

In Kayonza, a bustling town in Rwanda's Eastern Province, informal traders quietly defy the tax system, operating outside of the country's formal economy. Beatrice, a second-hand shoe vendor, and Jean Claude Banyandekwe, a nearby trader, illustrate how the thriving informal sector continues to slip through the cracks of the Rwanda Revenue Authority (RRA).

Beatrice, who prefers to use only her first name, has been running her small business for years, selling second-hand shoes to a steady stream of customers. However, like many of her peers, she has no formal business license and does not pay taxes. "It's easier to keep my business small and unregistered," she explains. "If I register, they'll tax me, and I'll lose a lot of my profits."

"I've been selling here for more than two years without paying taxes," Jean Claude admits, stacking his shoes. "If I register my business, the taxes will eat into my profits. Staying unregistered is a survival strategy. If I'm caught, it's the end of my business."

Jean Claude, a few meters from Beatrice's shop, takes a similar approach. Quietly navigating through the crowded bus park with a large rucksack and a smaller backpack, he carries over 40 pairs of second-hand shoes that he sells without the burden of tax obligations. "I've been selling here for more than two years without paying taxes," Jean Claude admits, stacking his shoes in the market. "If I register my business, the taxes would eat into my profits. For me, staying unregistered is a survival strategy. If I'm caught, it's the end of the business."

Both Beatrice and Jean Claude's businesses represent a larger issue across the country: a massive informal economy that escapes the tax net, resulting in billions of Rwandan francs lost each year in potential tax revenue.

Across Eastern Province, some micro-enterprises, from street vendors to small-scale traders, prefer to remain unregistered. Despite efforts by the government to formalize the sector, including simplifying tax rules and introducing flat tax rates for microenterprises, the response has been lukewarm at best.

The RRA estimates that the informal sector contributes roughly 50-60% to Rwanda's GDP. However, according to the National Institute of Statistics of Rwanda (NISR), over 70% of businesses in this sector either don't know how to register or fear that registration will lead to higher taxes and bureaucratic hurdles. This creates a significant challenge for the government as it struggles to capture this revenue.

The informal sector, which contributes an estimated 50–60% to the country’s GDP (the figures vary slightly), remains largely untaxed, leading to billions of Rwandan francs in lost revenue each year.

In interviews with informal traders, including Beatrice and Jean Claude, many expressed reluctance to register their businesses, fearing it would impose an undue financial burden. “Many business owners see registration as a trap,” explains an RRA official in Kayonza District, who requested anonymity. “They believe that once they register, they’ll face complex regulations, inspections, and heavy tax obligations, which discourage them from even considering compliance.”

This reluctance to formalize businesses has consequences far beyond the traders themselves. Researchers argue that the inability to collect taxes from such a large portion of the economy undermines the government’s ability to fund essential public services like healthcare, education, and infrastructure development.

“A primary role of government is to provide public services, for which it needs to raise revenue,” says Dr. Nada Eissa, a professor at the McCourt School of Public Policy. “Without sufficient tax revenue, governments end up relying more on external loans and grants, which is not sustainable in the long run. Technology could help, but ultimately, the government needs to engage with informal traders and show them the benefits of formalizing their businesses.”

While traders like Beatrice and Jean Claude might face challenges registering their businesses, others are able to evade taxes through less legitimate means. Interviews with small traders revealed that paying bribes to local officials is a common way to avoid registration or tax payment. Several traders shared how they have paid “facilitation fees” to market supervisors or tax agents to ensure they could continue operating without government interference.

In one interview, an anonymous trader in the Eastern Province revealed, “tax supervisors turn a blind eye to unregistered businesses if you pay them regularly. They won’t report you, and you keep selling without any issues.”

Recognizing the scale of this issue, the revenue body has tried to implement solutions to bring informal businesses into the fold. Initiatives like the voluntary disclosure program, which allows businesses to declare overdue taxes without penalties, have been introduced to encourage compliance. Additionally, the introduction of a simplified digital registration platform aims to make it easier for

traders to formalize their businesses without the need for complicated paperwork.

However, these efforts have had limited success, as many traders are still unwilling to take the step of registering. Jacques Ndagijimana, a trader in Kayonza explains, "I've heard about the new digital platform, but I'm not sure if it's worth the hassle. I don't want to get caught up in taxes."