Presentation prepared for the **UNU-Wider Conference**

Understanding Rwanda's merchandise export sector

... and what we learned or didn't learn about Learning-by-Exporting

June 25th, 2013

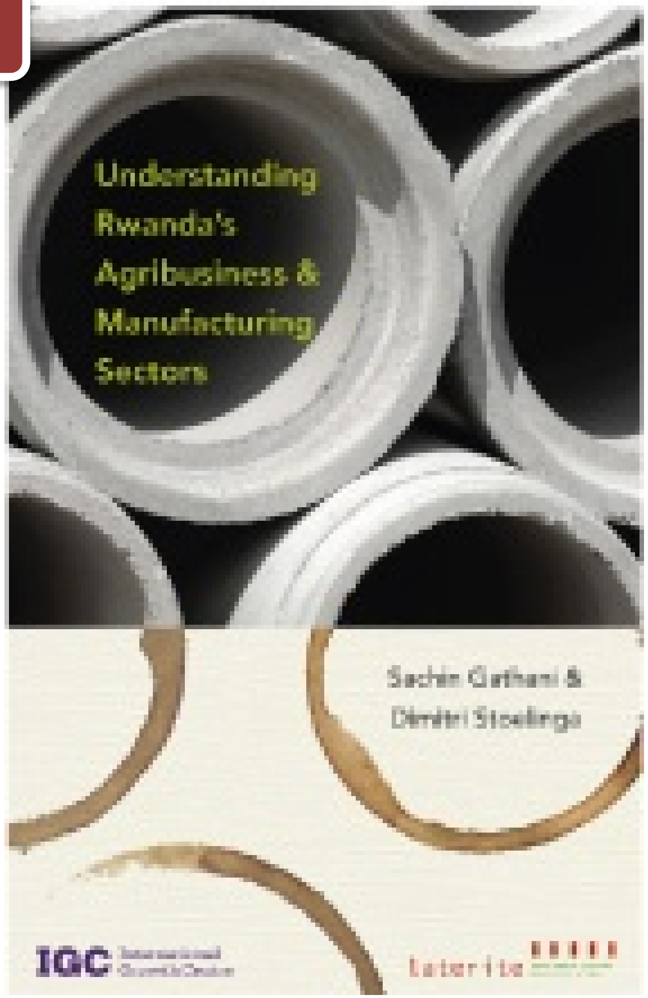
What is Laterite?

Laterite is an economic and social research firm with a presence in Rwanda, Malawi and Burundi

What was our role in the Learning-to-Compete program?

A book

1



A paper

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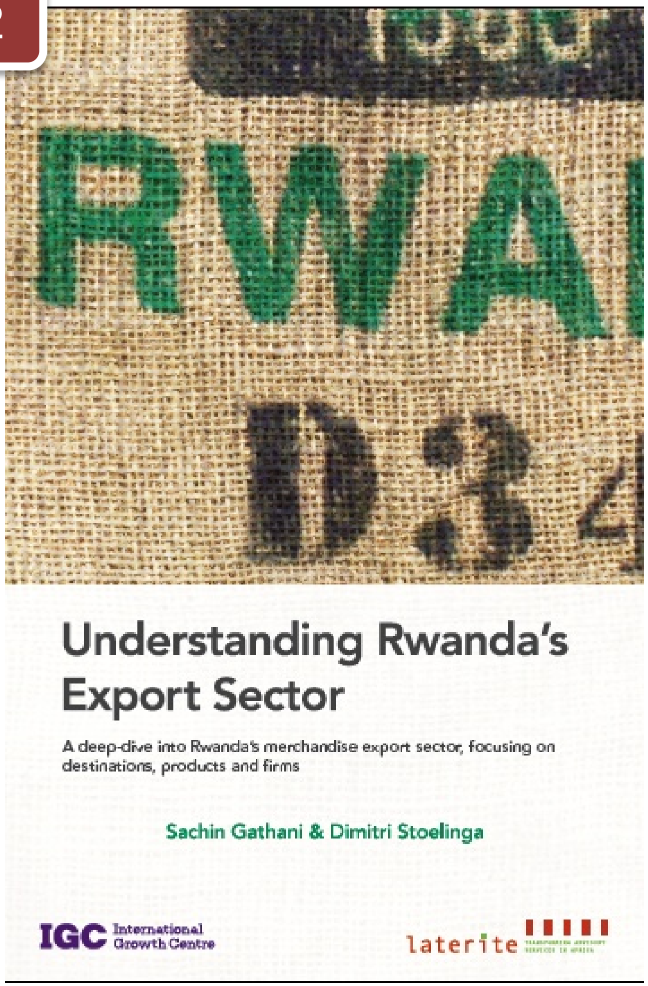


The objective of this presentation?

1. Provide you with some insights on Rwanda's merchandise exports sector

2. Highlight some structural points at the firm level with interesting implications for learning-by-exporting

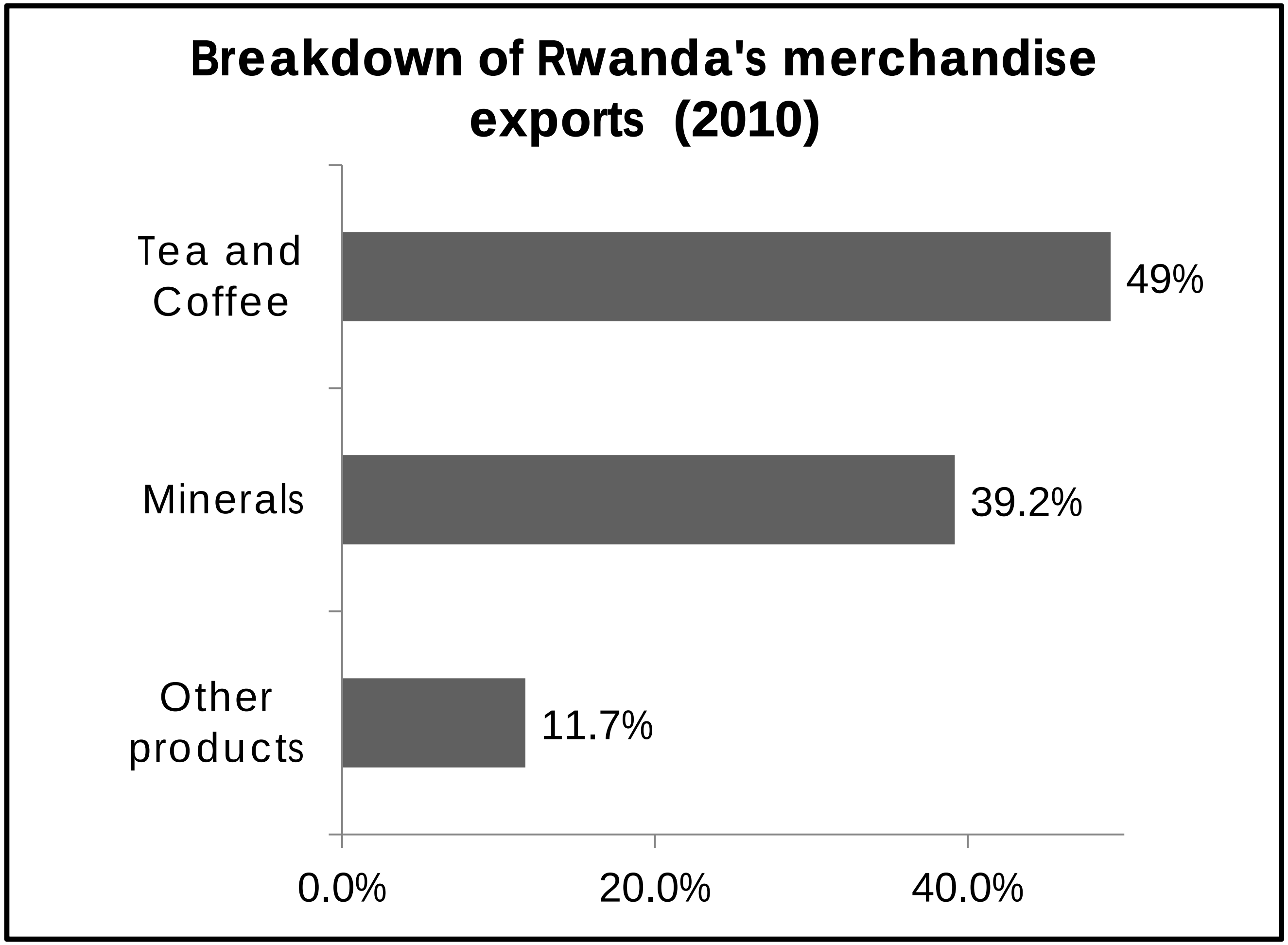
3. Hopefully spark some new thinking about learning-by-exporting

INTRO

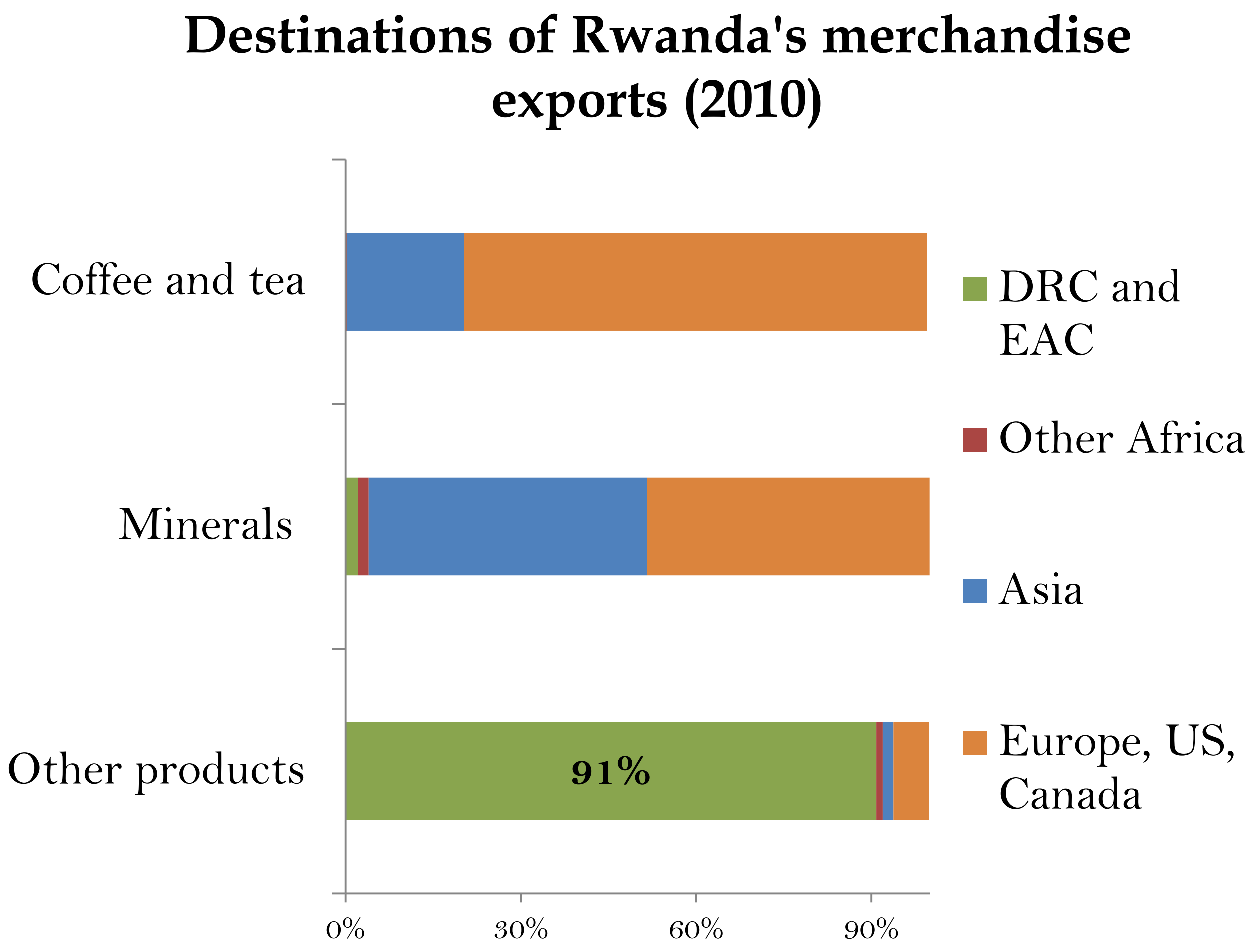
Brief overview of Rwanda's export sector ….

Rwanda has a very small exports sector … merchandise exports have been flat and only account for about 5% of GDP

Approximately 90% of that is commodity based …



In fact Rwanda's commodity and non-commodity export sectors are two completely different sectors and should be analyzed as such



The commodity sector is anchored in the colonial past

1930 1940 1950 1960 1970 1980 1990 2000 2010

Mining

By 1955 there were more than 200 small scale mines operational in Rwanda (wolfram, casserite)

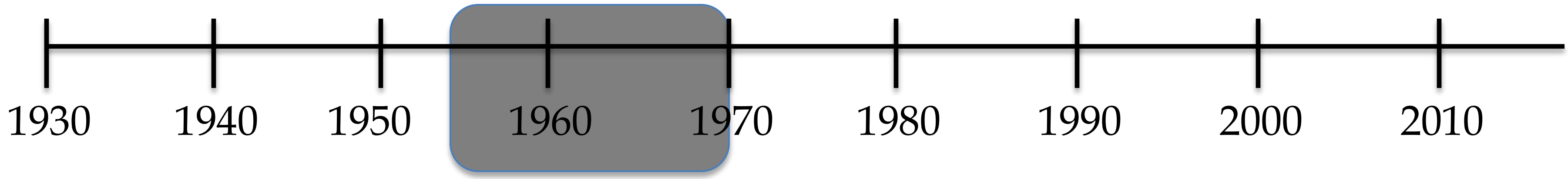
Coffee

Mandatory coffee production started between 1931-38 during 5 large planting campaigns

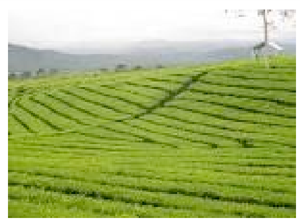
Pyrethrum

Introduced in 1936, pyrethrum was grown in the highlands where coffee couldn't grow

The commodity sector is anchored in the colonial past (2)



Tea



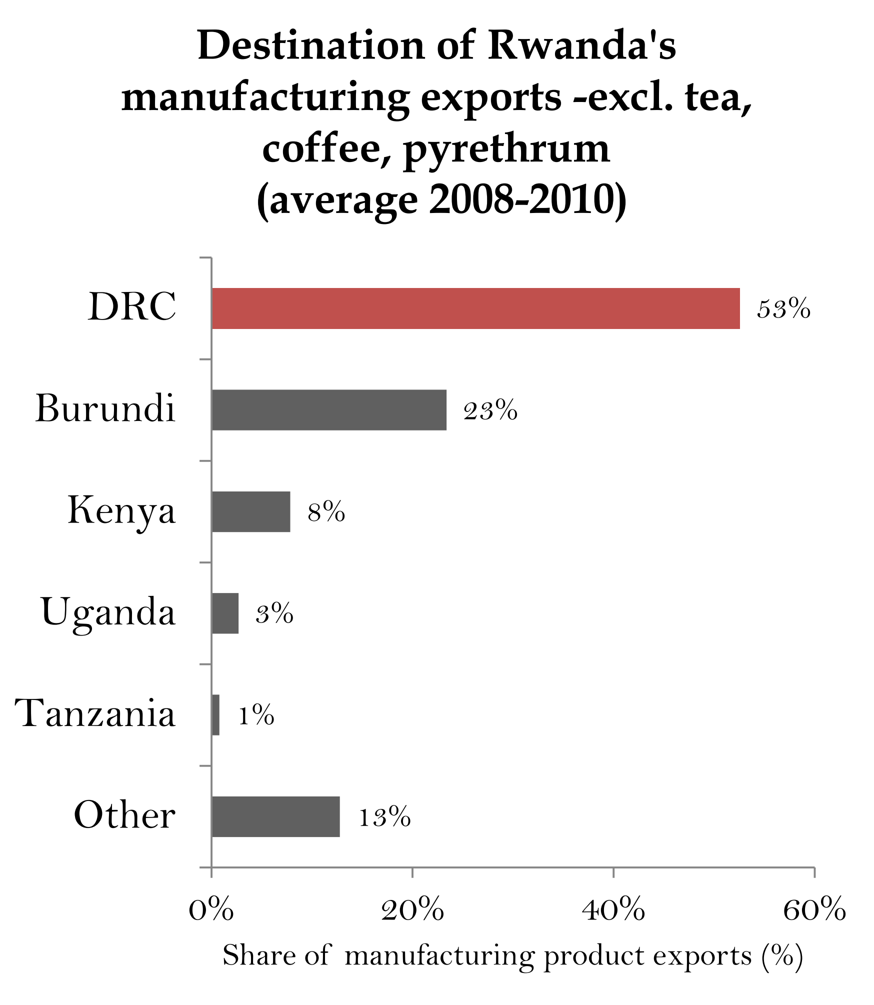
Tea production was started by European investors in the mid-50s and supported by development aid after independence

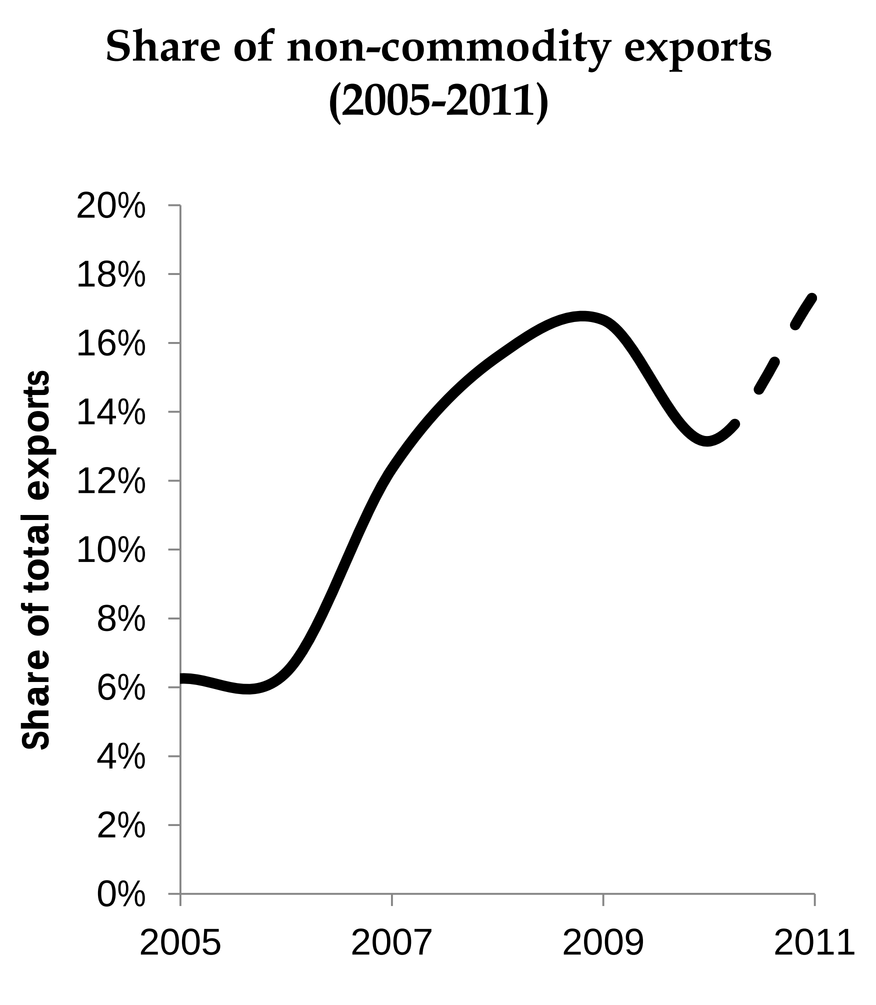
Yet has remained the main driver of exports growth (and new product discovery) over the past 20 years …

Product Category	Total exports	Contribution to exports growth (2000-2010)
Established export products	170m	74.6%
New Export Discoveries	38m	19.5%
Intermittent	9m	4.3%
Incipient	4m	1.6%

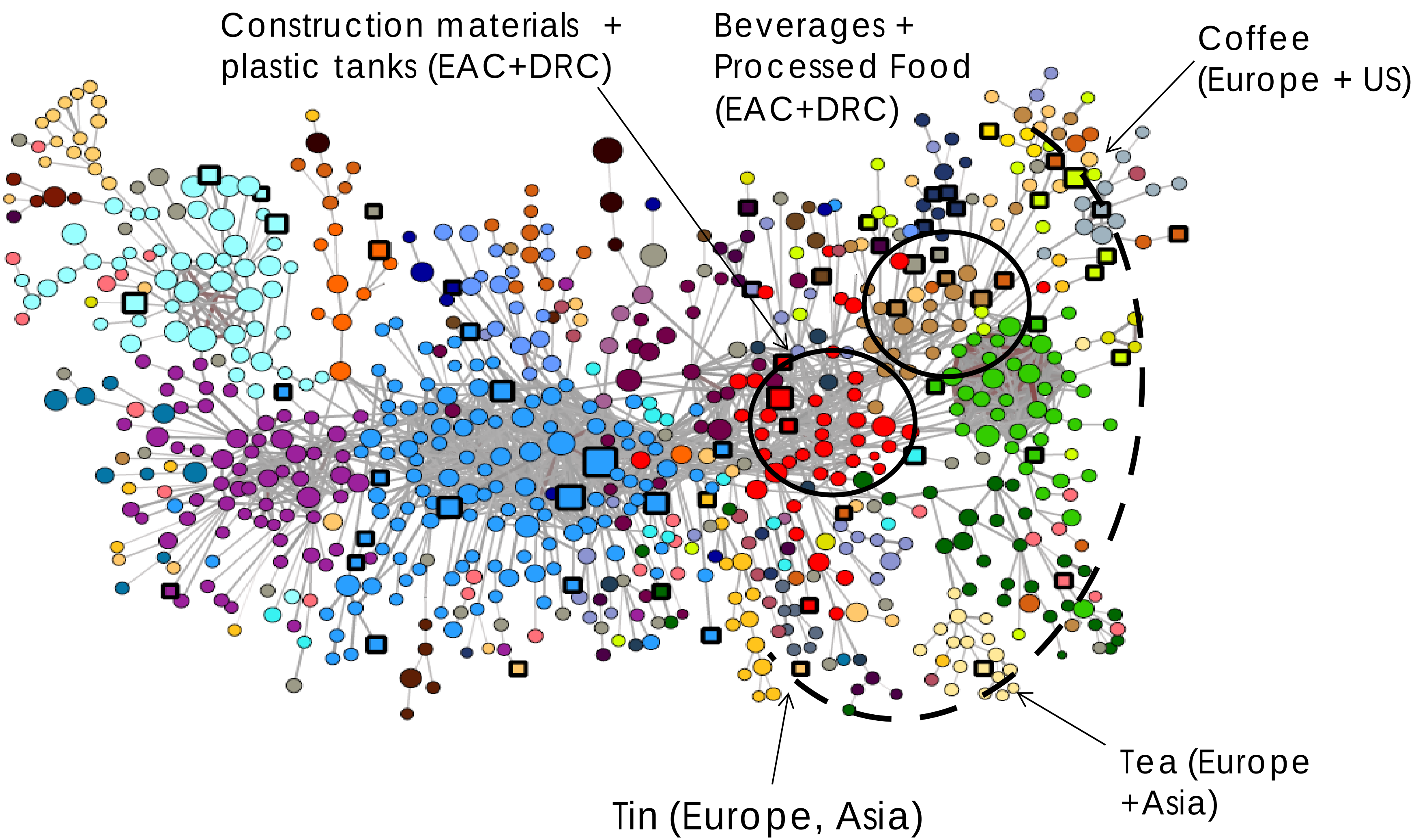
New export products	#products	Share of new products	Value (USD)
Fully washed (specialty) and roasted coffee	1	41%	15.5m
Minerals (tungsten + chromium)	2	26%	9.8m

Non-commodity exports … which are almost exclusively targeted at regional partners… are still in their infancy(US$32m in 2011!)



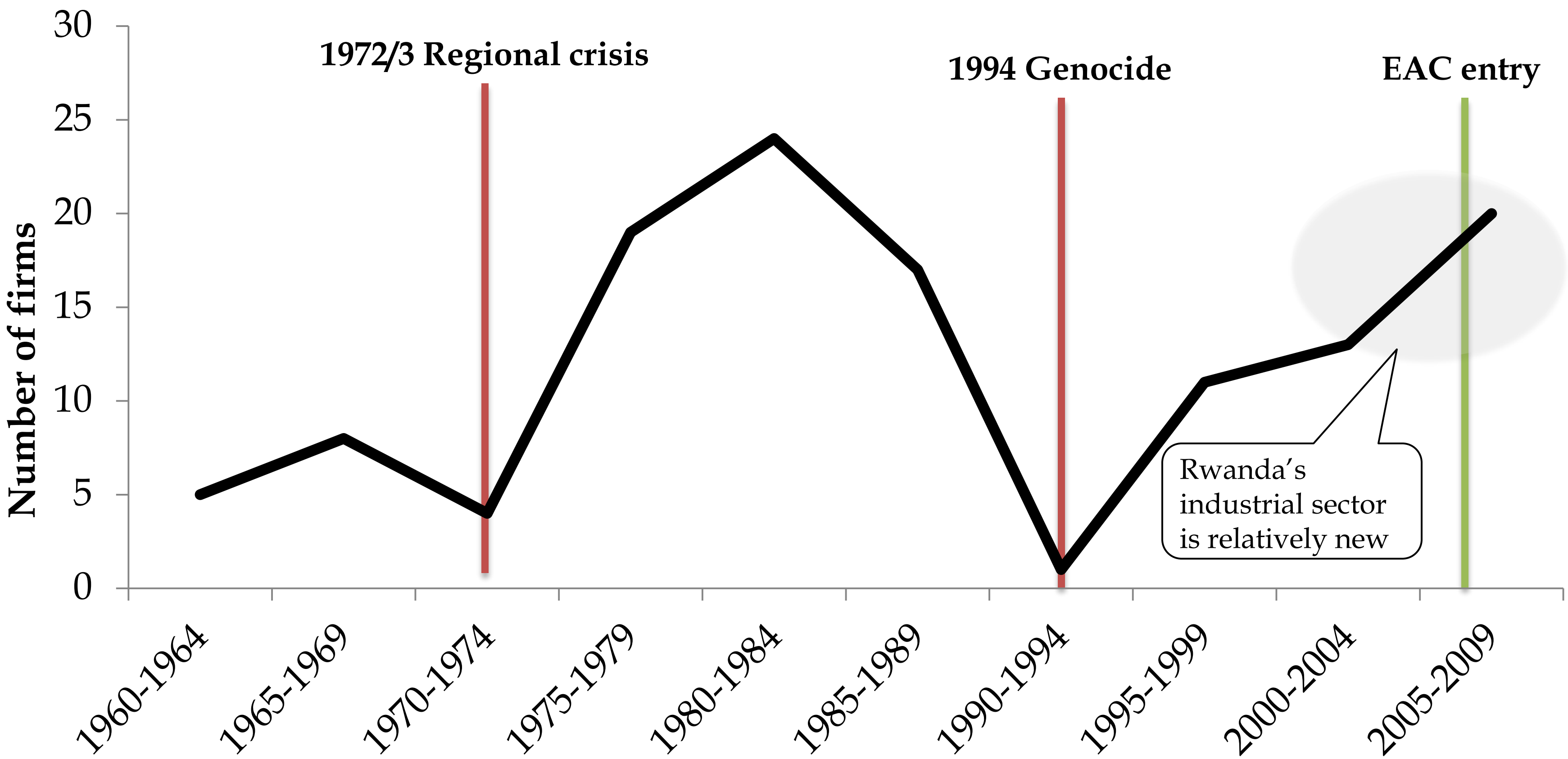


These regional markets are however where the future of Rwanda's export sector lies and where learning will take place ….

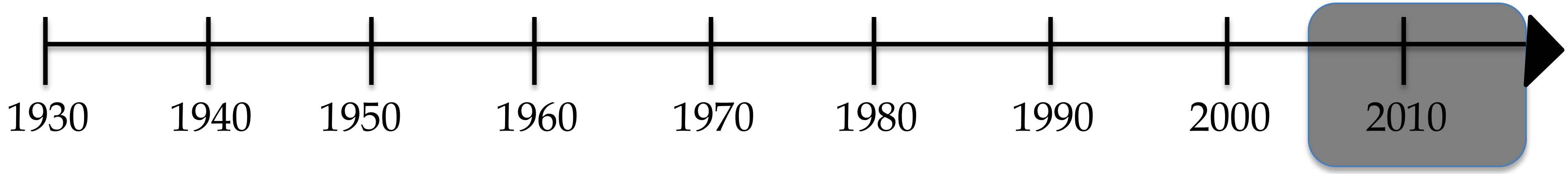


It's a sector that's poised to take-off … Rwanda is experiencing the fastest pace of firm creation rate since the 1970s

TIMELINE OF CREATION OF MANUFACTURING FIRMS



Current growth is largely driven by regional investments



Growth & EAC entry

- 30% of output comes from new firms created since 2005

Brasserie de Milles Collines

ICM Rwanda Agribusiness

Rwanda Mountain Tea

Total Output: ~ $128M

Bakhresa Grain Milling

Master Steel

Safintra

Kigali Cement Company

SteelRwa

Rwanda Trading Company

FINDING #1

There are very few exporters

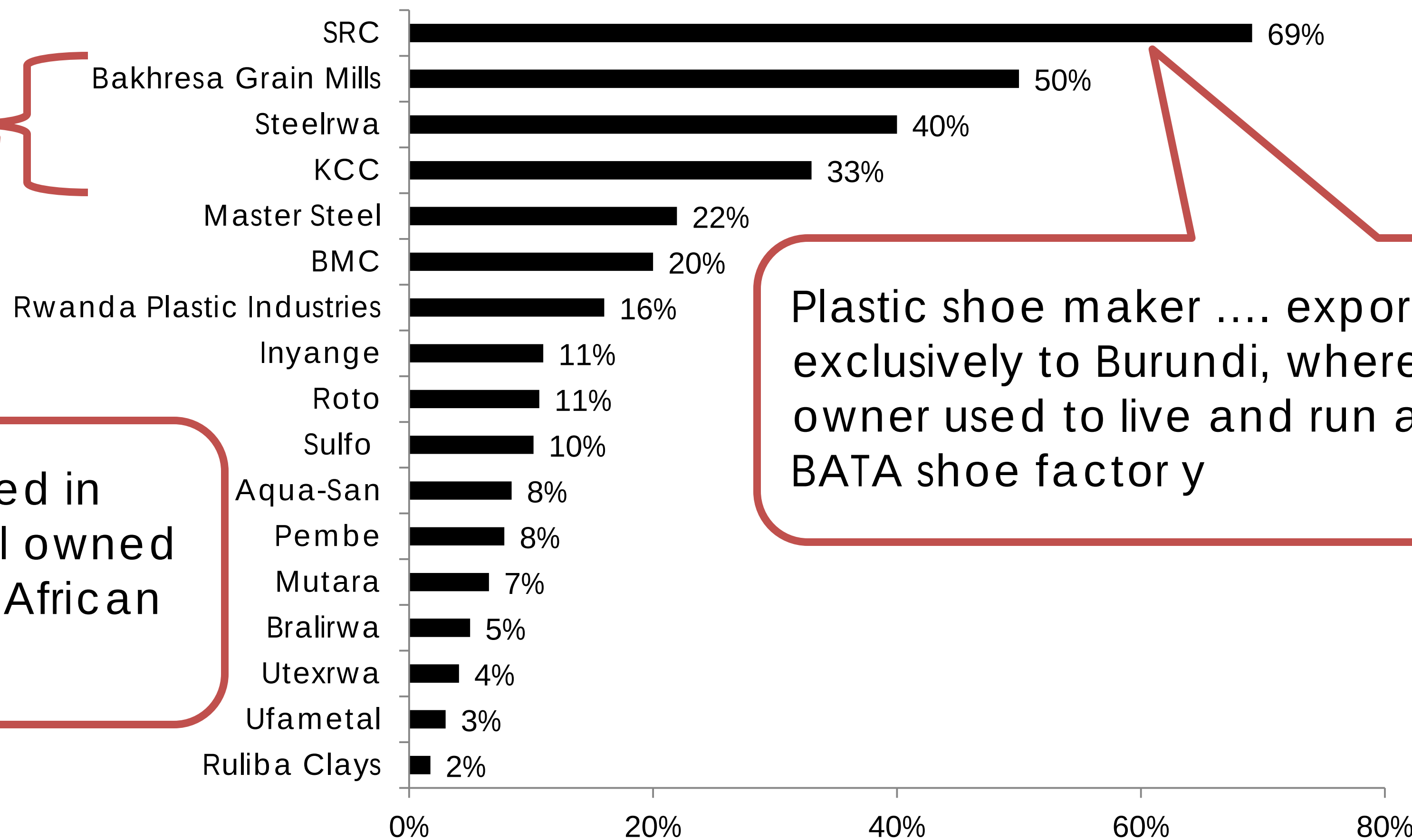
There are very few non-commodity exporters in Rwanda

Sampling frame: All firms that paid tax and social security in 2010

Definition	Non-Exporters	Commodity exporters	Retail, wholesale, or transport firms	Other exporters	Total number of exporters
1. Exports > 0	1170	27	50	43	120
2. Exports > USD$50,000	1223	26	18	24	68
3. Exports/sales > 10%	1234	26	14	17	57

Not only that, but the export orientation of exporters is low … can learning really happen with such low exports?

Share of revenues that comes from exports (2011)



Plastic shoe maker …. exports exclusively to Burundi, where owner used to live and run a BATA shoe factor y

All started in 2011, all owned by East African firms

And there's also a structural problem: in each sector there are only one or two producers, so it is hard to identify comparator firms!

FINDING #2

There is little switching in and out of the exports sector …

Firms in the commodity sector are "born global"; firms in the non-commodity sector are "born regional"

Firms switching in and out of the export sector is often used to test the learning-by-exporting hypothesis. There is however little evidence of switching in Rwanda's export sector…

<u>Firms in commodity sector are "born global"</u>

- All firms are 100% exporters
- These firms are also literally global … owned by large US, EU and Indian groups

<u>New non-commodity exporters are "born regional"</u>

- New investments by EAC group driving exports and manufacturing sector growth
- Investments made with eye on Burundi and DRC markets

FINDING #3

Firms don’t always export by choice, it can be by default….

And what if exporting happens by default in some cases, which is why we see such a high share of "born global / regional" firms?

In the literature the decision to export or not is presented as <u>a choice</u>. But does this assumption hold?

<u>The counter-example of Pembe Flour</u>

- Largest wheat flour producer (>US$30m)
- 2nd largest non-commodity exporter in 2010 (US$2m)
- Exports only wheat bran, a residue, that is used for animal feeds
- Reason: animal feeds processor in Rwanda bankrupt and inexistent animal feeds market

FINDING #4

Traders play a key role because of export barriers

Traders are central to Rwanda's regional exports sector … they are better at overcoming export barriers

Typically the LBE literature doesn't take into account the role of traders. But isn't that central to who learns?

<u>The prevalent export model in Rwanda</u>

Producers

Buys goods

Buys goods

Trader

Sells goods

Distributers/retailers in DRC & Burundi

Who learns??

FINDING #5

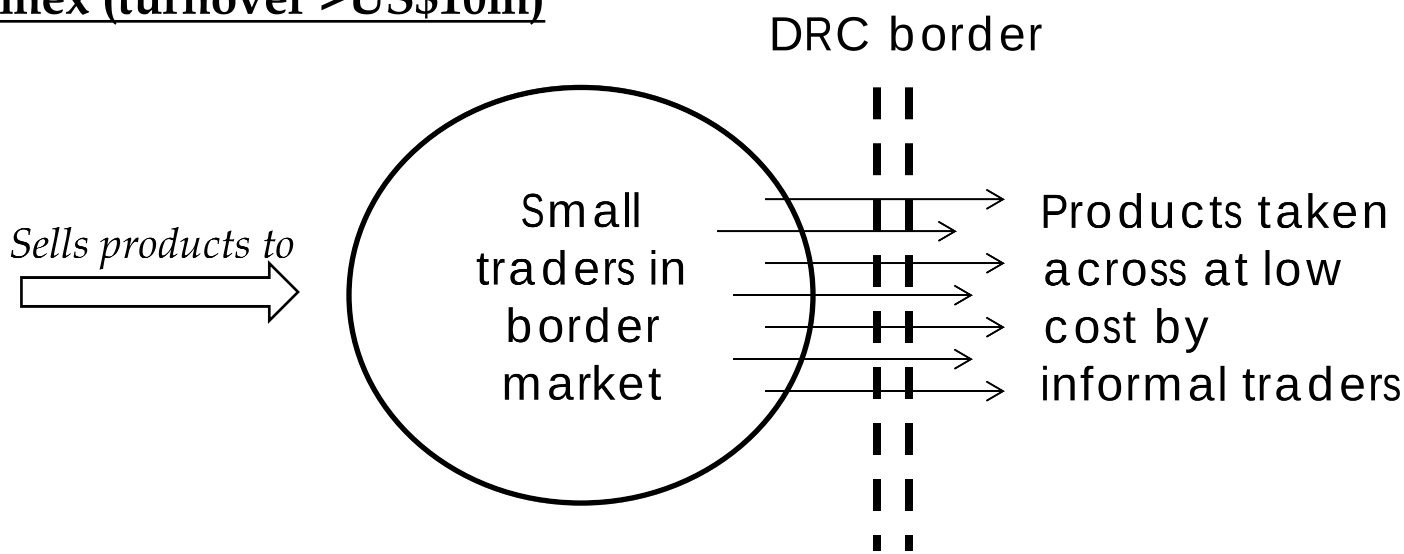
Don’t forget that even in the formal sector, exports are sometimes informal

Rwanda's informal trade networks are used by large firms to export to neighboring countries

How can the LBE model better adapt to informal trade networks? They're bigger than you think ….

• Informal exports to Burundi and DRC are larger than formal exports! According to NBR: 60% of exports to DRC, 55% of exports to Burundi

<u>The case of Minimex (turnover >US$10m)</u>



FINDING #6

Supply is the biggest constraint

Why do we assume learning on the sales side is greater than learning on the supply side?

Our rationale

1. The supply of raw material is the biggest constraint to growth in Rwanda's manufacturing and agribusiness sectors (see book!)

2. The costs and delays related to supplies decrease productivity and capacity utilization

3. Developing effective international supply networks that are diversified, stable and based on established relationship can have a very high impact on productivity

4. It also helps firms keep updated on the latest available inputs and industry best-standard

5. This exposure to international markets on the supply side can therefore lead to learning

Summary of highlights

1. There are very few exporters
2. There is little switching
3. Exporting is not always a choice
4. Traders are central to the equation
5. Formal firms can export through informal networks
6. Supply matters most … so let's study learning-by-importing