



# Synopsis: Enhancing Rural Income Diversification in Rwanda

## Opportunities and Challenges

**Emily Schmidt, Serge Mugabo, Gracie Rosenbach**

This study describes the employment patterns of rural households in Rwanda and explores their challenges and opportunities for rural income diversification.

Detailed analysis using a 2022 rural household smallholder survey on agricultural production and employment in Rwanda, reveals that

- Agricultural wage labor is the dominant source of off-farm income and is the primary means of supplementing rural household income. This is different than other LMICs where households are more likely to develop nonfarm enterprises that bring in extra income and diversify the rural economy towards more value-added output while also increasing demand for rural inputs.
- This research suggests that factors like access to education and financial services are key factors to employment decisions and improved rural urban linkages.

### Overview

The Government of Rwanda has been emphasizing more inclusive economic growth and development through a variety of economic transformation strategies aimed at creating better jobs, increasing productivity, reducing poverty, and promoting employment diversification from subsistence agriculture to the rural nonfarm economy. However, the high population density and small agricultural landholdings characteristic of the Rwanda rural landscape constitute a challenge to this economic transformation.

A wide breadth of literature evaluating agricultural transformation suggests that facilitating the operating landscape of nonfarm enterprises in the rural economy can be an important driver to supporting economic growth. As rural individuals diversify from subsistence agriculture to provide higher-value nonfarm enterprise goods and services (e.g., milling, trading, transportation, packaging of agricultural goods), they require agricultural goods and services (that they are no longer producing for themselves), increasing demand for greater productivity in the agriculture sector while also strengthening linkages in urban areas via nonfarm enterprise output.

However, findings on employment diversification in Rwanda suggest a different labor diversification path. Our recent study on *Rural income diversification in Rwanda: Opportunities and challenges*<sup>1</sup> suggests that rural households depend on casual on-farm wage work rather than nonfarm entrepreneurship to supplement agricultural incomes. This policy note provides an overview of the results of the recent paper and brainstorms actionable recommendations to support policy formulation aimed at encouraging labor diversification and economic transformation in rural areas of Rwanda.

## Income Diversification in Rwanda

Rural income diversification is fundamental for improving the livelihoods of agricultural households in Rwanda. Results from Table 1, Panel A, show that nearly 99 percent of rural household are engaged in agriculture production and approximately three-quarters of all surveyed households engage in livestock sales. Wage labor is the third most common labor activity in rural areas with over 60 percent of households having at least one member that engages in wage labor activities. Nonfarm business ownership represents a significantly smaller share of household labor participation (only 11 percent).

Despite their low contribution to annual income (with median annual income earnings of RWF15,000), remittances are crucial for many rural households, where more than half of the household sample reported remittances as a supplementary rather than a primary source of income.

**Table 1: Share of households by labor activity and median annual income**

Panel A: Share of households engaged in activity, %						
	All	Kigali city	South	West	North	East
Crop production	99.3	93.6	99.8	99.8	99.3	98.9
Livestock	73.5	72.5	73.6	78.9	82.6	63.9
Wage labor, of which:	62.3	73.1	61.2	58.6	74.1	58.0
<i>a. Only agricultural</i>	60.2	13.6	59.1	65.3	62.1	63.9
<i>b. Only nonagricultural</i>	25.6	59.3	28.2	24.5	17.5	24.8
<i>c. Both</i>	14.2	27.1	12.8	10.2	20.4	11.3
Nonfarm businesses	10.7	31.0	12.6	7.8	10.4	9.8
Remittances	51.5	66.2	52.6	52.7	59.0	44.0
Other activities or sources	36.6	79.5	34.7	43.3	54.8	19.2
Panel B: Median annual household income, '000s Rwandan Francs						
Crop production	111	97	112	99	106	120
Livestock	80	112	68	83	81	72
Wage labor, of which:						
<i>a. Only agricultural</i>	116	68	100	102	101	135
<i>b. Only nonagricultural</i>	280	597	300	216	240	350
<i>c. Both</i>	178	489	174	144	154	207
Nonfarm businesses	100	144	100	50	120	100
Remittances	15	31	11	20	15	15
Other activities or sources	20	9	41	18	17	30

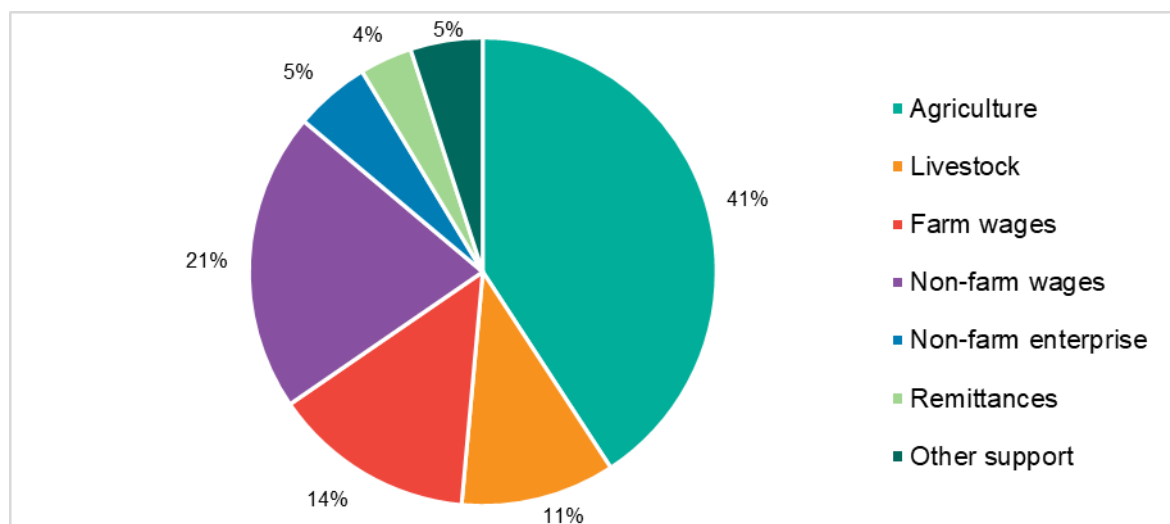
**Source:** Authors' calculations.

**Note:** Crop production and livestock refer to production on plots operated by the household (owned or rented-in). Livestock includes aquaculture. Value of crop production and value of livestock production includes own consumption of produced goods, valued at their market equivalent, to account for agricultural production for subsistence. 'Other activities or sources' refer to income received from the Vision 2020 Umurenge Program or income support from other government or NGO programs.

<sup>1</sup> Schmidt, Emily; Mugabo, Serge; and Rosenbach, Gracie. 2024. [Rural income diversification in Rwanda: Opportunities and challenges](#). Rwanda SSP Working Paper 13. Washington, DC: International Food Policy Research Institute.

The findings also suggest (Panel B) that, although agricultural wage labor accounts for a large part of off-farm household’s employment activity, it is one of the lower-paid activities (with median annual income earnings of RWF116,000, approximately USD 111)<sup>2</sup>. While there is far less participation, non-agricultural wage labor generates the most income, with a median annual income of RWF 280,000, or approximately USD 267.

**Figure 1: Distribution of Income sources in Rural Rwanda.**



**Source:** Authors’ calculations.

On average, 41 percent of total rural household income is derived from agriculture. Despite the fact that fewer rural households are engaged in non-farm wage activities, it contributes to 21 percent of rural household incomes on average.

### Factors influencing Labor Market Participation

To better understand opportunities to promote higher-value off-farm labor diversification, we evaluate differences among households that hire in, hire out, or both hire in *and* hire out labor compared to autarkic households (i.e. neither hire in nor hire out labor).

#### ***Effect of Landholdings:***

- The findings demonstrate a relationship between land size ownership and labor market participation, where households with smaller landholdings are more likely to hire out labor, while households with larger landholdings are more likely to hire in labor.

#### ***Effect of Education:***

- Results highlight that education levels play a substantial role in employment decisions. Households with a larger share of members that completed primary school are less likely to hire out labor, especially for agricultural wage work.

<sup>2</sup> Exchange rate at the time of the survey (November 2022): RWF to USD=1045

***Effect of Gender:***

- Households with a higher number of female adults are more likely to hire out labor. This suggests that women may have fewer opportunities to engage in nonfarm labor, and thus seek casual, low-paying farm wage jobs to supplement household income.

***Welfare and Employment Diversification:***

- The likelihood that a worker from an agricultural household in Rwanda engages in rural, off-farm wage labor decreases as household welfare increases.

**Policy recommendations**

A number of policy recommendations have been formulated to support rural household's income diversification and improve the agriculture household's livelihoods. These include:

- Supporting access to affordable education and vocational training which will equip rural populations with needed skills to develop nonfarm activities and to engage in entrepreneurship,
- Expanding financial services such as access to credit and banking services to facilitate household's investment in income-generating activities and continue investing in infrastructure to improve market access and connectivity.
- Investing in new economic zones outside Kigali, which will increase the demand for locally produced goods and services to boost nonfarm enterprises.

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