economy, as its relative share expands further compared to other sectors.

The industry-led growth scenario (Sim 2.2) exhibits stronger linkages with the service sector. Under this scenario, industrial GDP rises by 2.8 percent, contributing significantly to the 1 percent overall GDP growth, mainly driven by rapid expansion in the agro-processing sub-sector. This growth in agro-

processing stimulates non-food agricultural activities, including export-oriented crops, resulting in a modest 0.3 percent growth in the overall agricultural sector.

Under the service-led growth scenario (Sim 2.3), service sector GDP increases by 1.3 percent, with notable spillover effects on industry, which grows by 1.1 percent, while agriculture expands only marginally. Industry performs well in this scenario due to the strong demand for industrial inputs that support service sector expansion, as well as the effective functioning of trade and transport services that facilitate industrial activities.

Finally, the neutral (balanced) growth scenario (Sim 2.4), which assumes comparable productivity growth across all sectors, results in faster growth in industry (1.3 percent), followed by agriculture, which grows at a rate comparable to overall GDP. Meanwhile, service sector GDP increases at a rate slightly below the 1 percent overall GDP growth, partly reflecting demand constraints as domestic market is the sole consumer for most sub-sectors.

Table 5. Changes in sectoral GDP under transformation scenarios (%)

	Initial value (bil. $)	Percentage change from baseline			
		Sim 2.1	Sim 2.2	Sim 2.3	Sim 2.4
Total GDP	12.7	1.00	1.00	1.00	1.00
Agriculture	3.4	3.47	0.28	0.29	1.07
Food crops	2.3	3.42	0.25	0.26	1.03
Export crops	0.3	4.06	0.71	0.48	1.34
Other agriculture	0.8	3.05	0.67	0.28	1.03
Industry	3.1	0.22	2.76	1.13	1.27
Agro-processing	0.9	1.29	2.98	0.60	1.15
Services	6.2	0.03	0.50	1.33	0.83

Source: Rwanda CGE model results.

4.2.2 Factor market effects

In terms of employment effects, productivity growth in the agriculture-led growth scenario (Sim 2.1) displaces labor from agriculture as the sector becomes more efficient, leading to a reallocation of workers toward industry and services (Table 6). This shift in labor composition indicates a potential diversification of employment patterns toward downstream sectors. The transition is particularly pronounced among women workers, whose employment in industry increases by 1.2 percent compared to just 0.3 percent for men. The rise in non-agricultural employment is especially notable in the agro-processing sub-sector, which expands by over 3 percent as it benefits from the released agricultural labor and lower-cost intermediate inputs.

Within the Industry-led scenario (Sim 2.2), higher industrial productivity reduces labor requirements in industry, thereby releasing workers to agriculture (up to 0.7 percent growth) and to services (up to 1.9 percent growth). The agro-processing sub-sector, despite robust output performance, experiences a contraction in labor demand of over 4.6 percent (Table 6). Women workers disproportionately affected by the decline in agro-processing, where they are more heavily employed compared to other industrial sectors such as mining and heavy manufacturing. Many of these displaced women transition to the services sector—including trade and other service activities—where they are more likely to find employment, consistent with their existing employment distribution (Table 1).

In contrast, service-led growth generates markedly different employment effects. By increasing the supply of labor to the industrial sector, it supports the sector's strong growth in output (Table 5). Employment in services declines by approximately 1.2 percent due to the overall increase in the sector's productivity, while industrial employment rises by over 2.4 percent and agricultural employment increases by 0.5 percent to absorb the labor released from service sector.

Meanwhile, under the neutral growth strategy, employment in the service sector experiences a slight decline, reflecting the sector's slower growth under this scenario. This reduction is offset by modest increases in employment in both the agricultural and industrial sectors. Overall, the assessed growth strategies have limited effects on the age composition of employment in Rwanda, as youth and adult employment adjust at relatively comparable rates.

Table 6. Changes in employment by sector and labor type under transformation scenarios (%)

			Initial value ('000)	Percentage change from baseline			
				Sim 2.1	Sim 2.2	Sim 2.3	Sim 2.4
Agriculture	Men	Youth	289.4	-0.3	0.7	0.5	0.3
		Adult	513.7	-0.3	0.7	0.5	0.3
	Women	Youth	322.1	-0.3	0.4	0.6	0.3
		Adult	642.4	-0.3	0.3	0.6	0.3
Industry	Men	Youth	247.4	0.2	-3.9	2.3	0.6
		Adult	321.9	0.3	-4.1	2.4	0.7
	Women	Youth	92.5	1.2	-4.9	2.4	0.7
		Adult	102.8	1.1	-5.3	2.5	0.7
Agro-proces.	Men	Youth	37.8	3.2	-4.6	0.8	0.3
		Adult	48.4	3.3	-4.7	0.7	0.3
	Women	Youth	49.3	3.1	-5.9	1.2	0.3
		Adult	46.1	3.2	-6.1	1.2	0.3
Services	Men	Youth	454.8	0.3	1.9	-1.2	-0.2
		Adult	636.2	0.3	1.7	-1.2	-0.3
	Women	Youth	357.7	0.2	1.2	-0.9	-0.2
		Adult	487.9	0.4	1.2	-1.0	-0.2
Total	Men	Youth	991.5	0.1	0.1	0.2	0.1
		Adult	1471.8	0.1	0.1	0.2	0.1
	Women	Youth	772.2	0.1	0.1	0.1	0.1
		Adult	1233.0	0.1	0.2	0.1	0.1

Source: Rwanda CGE model results.

Table 7 presents changes in labor income by labor type under the various structural transformation scenarios. Overall, we observe labor income growth slightly lower than the GDP growth suggesting a stronger increase in income for other factors of production, including land and capital. Under the delayed transformation scenario, i.e., agriculture-led growth (Sim 2.1), labor income effects are relatively balanced across gender and age groups, with income growth closely aligned with overall GDP growth. In contrast, the industry- and service-led scenarios produce divergent impacts on labor income by type. Under the industry-led growth (Sim 2.2), income gains are larger for women workers (1.2 percent) than

for men (0.5 percent). Conversely, service-led growth tends to favor men, who experience income growth of 0.9 percent versus 0.7 percent for women (Sim 2.3).

These two scenarios also have contrasting effects by age-group. Adults benefit more from industry-led growth, reflecting the current dominance of adult employment (56 percent) in this sector. In contrast, service-led growth disproportionately increases incomes for youth, who are more likely to be absorbed in the industrial sectors and also benefit from increases in incomes in the expanding formal and informal trade and transport sectors in urban areas.

Under the balanced (neutral) growth scenario, (Sim 2.4) labor income changes resemble those under agriculture-led growth, highlighting the continued importance of the agricultural sector as a major source of employment in Rwanda, even as its share of overall GDP gradually declines.

Table 7. Changes in labor income by labor type under transformation scenarios (%)

	Initial value (bil. $)	Percentage change from baseline			
		Sim 2.1	Sim 2.2	Sim 2.3	Sim 2.4
Men	4.54	0.9	0.5	0.9	0.9
Youth	1.30	0.9	0.3	1.2	1.0
Adult	3.23	0.9	0.5	0.8	0.9
Women	2.46	0.9	1.2	0.7	0.9
Youth	0.89	0.9	1.1	0.9	0.9
Adult	1.56	0.9	1.2	0.6	0.8
Total labor	6.99	0.9	0.7	0.9	0.9
Youth	2.20	0.9	0.6	1.1	1.0
Adult	4.80	0.9	0.8	0.8	0.8

Source: Rwanda CGE model results.

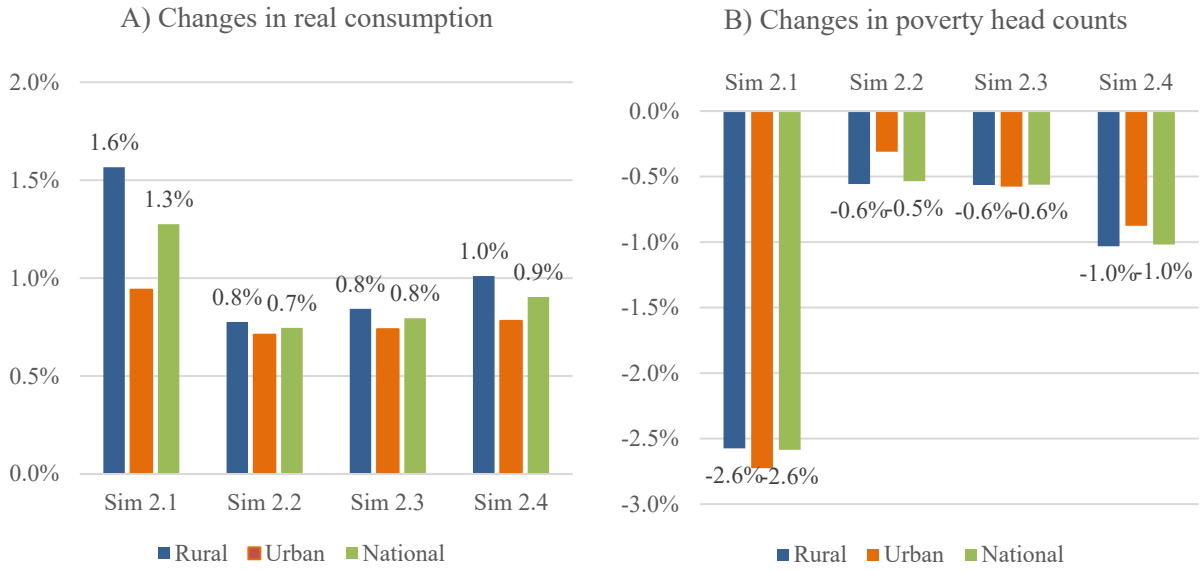
4.2.3 Household level effects

Similar to the effects observed under the labor productivity scenarios, the impacts of structural transformation on real consumption are particularly pronounced in rural areas. Under agriculture-led growth (Sim 2.1), rural consumption increases by 1.6 percent, while urban consumption rises by 0.9 percent, primarily due to improvements in the agri-food system, which enhances affordability and raises rural household incomes (Panel A, Figure 4). In contrast, industry- and service-led growth (Sims 2.2 and 2.3) have more moderate effects on real consumption, reflecting relative stagnation in the agricultural sector under these scenarios (Table 5). Results indicate that sector-neutral productivity gains produce moderate improvements in consumption, though rural households continue to benefit more than urban households (Sim 2.4).

The effects of structural transformation on poverty vary across growth pathways and between rural and urban areas (Panel B, Figure 4). The agriculture-led growth scenario has the strongest impact on poverty, with reductions approximately double the gains in real consumption, highlighting the pro-poor nature of this growth strategy in Rwanda (Sim 2.1). Specifically, national poverty headcounts decline by 2.6 percent under this scenario. In contrast, the poverty-reducing effects of the other growth strategies are considerably smaller.

Under the agriculture-led growth, urban poverty declines faster than rural poverty, due to (i) more rapid employment growth in urban sectors (industry and services, Table 6), which raises urban incomes, and (ii) lower prices for agri-food products, which benefit urban consumers more directly than rural households through the income effect (Sim 2.1). Meanwhile, service-led growth has a marginal but relatively balanced effect on poverty in both rural and urban areas (Sim 2.3).

Figure 4. Changes in real consumption and poverty headcounts under transformation scenarios



Source: Rwanda CGE model results.

5 CONCLUDING REMARKS

Labor is by far the most significant and typically the most abundant factor of production in developing countries. The functioning of the labor market and the composition of the workforce—by gender, age, and education level—largely determine the pace and pattern of structural transformation. These factors also shape the distribution of gains and losses within the labor market and influence welfare outcomes for individuals during periods of growth and transformation. However, the interplay between labor productivity and structural transformation, and their combined implications on labor market dynamics, remains insufficiently understood and appears to be highly country-specific.

This study uses an economy-wide analytical framework for Rwanda to examine how productivity changes among youth and women interact with structural transformation and labor-market outcomes. Two sets of scenarios are considered: one focusing on targeted productivity shocks (all-labor, youth-only, and women-only) and another exploring alternative growth pathways (agriculture-led, industry-led, services-led, and balanced growth).

The model results show that broad-based increases in labor productivity—and productivity gains concentrated among youth—tend to shift growth toward industry and services, while the export-crop subsector within agriculture expands disproportionately due to foreign demand and tradable nature. By contrast, increases in women's labor productivity generate a more modest and relatively balanced expansion across both agriculture and industry.

An economywide rise in labor productivity boosts industrial employment, while employment in agriculture and services stagnates or slightly declines. This industrial expansion mirrors the sector's faster GDP growth, signaling potential for structural transformation. Women's industrial employment grows more sharply (1.3 percent) than men (1.0 percent), with adults experiencing slightly higher overall gains. Productivity improvements targeted to youth and to women produce different reallocations. Under the youth productivity scenario, industry employment among youth rises markedly, by 2.6 percent for young men and 1.4 percent for young women. This increase is accompanied by a sharp decline in agricultural jobs as youth transition into industry and services. Similarly, women-targeted productivity interventions shift women's employment toward industry and services, reinforcing structural change but also altering the gender composition of sectoral labor shares.

In terms of changes in labor income, productivity gains targeting youth substantially raise their incomes, with young men benefiting most because of their higher baseline participation in industry and services. Similarly, women labor productivity growth yields notable income gains, raising women's labor income by 1.3 percent—0.5 percentage points above the overall average.

On the other hand, when examining how growth and structural change influence labor market outcomes, different sectoral linkages emerge. Agriculture-led growth reinforces the sector's central role but generates limited spillovers beyond agro-processing. In contrast, industry-led and service-led growth exhibit stronger cross-sector linkages—with industry stimulating services and vice versa.

In terms of employment effects, productivity growth in agriculture displaces labor as the sector becomes more efficient, encouraging a shift toward downstream industries and services. The transition is particularly pronounced among women, whose industrial employment rises by 1.2 percent compared with 0.3 percent for men. Conversely, industrial expansion releases some labor to agriculture (up to 0.7 percent) and services (up to 1.9 percent) despite strong output performance, with women workers—especially in agro-processing—most affected. Many of these displaced women find new employment in

trade and other service activities. Productivity gains in services also release labor to industry, where employment rises by over 2.4 percent.

Labor income growth generally lags behind GDP growth, indicating stronger gains for other production factors, such as land and capital. Under agriculture-led (delayed transformation) growth, labor income effects are relatively balanced across gender and age groups. By contrast, industry- and service-led growth produce divergent effects: industry-led growth benefits women most, with women's income rising by 1.2 percent versus 0.5 percent for men, while service-led growth favors men (0.9 percent versus 0.7 percent for women). Adults benefit more from industry-led growth due to their dominance in industrial employment, whereas youth gain more from service-led growth, reflecting their higher participation in expanding trade and transport sectors.

Overall, these findings deepen understanding of how gender and youth dynamics interact with productivity growth and structural transformation in developing economies. Integrate these dimensions are closely aligned with Rwanda's development strategy, particularly Vision 2050 and the National Strategy for Transformation (NST1), which emphasize structural transformation, youth employment creation, and gender-inclusive growth as central policy priorities (ROR, 2020; ROR, 2024).

Targeted improvements for women and youth can enhance structural change and generate gains in employment, income, and poverty reduction, yet trade-offs across sectors and groups mean these benefits are not uniform. These results highlight the importance of complementary policies and point to a key question for future research: under what conditions can inclusive labor-force participation promote both efficiency and equity while minimizing potential losers? Further insights into losers and gainers from the job reallocation could be uncovered if the economywide results are linked with occupational choice models. These remain important avenues for future research.

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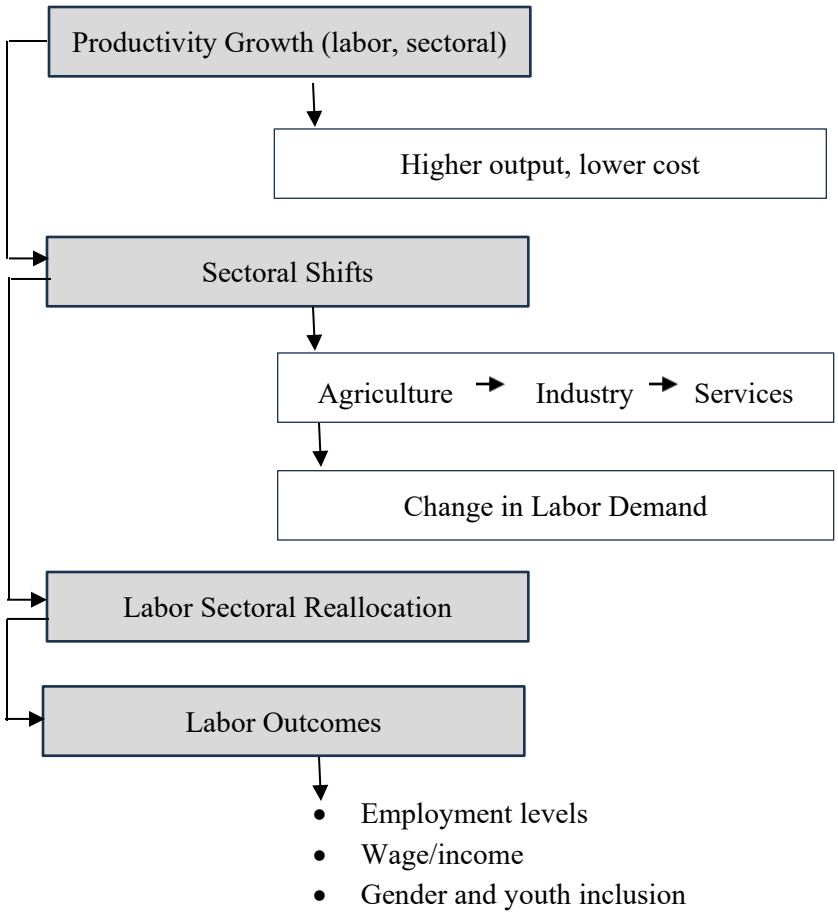
7 ANNEX

Annex Figure 1. A simple conceptual diagram linking productivity to labor market outcomes



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