



## POLICY BRIEF

# Empowering Youth with Quality Jobs to Stimulate the Demographic Dividend in Rwanda

October 2017

### KEY MESSAGES

- Rwanda has enjoyed sustained high economic growth for over a decade, but the growth did not create ample quality jobs for the growing youthful working age population.
- Interventions to enhance youth employment should focus on:
  1. Strengthening the technical and social skills of youth to prepare them for employment and start businesses,
  2. Improving economic infrastructure and business environment to stimulate growth of the private sector.
  3. Reducing dependence of the development agenda on donor funding.

### CONTEXT

Rwanda's long term development vision, which is articulated in Vision 2020, is to transform from a subsistence agricultural economy to a middle-income, services- and knowledge-based society, with a vibrant class of entrepreneurs. Rwanda has experienced steady and sustained economic growth, with GDP growth averaging 8% between 2001 and 2015<sup>1</sup> and 5.9% in 2016.<sup>2</sup> However, the economy's recent job creation rate of 200,000 jobs per year needs to be increased to match the growing number of youth entering the labour force.

Due to high fertility, the country has a youthful population whereby 40% of the 11.3 million people are below 15 years of age.<sup>3</sup> The resulting high child dependency burden limits the capacity of families and governments to provide for the needs of children, build quality human capital and save for the future and economic infrastructure.

Despite the recent economic growth, much more efforts are needed for Rwanda to become a middle-income country, services and knowledge-based society, with a vibrant class of entrepreneurs.

Nevertheless, if Rwanda prioritizes investments to facilitate rapid fertility decline from the current average of 4.2 to about 2.0 births per woman, the current age structure dominated by dependent children will change to one dominated by working age people. This transformation can enable accelerated economic growth through the Demographic Dividend (DD)<sup>4</sup> and propel the country to achieve its economic aspirations being envisaged for 2050.

This brief highlights key policy and programme options that can help accelerate economic productivity and job creation in Rwanda to enable the country earn the DD. The brief draws on findings of the Rwanda DD study<sup>5</sup> that showed that the country can graduate to middle income level with per capita GDP of US\$ 4,014 by 2035 and to a high income country with per capita GDP of US\$ 12,555 by 2050 if the country adopts an integrated investment model that simultaneously prioritizes investments to facilitate voluntary decline in fertility, education, health and job-focused economic reforms.

<sup>1</sup> National Institute of Statistics of Rwanda. (2015). Rwanda Poverty Profile Report, 2013/14, August 2015. Kigali, Rwanda

<sup>2</sup> National Institute of Statistics of Rwanda. (2017). GDP National Accounts, 2016. Rebased estimates of GDP: An Explanatory note. Kigali, Rwanda

<sup>3</sup> National Institute of Statistics of Rwanda, & Ministry of Finance and Economic Planning. (2012). Rwanda Fourth Population and Housing Census. Thematic Report: Population size, structure and distribution. Kigali, Rwanda

<sup>4</sup> Bloom, D., David Canning, & Sevilla, J. (2003). The Demographic Dividend: A New Perspective on the Economic Consequences of Population Change, by RAND MR-1274-WFHF/DLPE/RF, 2002, 100 pp., ISBN: 0-8330-2926-6. Santa Monica, CA, USA

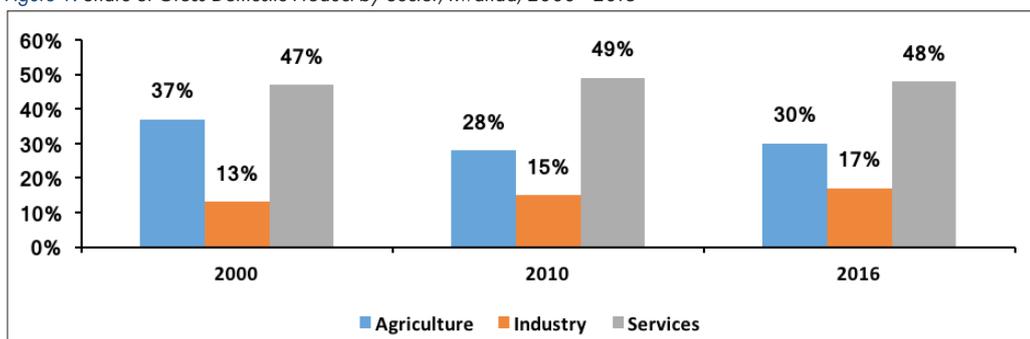
<sup>5</sup> National Institute for Statistics in Rwanda, UNFPA, AFIDER. 2017. Harnessing the demographic dividend in Rwanda

## ECONOMIC STATUS IN RWANDA

Rwanda has experienced sustained high economic growth in the last decade and half, and the country was ranked the tenth fastest growing economy in the world between 2000 and 2009.<sup>6</sup> The GDP per capita increased from US \$201 in 2001 to US \$729 in 2016. Rwanda's economic growth is driven by the tertiary sector, with services contributing 48% of GDP, while agriculture contributes 30%, and the industry sector 17%. Vision 2020's prioritization of the service sector

Rwanda's economic progress is facilitated by political stability, good macroeconomic conditions, rule of law and favourable environment for doing business. The country has promoted accountability and regulation of government activities, which, coupled with a friendly business climate and a good policy environment, has attracted many investors into the country. Rwanda is ranked second best African country (after Mauritius) in Ease of Doing Business Report by World Bank.<sup>7</sup> The country has automated business registration services and improved electronic systems for filing and paying taxes.

Figure 1: Share of Gross Domestic Product by Sector, Rwanda, 2000 - 2016



Source: NISR, GDP National Accounts, 2016

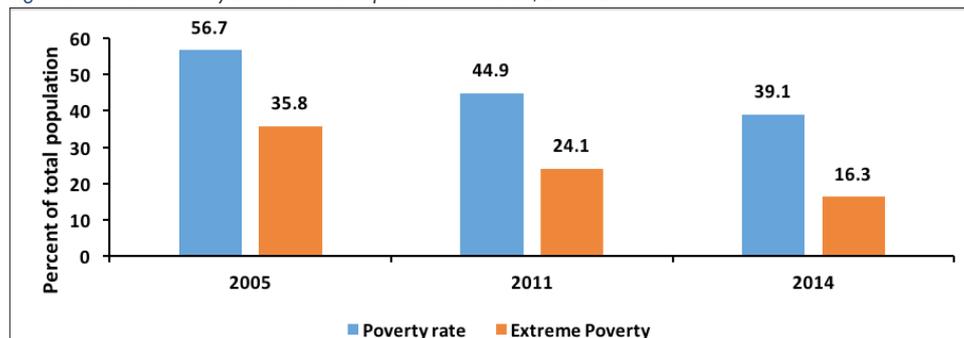
has led to increased growth of the service sector, particularly in ICT and in hotel and conferencing sub-sectors, while Agriculture sector contribution to GDP went down (Figure 1).

The proportion of the population living below the poverty line decreased from 56.7% in 2005 to 39.1% in 2014, while those in extreme poverty sharply decreased from 36% to 16%. Similarly, income inequality declined, with the Gini Coefficient declining from 0.55 to 0.45 over the same period. However, the overall level of human capital remains low with a Human Development Index (a composite measure of health status through life expectancy at birth, education through years of schooling, and per capita gross national income) of 0.498 in 2015 that was ranked 159 out of 188 countries in the world.

## ECONOMIC CHALLENGES IN RWANDA

Rwanda still grapples with a lot of economic challenges that are limiting its capacity to diversify the economy and reduce the heavy reliance on the agricultural sector for employment. These include limited capacity of the economy to create ample quality jobs; poorly skilled human capital; poor economic infrastructure that limits growth of the private sector and creation of formal jobs, and heavy reliance on donor funding. These challenges are compounded by the high child dependency burden, which increases the costs of taking care of children and limits savings for future investment.

Figure 2: Trends in Poverty Levels in Total Population in Rwanda, 2005-2014



Source: NISR, EICV, 2014

**“Rwanda is ranked second best African country (after Mauritius) in the Ease of Doing Business Report by World Bank.”**

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<sup>6</sup>Republic of Rwanda. (2013). Economic Development and Poverty Reduction Strategy II 2013-2018 (EDPRS2). Ministry of Finance and Economic Planning (MINECOFIN). Kigali, Rwanda.

<sup>7</sup>World Bank. (2017). Doing Business 2017: Equal Opportunity for All. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0948-4. License: Creative Commons Attribution CC BY 3.0 IGO.

## Unemployment and Under-employment

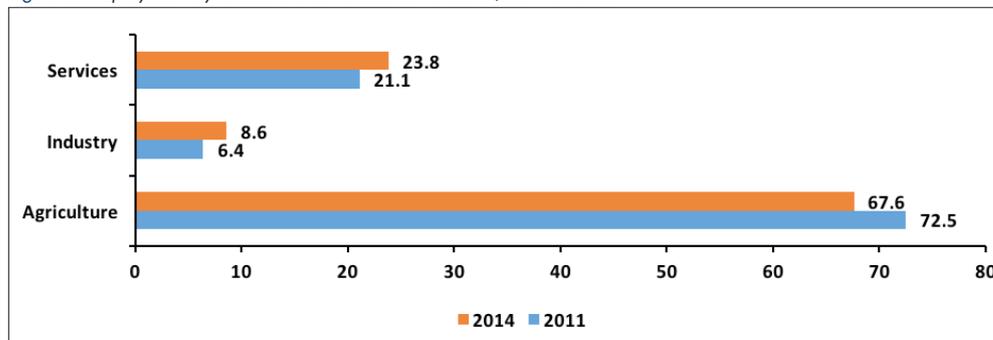
The sustained economic growth has resulted in creation of many jobs, with an average of 200,000 off farm jobs created annually between 2001 and 2012. Employment growth was estimated at 3.7% between 2011 and 2014. Still, the agricultural sector remains the largest employer with 67.6% of working people employed in the sector in 2014 (Figure 3).

However, Rwanda's job creation rate has not been adequate to meet the annual demand by the labour market entrants. By just looking at the employment gap of 1,186,677 in 2015 (5,558,268 people were employed in 2015, against a working age population of 6,744,945), it's clear that the country faces a huge job creation demand. As fertility declines

The Global competitiveness Index scores Rwanda very low on higher education and training, which is one of the indicators under efficiency-driven economies.<sup>8</sup> The majority of the employed population only have primary school education and below (Figure 3). To attract more foreign direct investment and grow the private sector skills development should be prioritised to ensure that well-skilled workers are found locally.

Poor transport infrastructure and intermittent electricity supply are major constraints to growth of the private sector and infusion of direct foreign investment. Only about 34.5% of the population have access to electricity, against a target of 70% in 2017/2018. Due to the poor infrastructure and geographical constraints, Rwanda has the highest transport costs in the

Figure 3: Employment by broad branch of economic sector, 2011 and 2014



Source: NISR, EICV, 2014

and the workforce increases, there will be more entrants in the job market, exacerbating the current employment challenge. To address the challenge there is urgent need to improve overall economic productivity and capacity to create enough jobs.

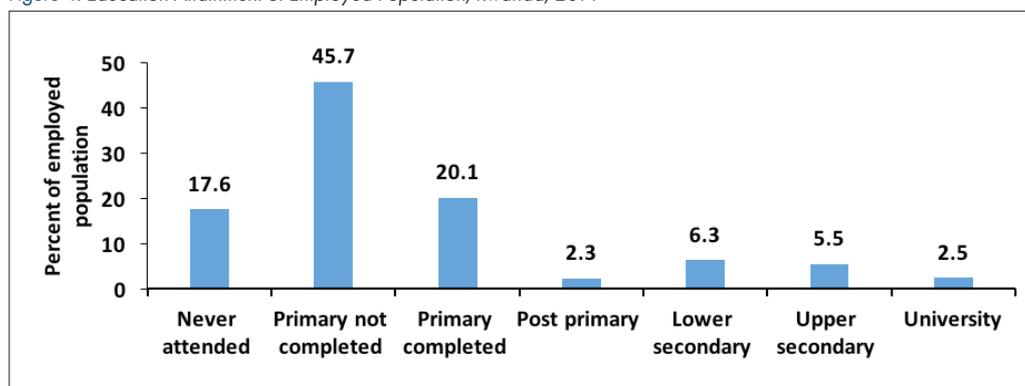
## Skill Deficiencies

One of the contributing factors to unemployment is inadequate and poorly skilled human capital. The 2017 African Competitiveness report highlights this as a key challenges for doing business in Rwanda.

region, estimated at 40% of the value of her imports or exports compared to 12% for Kenya and 36% for Uganda. The country also faces considerably high cost of communications. The government recognizes these limitations and has been committing almost a tenth of Rwanda's annual budget to improve transport and communication infrastructure.

As Rwanda's investment relies significantly on foreign aid, stable inflows of this foreign aid are critical to sustain the current high investment rate at around 25% of GDP.

Figure 4: Education Attainment of Employed Population, Rwanda, 2014



Source: NISR, EICV, 2014

<sup>8</sup>World Economic Forum. (2016). The Global Competitiveness Report 2016–2017. World Economic Forum, Geneva, Switzerland.

<sup>9</sup>African Development Bank, 2013. Rwanda Transport Sector Review and Action Plan. Tunis, Tunisia. [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Rwanda\\_-\\_Transport\\_Sector\\_Review\\_and\\_Action\\_Plan.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Rwanda_-_Transport_Sector_Review_and_Action_Plan.pdf)



**“The sustained economic growth has resulted in the creation of many jobs, with an average of 200,000 off-farm jobs created annually between 2001 and 2012.”**

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## Heavy Reliance on Donor Funding

According to the 2016/2017 budget estimates, about 16.7% of the budget was funded by foreign assistance in form of grants, while 19% was funded by loans. This reliance on external funding exposes the country to external shocks, and can affect sustainability of the economy if external funding priorities shift. The economic dip witnessed in 2013 when economic growth slowed down to 4.7% due to some development partners withholding support demonstrates the risk of over-relying on donors. Mobilization of domestic resources is therefore critical in ensuring sustainable economic growth.

The following are policy options that Rwanda can consider to stimulate growth of the private sector and unleash the economic potential of its youth in driving the country's socioeconomic transformation agenda:

### Short-term policy options

- Fully operationalise the Labour Market Information System to link the various stakeholders involved in skill

development and job creation including the education sector, job market and job seekers.

- Promote workplace readiness programmes including internship, mentorship and on-job training Programme.
- Invest in production, value addition and agro-processing to create quality jobs through sectoral linkages as articulated in the crop intensification programme. Enhance agricultural production and profitability by promoting irrigation, increased use of fertilizers, mechanisation of agricultural practices, and securing of access to high-value markets for smallholder farmers.
- Provide opportunities for greater involvement of youth in entrepreneurship and job creation, including optimisation of the empowering role of information technology.

### Medium to long-term policy options

- Address the infrastructure limitations that hamper economic productivity and growth of the private sector including investing in consistent and sustainable

energy generation and distribution, building roads and railways to link production zones to markets, and investments in technology to improve productivity.

- Promote small and medium sized enterprises by facilitating establishment of cooperative societies; more access to capital; training and capacity building and exploration of lucrative markets. This should build on various initiatives in this area including Rwanda Development Board's Business Development Advisors programme seeking to develop bankable micro business projects and financial support to small and medium enterprises.
- Diversify the economy by reducing dependence on the agricultural sector and enhancing value-addition and manufacturing to take advantage of international bilateral trade opportunities, and the recently launched "Made in Rwanda" initiative.

## Acknowledgements

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**“Vision 2020’s  
prioritisation  
of the service  
sector has led  
to increased  
growth of the  
service sector,  
particularly in  
ICT and in hotel  
and conferencing  
sub-sectors.”**