



Institute of Policy Analysis
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**Integrating Micro,
Small and Medium
Enterprises (MSMEs)
within Labour Market
Systems in Developing
Countries in Africa: A
Case Study of Rwanda**

Policy Brief, 2025

Overview

Micro, Small, and Medium Enterprises (MSMEs) are central to Rwanda's economic structure, accounting for over 90 percent of enterprises and employing most of the non-farm labour force. Despite this importance, MSMEs face persistent constraints including informality, limited access to finance, skills shortages, and infrastructure gaps which limit their integration into formal labour markets. This study examined MSMEs' capacity for job creation and decent employment using both descriptive and econometric analyses based on a national survey of 857 MSMEs across seven districts. Findings show that tourism, services, and construction sectors lead in job creation, while formalization, business experience, and participation in government support programs significantly enhance employment growth. The policy implications highlight the need for improved access to finance, skills upgrading, and expanded formalization incentives to promote inclusive and sustainable job creation.

1. Background to the Problem

MSMEs dominate Rwanda's private sector landscape, contributing substantially to employment, poverty reduction, and inclusive growth. They absorb much of the growing labour force, particularly among youth and women, in both urban and rural areas. However, their operations are largely informal and concentrated in low-productivity sectors such as petty trade and small-scale services. These firms face systemic challenges including high operational costs, weak market linkages, inadequate skills, and limited access to financial services. As a result, many MSMEs create temporary and low-wage jobs with limited prospects for stability or decent work.

The Government of Rwanda has prioritized MSME development through national programs promoting entrepreneurship, innovation, and local manufacturing. Nevertheless, structural weaknesses within labour market systems and enterprise ecosystems continue to hinder

the transition of MSMEs into higher-value and formalized sectors. This study provides empirical evidence on the determinants of job creation and employment among MSMEs, identifying actionable levers for policy to strengthen their integration into Rwanda's labour market.

2. Objectives of the Study

- i) Assess the effectiveness of MSMEs in creating jobs in Rwanda.
- ii) Evaluate MSMEs' inclusion in formal labour market systems.
- iii) Determine whether MSMEs offer decent work aligned with labour standards.
- iv) Identify key challenges constraining MSMEs' potential for decent job creation.

3. Methodology

The study adopted a mixed-methods design combining quantitative and qualitative approaches. Quantitative data were collected from 857 MSMEs drawn from seven districts including Kigali, Musanze, Rubavu, Rusizi, Nyagatare, Muhanga, and Huye. The descriptive analysis assessed employment characteristics, sectoral distribution, and business demographics. Econometric analysis employed Tobit regression models to identify determinants of job creation (measured by new hires) and total employment (measured by current workforce size). Qualitative data from interviews and focus groups supplemented the statistical findings, providing context to business experiences and constraints.

4. Descriptive Findings

The analysis revealed that MSMEs are unevenly distributed across sectors, with the majority concentrated in trade and services. The Trade/Retail sector accounted for 39 percent of enterprises, followed by Services (28 percent), Arts (12 percent), Agriculture (9 percent), Construction (7 percent), and Tourism (5 percent).

Table 1: Sectoral Composition of MSMEs in Rwanda

Sector	Share (%)
Trade/Retail	39
Services	28
Arts	12
Agriculture	9
Construction	7
Tourism	5

The dominance of micro and very small enterprises (1–3 employees) illustrates a survivalist nature of most MSMEs. Across all sectors, micro-enterprises represent between 66 and 77 percent, while small enterprises (4–30 employees) account for 16–24 percent, and medium-sized firms (31–100 employees) less than 10 percent. Figure 1 illustrates this distribution.

MSMEs by Size and Business Sector (%)

Most MSMEs provide low-wage jobs, with an average monthly salary below Rwf 200,000. While 74 percent of MSMEs reported offering written contracts and 82 percent paid the minimum wage, compliance with broader labour standards such as social protection remains limited. Only a small proportion enroll employees in pension or health insurance schemes.

Summary of Descriptive Findings: The Structure and Characteristics of Rwandan MSMEs

The descriptive analysis of 857 Micro, Small, and Medium Enterprises (MSMEs) in Rwanda reveals a sector that is vital for employment yet characterized by structural constraints that limit its potential for generating sustainable,

high-quality jobs. The following section outlines the key socioeconomic and employment characteristics of these enterprises.

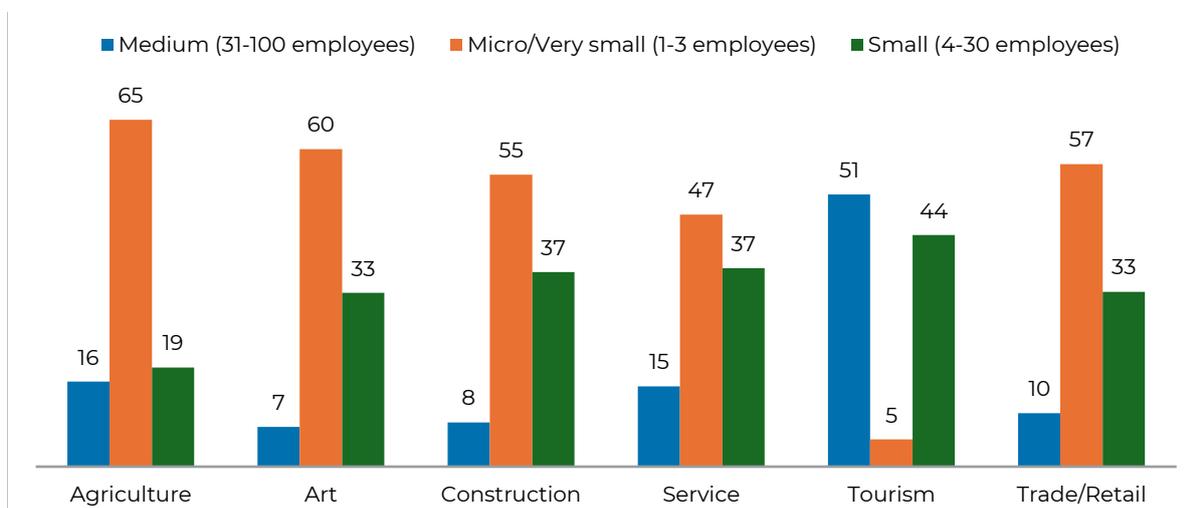
i) Sectoral Concentration and Firm Size

The Rwandan MSME landscape is dominated by low-value-added trade and services, reflecting the structure of the economy.

Sectoral Distribution: 39% of MSMEs operate in Trade/Retail, followed by Services (28%). Productive sectors like Agriculture (9%), Manufacturing (represented within «Art» at 12%), and Tourism (5%) constitute a much smaller share. This concentration in trade and services suggests a survivalist orientation rather than a transformative one, with limited penetration into high-growth, value-added industries.

Predominance of Micro-Enterprises: The MSME sector is overwhelmingly composed of very small firms. **Research findings** show that micro-enterprises (1-3 employees) constitute between 66% and 77% of all firms across sectors. Medium-sized enterprises (31-100 employees) are rare, making up less than 10% of the total. This dominance of micro-firms indicates limited capital, low output, and a constrained capacity for creating sustainable employment at scale.

Figure 1: Distribution of MSMEs by size and business sector (%)

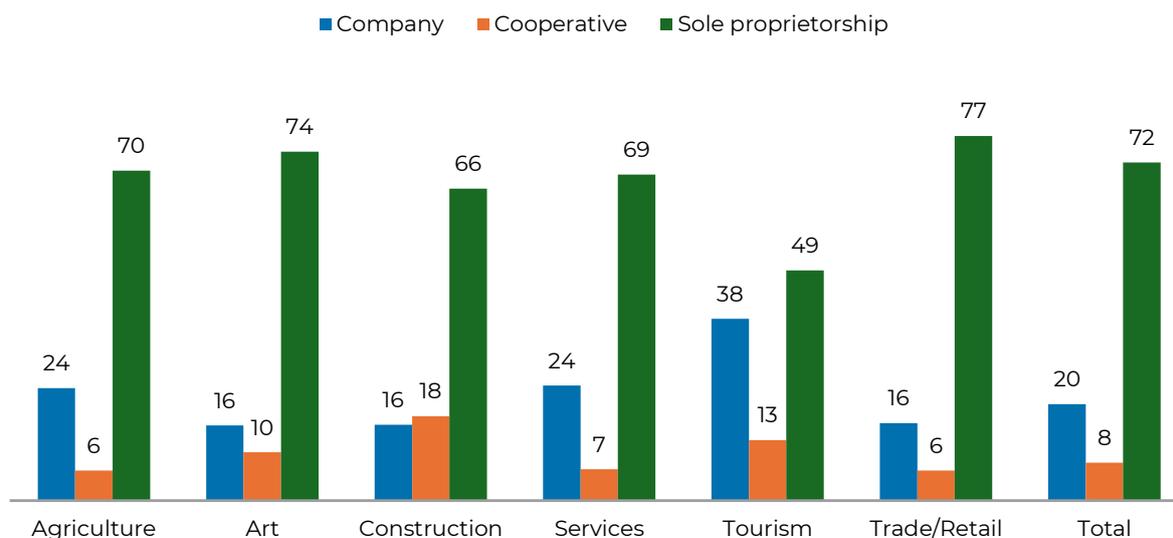


ii) Business Structure and Formality

Legal Status: The majority of MSMEs (72%) operate as sole proprietorships, indicating limited collective organization and institutional capacity, which constrains scaling and market access. Only 20% are registered as companies, and 8% as cooperatives.

High Formal Registration: A strong uptake of Rwanda's formalization policy is evident, with 89.95% of surveyed MSMEs registered with the Rwanda Development Board (RDB) or Rwanda Cooperative Agency (RCA). However, informality persists more in sectors like art and agriculture.

Figure 2: Legal status of the MSME by sector (%)



iii) Geographic Spread and Longevity

Geographic Decentralization: MSMEs are vital economic actors across the country. As detailed in **Table 1** while Kigali hosts the largest share (17.85%), significant MSME activity is found in secondary cities like Musanze (15.05%), Rusizi (14%), and Rubavu (13.77%). This wide spread underscores the importance of geographically inclusive policies.

Muhanga	110	12.84
Musanze	129	15.05
Nyagatare	111	12.95
Rubavu	118	13.77
Rusizi	120	14
Total	857	100

Table 1: Distribution of sampled MSMEs by location

Area	Frequency	Percent
Huye	116	13.54
Kigali city (Gasabo, Nyarugenge or Kicukiro districts)	153	17.85

Business Experience: The average years in operation varies by sector. MSMEs in Arts (8 years), Agriculture, and Tourism (7 years each) show greater longevity, while those in Trade and Services average shorter operational periods (5 years).

Figure 3: Average number of years in operation of MSMEs by Business Sector

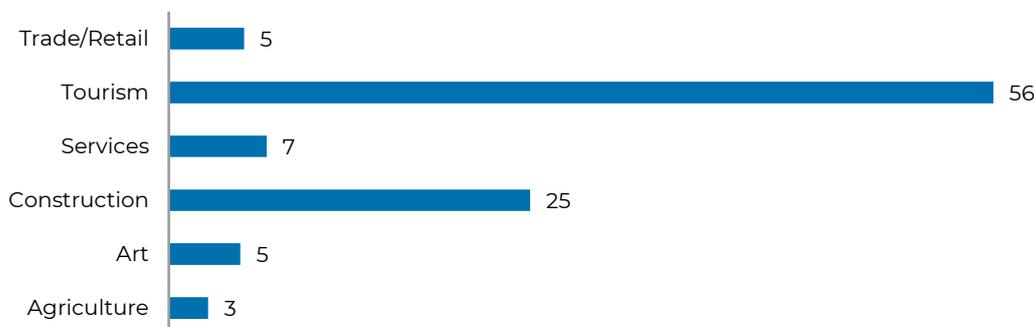


iv) **Job Creation: Quantity vs. Quality and Stability**

The analysis reveals a critical distinction between gross job creation and stable employment, highlighting a challenge of job quality.

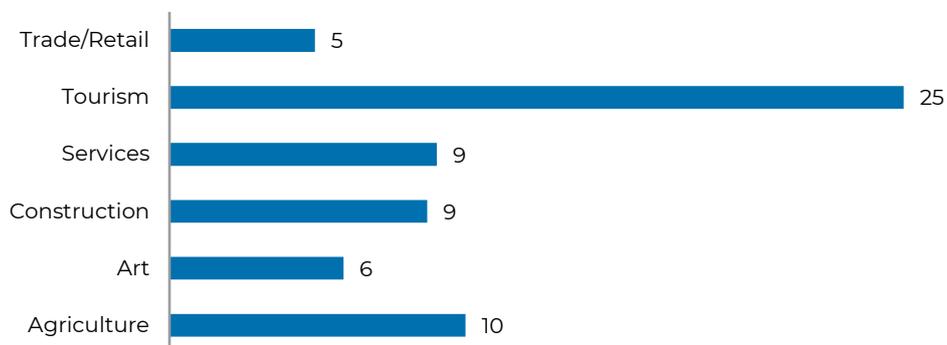
Sectoral Drivers of Hiring: Tourism is the most dynamic sector for gross job creation, with firms hiring an average of 56 new workers in the past year, followed by Construction (25). In contrast, Agriculture, Art, and Trade created very few new jobs (3-5 on average)

Figure 4: Average number of jobs created by MSME in past 1 year by business sector



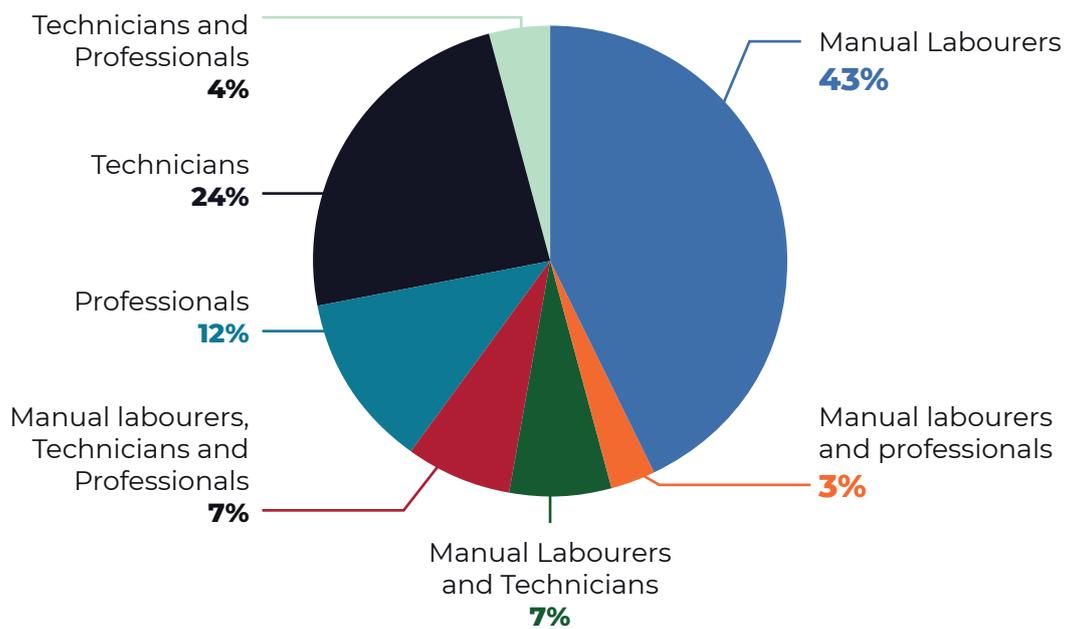
Employment Stock vs. Job Flow: A key finding is the discrepancy between new hires and the stable workforce. For example, Tourism MSMEs have an average of 25 employees but created 56 new jobs in a year. This signals very high turnover and a heavy reliance on short-term or seasonal labour, a pattern also seen in construction. This implies that gross job figures might overstate the contribution to stable employment .

Figure 5: Average number of workers employed in MSME by sector



Job Type and Quality: The employment generated is predominantly low to medium-skilled. As illustrated below, 43% of jobs are in manual labour and 24% are technicians, with professionals making up only 12%. This indicates a mismatch with Rwanda's vision for a knowledge-based economy.

Figure 6: Types of jobs created by MSMEs

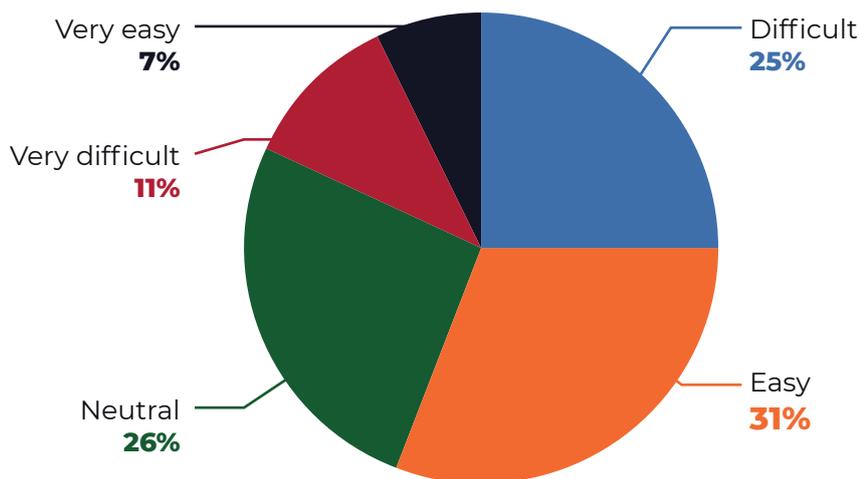


v) **Access to Finance and other Challenges faced by MSMEs in Rwanda**

Constrained Credit Access: Access to formal finance remains a significant barrier. As shown in the

Figure below, a combined proportion of 36% of MSMEs find it “difficult” or “very difficult” to access loans. High collateral requirements and lending rates were cited as key obstacles, with very few firms securing loans from major banks.

Figure 7: Ease with which business has access to loans for its operation



Skills Gaps: MSMEs face a multi-faceted skills challenge, including the prohibitive cost of skilled labour, a shortage of qualified and experienced workers, and a mismatch between formal education and the practical skills needed. This creates a vicious cycle of low productivity and an inability to offer competitive wages.

Infrastructure Deficits: Businesses, particularly outside Kigali, report disruptions from unreliable electricity, poor road conditions, and inadequate internet connectivity, which increase operational costs and limit market access.

5. Econometric Findings and Interpretation

The Tobit regression results identified key determinants influencing MSMEs' ability to create jobs and sustain employment. Separate models were run for job creation (flow) and employment stock (total jobs). The analysis showed that the tourism sector, formal registration, government program participation, and business experience significantly enhance job creation and total employment. ICT adoption was positive but not statistically significant.

Table 3: Determinants of MSME Job Creation and Employment

Determinant	Job Creation (Flow)	Employment Stock	Policy Implication
Tourism sector	Positive, highly significant (p=0.000)	Positive, highly significant (p=0.000)	High employment elasticity – promote sector upgrading.
Formal registration	Positive, significant (p=0.000)	Positive, significant (p=0.000)	Encourage MSME formalization through simplified registration.
Gov't program participation	Positive, significant (p=0.002)	Positive, significant (p=0.000)	Expand reach of business support initiatives.
Business experience	Positive, marginal (p=0.087)	Positive, strong (p=0.000)	Support firm longevity through mentorship and access to finance.

The model also found that MSMEs located in better-serviced districts show higher employment stock, emphasizing the role of infrastructure and local business environment. Compliance costs had a positive relationship with job stock, implying that enterprises investing in formal compliance also tend to be larger and more stable employers.

The Tobit regression analysis of MSMEs in Rwanda further reveals several key drivers of job creation and employment growth, with clear implications for policy.

The tourism sector stands out as the most powerful and consistent engine, with firms in this sector creating significantly more new jobs and maintaining a larger total workforce compared to other sectors. Furthermore, the formal legal status of an MSME is crucial, as incorporated companies vastly outperform sole proprietorships in both job creation and overall size, highlighting the importance of business formalization.

Participation in government programs also proves highly effective, correlating with substantial gains in new jobs and employment,

suggesting that these initiatives are worthwhile investments. Additionally, business longevity is positively linked to a larger workforce, underscoring the value of supporting firm survival.

Beyond these consistent drivers, the analysis distinguishes between factors that affect business size and those that spur growth. For instance, sectors like agriculture and services, along with location in a developed district, are associated with a larger stock of employees but not with rapid new job creation. Conversely, the use of ICT shows a strong, though not quite statistically significant, potential for driving new job creation, positioning it as a promising tool for expansion rather than merely a feature of established firms. Finally, while higher compliance costs are linked to larger firms (likely a result of their size and formality), they do not correlate with growth itself, indicating that such costs act as a barrier for smaller, growing enterprises. In conclusion, a multi-pronged policy approach is recommended: actively supporting high-growth sectors like tourism, incentivizing formalization, scaling up effective government programs, promoting

ICT adoption, reducing compliance burdens for small firms, and improving the business environment in less developed districts to foster larger, more stable businesses nationwide.

6. Policy Implications and Recommendations

While MSMEs are central to Rwanda's employment structure, they are constrained by size, skills mismatch, financial barriers, and weak integration into high-value sectors. To enhance their role in job creation the following are recommended;

1. Promote MSME sector upgrading into higher-value industries

Rwanda has made significant strides in promoting industrialization and value addition through initiatives such as the Made in Rwanda Policy, the development of special economic zones, and targeted investments in agro-processing and ICT. Institutions like NIRDA and the Agro-Processing Trust Fund have provided technical and financial support to enterprises seeking to upgrade into higher-value activities. Tourism has also been successfully developed into a flagship sector with strong linkages to MSMEs. Despite these efforts, the majority of MSMEs remain concentrated in low-value trade and services, with limited penetration into agro-processing, manufacturing, or ICT. Many MSMEs lack the equipment, technology, and technical expertise to upgrade production. Weak integration into export markets also limits the competitiveness of MSMEs. Stronger sector-based incentives and accessible innovation hubs are still required to accelerate diversification.

2. Strengthen financial access for MSMEs

Rwanda has expanded financial inclusion significantly through Umurenge SACCOs, widespread mobile money adoption, and government-backed credit programs such as the Business Development Fund (BDF) guarantee scheme. Digital finance has broadened access to micro-credit, and several commercial banks have developed SME lending products. However, access to larger-scale, affordable financing remains limited, particularly for micro and small enterprises without collateral. Interest rates remain high, and many MSMEs lack the financial literacy to effectively manage loans. Uptake of guarantee schemes is still below potential, and venture capital or growth finance instruments are underdeveloped. As a result, many MSMEs continue to rely on informal financing, limiting

their ability to expand and create stable jobs.

3. Improve labour conditions and promote decent work

Rwanda has established strong labour laws, set a national minimum wage framework, and strengthened the role of the Rwanda Social Security Board (RSSB) in providing pensions and health insurance. Compliance rates among MSMEs are relatively high, with 74% providing contracts and 82% paying minimum wages according to the survey. Rwanda's social protection programs, including health insurance through Mutuelles de Santé, have expanded coverage for workers. However, a significant share of MSMEs, about one in five, remain non-compliant with contracts and wage requirements, leaving workers vulnerable. Social protection enrollment for MSME employees is far from universal, and many jobs are seasonal or short-term, undermining stability. Labour inspections are limited by resource constraints, and MSMEs often perceive compliance processes as complex. Incentives to provide additional benefits such as paid leave and pensions are weak, leaving many workers without comprehensive protection.

4. Invest further into demand-driven skills development

Rwanda has invested heavily in TVET expansion, with institutions offering practical skills aligned to priority sectors. Initiatives like the Workforce Development Authority (WDA) and partnerships with donors such as GIZ and Mastercard Foundation have supported curriculum reforms, while higher education reforms emphasize entrepreneurship and employability. Apprenticeship and internship programs have been piloted in partnership with the private sector. Despite progress, skills mismatches remain significant. Many TVET programs are not sufficiently demand-driven, and MSMEs report gaps in technical, managerial, and digital skills among graduates. Apprenticeship programs are still limited in scale and sustainability, with many MSMEs lacking incentives to take on trainees. Entrepreneurial skills among youth remain weak, and linkages between universities, TVET institutions, and MSMEs need strengthening.

Given that MSMEs hire many technicians and manual workers but lack managerial and technical upgrading, Rwanda should invest in modular, short-course TVET training that is co-designed with MSMEs. Courses should cover tourism, construction, agro-processing, ICT, and business management. Apprenticeship subsidies would encourage MSMEs to take on

trainees, with wage-linked support offsetting productivity gaps during the training period. The Workforce Development Authority (WDA) and TVET institutions should lead this effort, in collaboration with RDB, MINICOM, MINAGRI, and PSF, with donor support for curriculum design

5. Enhance inclusivity and regional balance

Rwanda has promoted decentralization and regional development through investments in secondary cities, industrial parks, and feeder road networks. Cooperative formation has been strongly encouraged, particularly in agriculture, where producer cooperatives play a key role in aggregation and market access. Programs such as the National Strategy for Transformation (NST1&2) emphasize balanced growth and rural enterprise development. Despite these efforts, MSMEs remain highly concentrated in Kigali and a few urban centres, with rural enterprises facing infrastructure gaps, limited access to markets, and weak financing options. Many cooperatives are under-capitalized, lack business skills, and face challenges in governance and sustainability. Regional imbalances persist, and rural MSMEs remain largely survivalist with limited potential for scale-up.

6. Leverage public-private partnerships for training, mentorship, and incubation

Rwanda has established several innovation and incubation hubs, such as kLab, Fablab, and university-based incubators. Partnerships with the private sector have been fostered through the Private Sector Federation (PSF), and donor-funded accelerator programs have supported entrepreneurship, especially in ICT and youth-focused enterprises. Public-private initiatives have also promoted mentorship and capacity-building for start-ups. Despite progress, the scale of incubation and mentorship remains small relative to the number of MSMEs needing support. Most hubs are concentrated in Kigali, leaving rural entrepreneurs underserved. Many incubators lack sustainable financing models, relying heavily on donor funding. Mentorship programs are fragmented and not systematically linked to MSME upgrading. Stronger coordination, regional expansion, and integration of incubation into broader MSME support systems are needed.

7. Promote cluster-based interventions for tourism and construction

The survey shows tourism and construction MSMEs generate many short-term hires, reflecting seasonal and project-based

employment patterns. Cluster-based platforms should therefore be established to coordinate demand forecasting, pooled recruitment, training, and seasonal worker registers. Portable benefits arrangements would ensure that workers moving between short gigs retain social protection coverage. A critical policy implication from the survey is the need to distinguish between gross hires and net employment, given that sectors like tourism and construction show very high gross hiring but maintain smaller average workforces. This signals a prevalence of high turnover and short-term contracts, which undermines job stability. To address this, national MSME employment monitoring should be updated to track both gross hires and net employment alongside disaggregation by contract length (very short, short, and long-term). The National Institute of Statistics Rwanda (NISR) together with the Ministry of Public Service and Labour (MLPS) should lead this reform, supported by the Rwanda Development Board (RDB) and the Workforce Development Authority (WDA).

8. Create a short-term work-to-permanent conversion incentive for high-turnover sectors.

Tourism and construction MSMEs exhibit significant gross hiring but limited permanent job creation. A short-term work-to-permanent conversion incentive would address this gap by offering payroll tax credits or wage subsidies to MSMEs that convert temporary contracts into stable ones lasting at least a year. The scheme could be piloted in Musanze and Rubavu for tourism and in Kigali for construction hubs. The Ministry of Finance and Economic Planning (MINECOFIN) and MLPS would design the mechanism, with RDB and district governments coordinating implementation and the Private Sector Federation (PSF) registering participating firms.

9. Link tax incentives and public support to decent work outcomes.

Another recommendation is to link government support and tax incentives to decent work compliance. While training is widely accessed, tax incentives and financial support remain underutilized and disconnected from labour outcomes. By conditioning eligibility for tax reliefs, procurement preferences, and government programs on compliance with labour standards—such as provision of contracts, RSSB enrolment, and wages above the national minimum—Rwanda can encourage MSMEs to improve working conditions.

This initiative should be spearheaded by MINECOFIN, MLPS, RDB, and the Rwanda Social Security Board (RSSB), with PSF and district governments ensuring outreach.

10. Strengthen labour inspection and simplify compliance for micro firms. Although compliance with labour laws is relatively strong, 18–21% of MSMEs remain non-compliant. Strengthening labour inspection through risk-based approaches—targeting high-risk sectors and providing compliance assistance clinics—would improve standards without deterring micro firms. A one-stop online compliance portal for MSMEs to register with RSSB, file payroll taxes, and access contract templates would simplify processes and encourage compliance.

11. Improve MSME access to digital markets and e-commerce. Trade and retail MSMEs are numerous but generate low per-firm job creation. Digitalization and e-commerce adoption can unlock new value chains

and create higher-quality jobs in logistics, customer service, and marketing. Government could support this through digital adoption vouchers, integration of digital skills into TVET curricula, and subsidies for rural-urban logistics linkages. MINICOM, RDB, and the Digital Transformation Secretariat, together with telecom operators and e-commerce platforms, should drive this initiative

7. Conclusion

MSMEs are critical drivers of Rwanda's employment and economic transformation. This study provides evidence that enterprise characteristics—particularly formalization, sectoral orientation, experience, and access to government programs—determine their capacity to generate and sustain jobs. Strengthening these dimensions through targeted support will enhance MSME integration within labour markets, improve job quality, and accelerate inclusive growth.

