# UNDERSTANDING RWANDA'S EXPORT SECTOR[1]

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This policy brief presents a broad policy-centered approach to analyze export dynamics in Rwanda, with a focus on if and how firms in Rwanda - and Rwanda's exports sector as a whole - have acquired the capabilities to export to new destinations, discover new products and improve their productivity levels to better compete on regional and international export markets. The building blocks of the approach can be narrowed down to three units of interest: firms, products and destinations.

Rwanda's domestic market is small and cannot create sufficient demand to drive sustained rapid growth in production. In order to grow, Rwanda must aim to expand and upgrade its exports. In the past few years, Rwanda's exports have experienced a staggering growth and diversification – but the challenge remains. This brief will look at Rwanda's non-commodity merchandise exports sector and will suggest a way forward. The brief presentsa new and structured way of understanding and analyzing Rwanda's performance as an exporter and insights on current and likely future trends.

## EXPORTS AND FIRMS PRODUCTIVITY

Everywhere in the world, exporting firms have been found to have higher productivity levels than non-exporting firms. There are two reasons this might be the case: either the most productive firms are the ones that enter the export market, or exporting leads to "learning" and higher productivity at the firm-level. The "learning-by-exporting" hypothesis suggests that exporting firms can learn from their access to external markets, the relationships they build with external buyers, and by competing on quality and price in international markets.The learning that results from this exposurecan in theoryhelp increase productivity and foster income growth.One way of analyzing this learning process is to study two types of "discovery" dynamics: *product discovery*, whenfirms discover new products for which there is existing demandabroad, and*destination discovery*, when new foreign markets are found to be profitable destinations to sell existing products.

## A QUICK LOOK AT RWANDA'S NON-COMMODITY[2] EXPORTS SECTOR[3]

Rwanda's non-commodity export sector is very small and has distinct characteristics from the commodity exports sector.In 2012, 54% of merchandise exports were commodity exports (tea, coffee and minerals) and the rest were non-commodity exports (mainly agriculture products and light manufacturing; **Error! Reference source not found.**). However, non-commodity exports are increasing steadily, experiencing staggering growth in 2012 (**Error! Reference source not found.**).

[1]This policy brief stems from the "Learning to Compete" research initiative undertaken in Rwanda to explore learning-by-exporting in the formal non-services export sector.

[2]Non-commodity exports include all exports of products other than tea, coffee and minerals.

[3]The data in this section and in the following ones come from Gathani S., Stoelinga D., *Understanding Rwanda's Agribusiness and Manufacturing Sectors*, 2013; National Bank of Rwanda, *Balance of Payments 1998-2012*; and from Ministry of Trade and Industry, *Annual Trade Report 2012*.

FIGURE 1: BREAKDOWN OF RWANDA'S EXPORTS, 2012

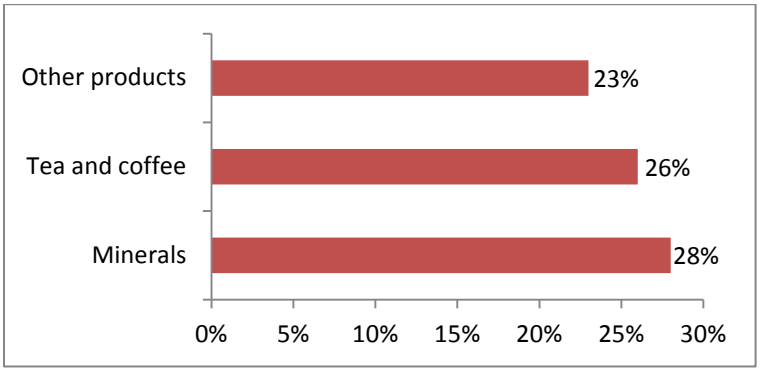
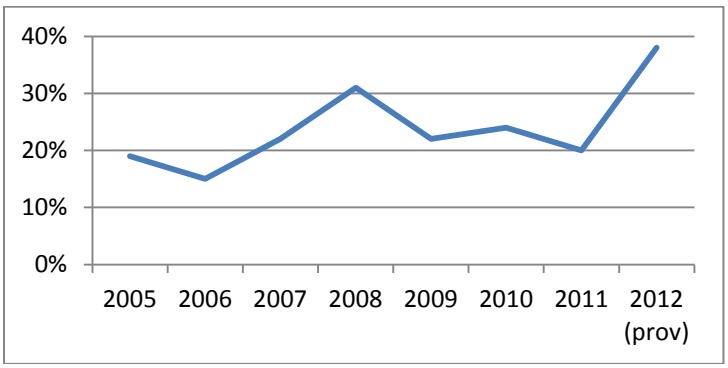
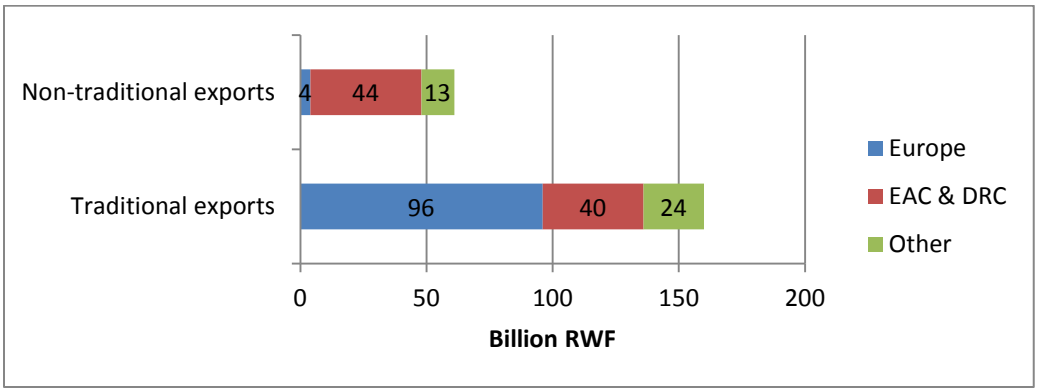



FIGURE 2: SHARE OF NON-COMMODITIES ON TOTAL EXPORTS




Commodity and non-commodity exports differ not only in size, but also in terms of export destination.Commodities are mostly exported to the EU, America and Asia; non-commodity products are almost exclusively exported to the EAC and DRC. Non-traditional exports to the neighboring EAC and DRC accounted for 64%of Rwanda's total non-traditional exports in 2012(**Error! Reference source not found.**).[4]

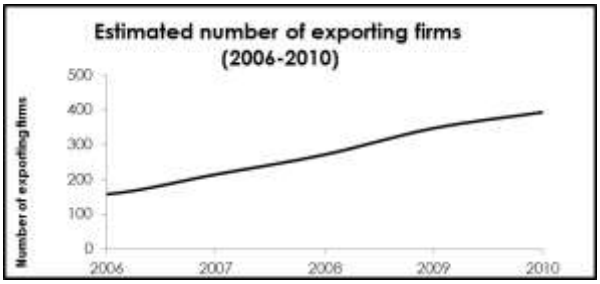
FIGURE 3: RWANDA'S EXPORTS BY DESTINATION, 2012




Even though the non-commodity exports sector remains small, the number of exporting firms (producers and retailers) is increasing rapidly (**Error! Reference source not found.**). Since 2006, the number of firms exporting to the EAC doubled and those exporting to the DRC increased by a factor of 15. This could be a pre-cursory sign of the future growth to come in Rwanda's non-merchandise export sector.

[4] This is excluding tea exports to Kenya, which transit through the Port of Mombasa to other destinations.

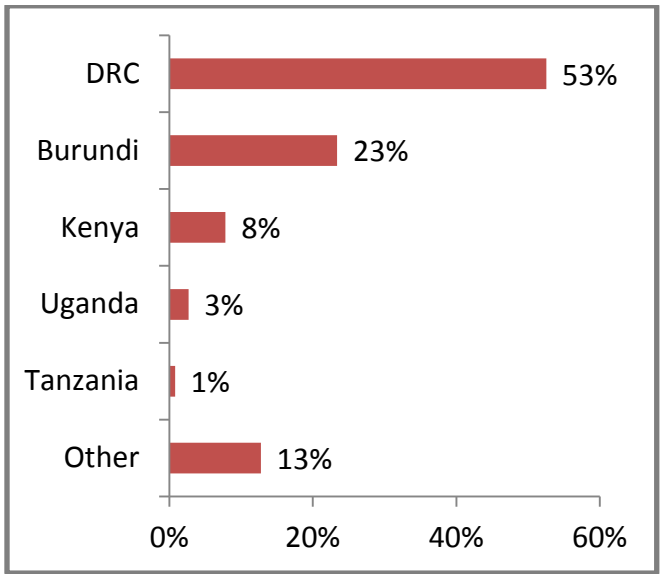
FIGURE 4: ESTIMATED NUMBER OF EXPORTING FIRMS (2006-2010)




Rwanda's non-commodity exports are mainly destined to neighboring markets. In fact, in 201272% of non-commodity exports went to the EAC and DRC. These results suggest that these are the only markets where Rwanda's manufacturing and agribusiness exports can presently compete.

Burundi and the DRC are Rwanda's main non-commodity export destinations,accounting for 10% of total exports in 2010 (up from 1% in 2005; **Error! Reference source not found.**). Official exports to the two countries have grown from about US$1m in 2005 to US$15.8min 2010 (excluding re-exports). Large manufacturing firms increasingly account for the bulk of exports to the region, from an estimated 30% in 2007 to 60% in 2010.

FIGURE 5: DESTINATION OF RWANDA'S NON-COMMODITY MANUFACTURING EXPORTS (AVERAGE 2008-2010)




## DRIVERS OF RWANDA'S EXPORTS SECTOR

*Destination discovery* for Rwanda's non-commodity sector is limited. This is due to the comparatively low sophistication level of Rwanda's light manufacturing sector; the fact that - other than tea, coffee and pyrethrum - Rwanda does not currently grow export quality varieties (e.g. of avocadoes, strawberries, or other potential export crops); and high transportation costs (by air and land).

*Product discovery* is happening mostly in the commodity sector.New product discovery has contributed between 15-20% to exports growth over the past decade. The number of products exported has increased from 32 in 1996 to 350-400today.Non-commodity exports have more than doubled as a share of total merchandise exports. Seventy percent of

these discoveries (in terms of volume) have come from new product exports in the coffee (specialty coffee, roasted coffee) and minerals sectors (chromium).

Firms are entering the exports market but the export orientation of the non-commodity sector remains low.For the vast majority of manufactured products exporters, exports are not a main area of focus. The estimated export orientation of Rwanda's manufacturing sector in 2010 was only 4% of output. Learning-by-exporting opportunities appear constrained as only 3 non-commodity firms export more than 50% of their output and only a handful more than 10%. Furthermore, 76% of manufactured products are exported to Burundi and DRC, which are less developed and more volatile markets than that of Rwanda. *Therefore, the challenge for Rwandan firms is rather one of "learning to export" rather than "learning-by-exporting".*

Firms report low capacity utilization and low productivity as key constraints to export. While firms in Rwanda's manufacturing and agribusiness sectors are relatively modern and well equipped – all sectors of the economy were rebuilt and retooled for more than a decade following the genocide –theysuffer from low capacity utilization (on average, below 50%). One key constraint is access to raw materials, and in particular the bad quality of local inputs (especially in the agriculture sector), the lack of structure in local supply markets, and high transportation costs for inputs from abroad.

## THE WAY FORWARD FOR RWANDA'S EXPORTING SECTORS

Future export discovery is likely to happen in the agriculture, food processing and light manufacturing sectors.In the short term, the export products Rwanda is the most likely to develop are mainly agriculture products such as oils and grain seeds, fruits and nuts, spices, vegetable fats, vegetable textile fibers, and edible vegetables (including peas, beans, etc). More sophisticated export products that Rwanda could promote in the medium term, include processed food and beverage products (cereals, confectionary, honey, milk, juices), wood products (wood, sawn wood, wood charcoal), construction materials (rebars, marble or other stone based construction materials), rubber products (natural rubber and inner tubes of tires), and the extraction of the essence of coffee or tea.

Expanding Rwanda's non-commodity exports will need the following supporting measures:

(i) creating a supportive environment for larger groups – and in particularregional conglomerates –which are increasingly driving exports to the region;

(ii) engaging leading exporters on a regular basis to determine the policy, institutional, and economic obstacles they encounter, and exploring ways the government can support their exports through targeted efforts to improve public services and infrastructure (but stopping short of subsidies and tax breaks); and

(iii) facilitating the creation of more efficient and effective supply chains for raw materials through information, coordination efforts, standards, and selective infrastructure investments . As the knowledge of the Burundi and DRC markets is currently limited and demand is likely to be volatile depending on political stability and competition from the region, strategies narrowly focusing on the promotion of particular industries, firms or products appear less likely to succeed.

## FOR FURTHER REFERENCE

Gathani S., Stoelinga D., *Understanding Rwanda's Agribusiness and Manufacturing Sectors*, 2013. Available at [insert link]

## ABOUT THE AUTHORS

Sachin Gathani and Dimitri Stoelinga are co-founders and managing partners at Laterite Ltd.

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## ABOUT THE IGC

The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research. Based at the London School of Economics and in partnership with Oxford University, he IGC is initiated and funded by the UK Department for International Development.

The IGC has 14 active country programmes in 13 countries (Bangladesh, Ethiopia, Ghana, India (Bihar state and Central), Liberia, Mozambique, Pakistan, Rwanda, Sierra Leone, South Sudan, Uganda, Tanzania and Zambia) as well as 10 research programmes spanning topics such as agriculture, firm capabilities, infrastructure and urbanisation, state capabilities and trade.

The country team for Rwanda includes Linda Calabrese and Radhika Goyal, In-Country Economists; Aaron Weisbrod, Hub Economist; Andrew Zeitlin, Lead Academic; and Richard Newfarmer, Country Director.

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