

## RWANDA: FROM HIPC TO HICCUPS?

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### Résumé

En 2005 et 2006, le Rwanda a bénéficié d'une annulation massive de la dette publique dans le cadre de l'Initiative – renforcée – des pays pauvres très endettés (PPTÉ, ou en anglais HIPC, 'Heavily Indebted Poor Countries') et l'Initiative d'allègement de la dette multilatérale (IADM, ou en anglais MDRI, 'Multilateral Debt Relief Initiative'). Ces initiatives ont, avec succès, restauré la viabilité de la dette rwandaise. De cette façon, le pays s'est vu offrir l'opportunité de formuler et d'exécuter une nouvelle politique quand il s'agissait de contracter des dettes publiques, espérons-le, plus performante que la précédente. Le présent article vise à examiner l'évolution du stock de la dette rwandaise depuis le moment de son allègement jusqu'à aujourd'hui. Cette analyse se concentre spécifiquement sur les instruments de la dette qui sont nouveaux, ou bien d'importance croissante, dans le contexte rwandais : les prêts fournis par les créanciers bilatéraux non traditionnels, l'émission d'une euro-obligation en 2013, et les obligations en monnaie locale à long terme. Nous mettons également en lumière les conséquences que cela a sur la gestion et la viabilité future de la dette rwandaise. Nous concluons que, en général, le Rwanda a été prudent quant à la nouvelle accumulation de la dette et la diversification de ses sources de finances publiques. Néanmoins, la transition vers un portefeuille de dette bien équilibré n'a pas été et ne se fera pas sans heurts.

### 1. INTRODUCTION

In 2005 and 2006 the Rwandan government was granted substantial amounts of debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) initiatives. These international interventions effectively restored Rwanda's debt sustainability and provided the country with a 'clean slate' on which it could write a new, hopefully more successful debt story. Rwanda's hopes of attaining middle-income country status by 2020 and meeting its large infrastructure needs have required the mobilization of additional resources at home and, especially, from abroad. At the same time, Rwanda, for many years a 'donor darling', aims to reduce its reliance on traditional foreign aid over the medium term, which has led and will increasingly lead it to look elsewhere for funds.<sup>2</sup> In this paper we study how Rwanda has

<sup>1</sup>The research for this paper was funded under the Academic Research Organisation for Policy Support (ACROPOLIS) initiative of the Belgian Development Cooperation (DGD). The authors would like to thank, without implicating, DGD and the Belgian Embassy in Kigali for facilitating a field visit, and staff of MINECOFIN, BNR, the Capital Market Authority (CMA), RSE, RSSB, local banks, the World Bank, the International Finance Cooperation (IFC), the Belgian Technical Cooperation (BTC) and bilateral donor organizations for interesting discussions and additional data.

<sup>2</sup> The Rwandan government's strategic priorities are formulated in REPUBLIC OF RWANDA, "Rwanda Vision 2020", July 2000 (revised 2012). On Rwanda's status of 'donor darling', see MARYSSE, S., ANSOMS, A., CASSIMON, D., "The aid 'darlings' and 'orphans' of the Great Lakes region in Africa", *European Journal of Development Research*, Vol. 19, No. 3, 2007, pp. 433-458.

used the opportunity provided by debt relief to diversify its public debt portfolio, accessing new sources and markets of credit, and what this post-relief debt accumulation means for Rwandan debt management and sustainability.

The paper is structured as follows. In section 2 we briefly illustrate how HIPC and MDRI restored public debt sustainability in Rwanda. Section 3 details the evolution of the Rwandan debt accumulated after relief. We first look at the composition of external public debt, which still constitutes the lion's share of total public debt. We distinguish between multilateral, bilateral and commercial creditor debt. A second subsection zooms in on domestic public debt. Section 4 and 5 look into the challenges Rwanda's new debt portfolio poses to debt management and sustainability, highlighting a number of risks and vulnerabilities. Section 6 concludes.

## 2. HIPC AND MDRI DEBT RELIEF

The HIPC idea was initiated in 1996 by the international community following a proposal by the G7. Previous attempts by bilateral and commercial creditors to solve the debt problems of many low-income countries had proven insufficient. By the mid-1990s it had become clear that creditors, including multilateral institutions, needed to deliver much more comprehensive and concerted debt cancellation to overcome the insolvency of their debtors. In 1999, following a thorough review of the initiative, HIPC was enhanced to further increase debt relief and enhance the link with poverty reduction.<sup>3</sup> Rwanda was considered eligible for the HIPC initiative in December 2000 by the Executive Boards of the International Monetary Fund (IMF) and the World Bank. Indeed, Rwanda fulfilled all the necessary criteria: the country was a client of only the concessional facilities of the Fund and the Bank (the Poverty Reduction and Growth Facility or PRGF and the International Development Association or IDA); it had a satisfactory track record of macroeconomic and structural reforms, despite the post-conflict situation; and, most importantly, even after taking into account traditional debt relief mechanisms, Rwanda faced an unsustainable public debt burden.<sup>4</sup>

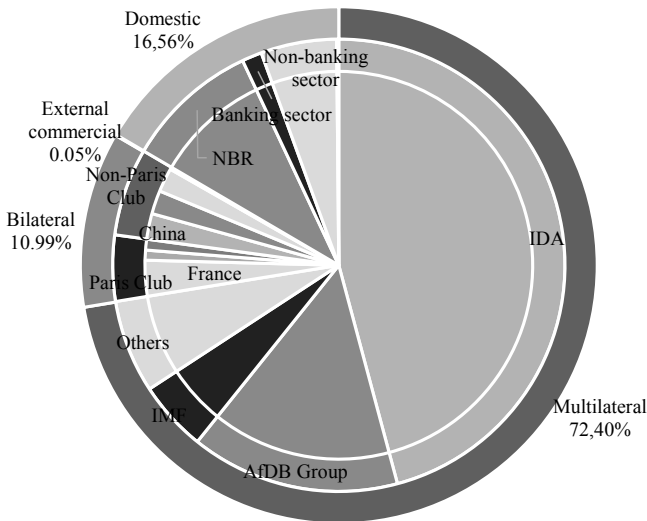
Figure 1 shows the composition of Rwandan public debt in December 1999, on the eve of the country entering the HIPC initiative. Total Rwandan debt was approximately US\$1.5 billion at that time. Before relief, external debt amounted to more than US\$1.2 billion, or almost 84% of the total debt stock, and consisted of multilateral and bilateral debt. External debt

<sup>3</sup> See, e.g., CASSIMON, D., VERBEKE, K., "The lasting effects of debt relief in the Great Lakes Region", *L'Afrique des Grands Lacs. Annuaire 2013-2014*, Paris, L'Harmattan, 2014, pp. 455-481 and CASSIMON, D., ESSERS, D., VERBEKE, K., "What to do after the clean slate? Post-relief public debt sustainability and management", *ACROPOLIS-BeFinD Working Paper*, No. 3, April 2015.

<sup>4</sup> INTERNATIONAL MONETARY FUND, "Rwanda: decision point document for the enhanced initiative for Heavily Indebted Poor Countries (HIPC)", 11 December 2000.

owed to commercial creditors was negligible. The main multilateral creditors were IDA and the African Development Bank (AfDB) Group, while its major bilateral donors were France, China, Saudi Arabia and Kuwait. Domestic debt accounted for the other 16% of Rwandan public debt. It was mainly composed of consolidated debt owed to the National Bank of Rwanda (BNR) and Treasury bills held by the banking and non-banking sector.<sup>5</sup>

**Figure 1: Composition of Rwandan public debt (end December 1999; % of total)**



Source: INTERNATIONAL MONETARY FUND, NATIONAL BANK OF RWANDA.

On the basis of this debt stock, the IMF and World Bank determined the necessary HIPC debt relief on external debt for Rwanda to attain 'debt sustainability'. Table 1 provides an overview of the underlying calculations. It shows how the eligible nominal debt in 1999 is the starting point and how the full application of traditional debt relief mechanisms already committed prior to HIPC, mainly by Paris Club bilateral creditors, was taken into account. To correct for differences in concessionality of different claims, the present value of the debt stock (after traditional relief) was also calculated. This adjusted 1999 debt stock is then compared to the level of debt, which corresponds to the target of 150% of export of goods and services of the country, (averaged over three

<sup>5</sup> INTERNATIONAL MONETARY FUND, "Rwanda: enhanced initiative for Heavily Indebted Poor Countries - completion point document", *IMF Country Report*, No. 05/173, May 2005.

years, 1997-1999). The difference of US\$451.2 million constitutes the debt relief in present value terms that was required from Rwanda's creditors to reach the sustainability target under HIPC. This debt sustainability would be attained if every creditor reduced its debt by 71.2% (again in present value terms).

**Table 1: Calculation of debt relief provided to Rwanda under HIPC (end-1999; US\$ millions)**

	Total	Multilateral	Of which		Commercial
			Bilateral		
			Paris Club	Non-Paris Club	
Nominal stock of external debt before arrears clearance and Paris Club debt relief (end 1999)	<b>1,259.7</b>	1,093	71.2	94.7	0.8
Present value (PV) of eligible nominal debt, taking into account traditional debt relief (end 1999)	<b>635.3</b>	557.4	44.6	33.0	0.3
3-year average of exports	<b>122.7</b>				
PV of debt-to-exports target (150% of exports)	<b>184.1</b>				
HIPC Assistance needed to reach decision point =PV of eligible nominal debt - PV of target	<b>451.2*</b>	396.5	34.8	21.1	0.1
Common reduction factor	<b>71.2%</b>				

\*Note that the HIPC assistance needed to reach the target (of US\$451.2 million) and the sum of assistance needed per donor category do not add up. While the overall assistance needed was recalculated at completion point, given new export data, the required debt relief per creditor category was not revised due to the minimal size of changes.

Source: INTERNATIONAL MONETARY FUND.

In March 2005 the IMF and World Bank Boards agreed that Rwanda had maintained macroeconomic stability and had made sufficient progress in the implementation of the conditions defined in 2000 to reach HIPC completion point. The Poverty Reduction Strategy Paper was implemented in a satisfactory way, public spending on priority sectors nearly doubled and key reforms in social sectors were implemented. All the triggers were met, with the exception of the one focusing on the reform of the Rwandan tea sector (as the government did not receive an acceptable bid for the sale of a tea factory).<sup>6</sup>

A recalculation of the debt-to-export ratio, however, showed that the projections made at decision point had been too optimistic: the provision of debt

<sup>6</sup> *Ibidem.*

relief agreed at that time would have been insufficient to restore debt sustainability. The main reasons behind this worse-than-expected debt ratio were related to lower export prices and exchange rates changes and were considered to be outside Rwanda's direct control. Even after incorporating the full cancellation of all outstanding Paris Club claims, the international financial institutions deemed a topping-up of US\$243.1 million in present value terms necessary to attain the debt-to-export threshold of 150%. This topping-up consisted of additional bilateral relief provided by non-Paris Club donors and, primarily, of additional relief by multilateral donors, including on debt that was contracted post-1999. As a result, the debt relief provided by the different creditor categories amounted to much more than the 71% reduction agreed at decision point. In nominal terms, HIPC assistance reduced Rwandan debt by US\$1.4 billion.<sup>7</sup> Finally, Rwanda also qualified for MDRI relief in January 2006, resulting in an additional US\$516 million of nominal debt cancellation.<sup>8</sup>

As multilateral and Paris Club creditors were the driving forces behind the HIPC initiative, nearly 95% of Rwandan debt relief was quasi-automatically assured. Most multilateral creditors provided their relief to Rwanda by means of reducing the annual debt service falling due (e.g., debt service to IDA between 2001 and 2020 and debt service to AfDB until 2025). Paris Club creditors provided so-called 'interim' debt service relief between decision and completion point and cancelled the full debt stocks at completion point. The group of non-Paris Club creditors, less directly involved in the HIPC agreement, was also expected by the international community to provide comparable debt relief. At completion point, however, none had effectively committed to full HIPC assistance, although some of them did provide part of their traditional, pre-HIPC debt relief. China cancelled a share of Rwanda's obligations, while Kuwait and Saudi Arabia both provided debt stock rescheduling. Finally, the small amount of commercial debt was taken over and cancelled by one (unnamed) Paris Club creditor.<sup>9</sup>

### 3. DEBT BUILD-UP AFTER RELIEF

As a result of the different debt relief initiatives, Rwanda had a low, sustainable debt stock in 2006. To finance the country's development, the Rwandan government naturally needed to borrow again. Figure 2 indicates that, in nominal terms, total public debt more than tripled between 2006 and 2014, from less than US\$750 million to nearly US\$2.4 billion in 2014. As a percentage of GDP, the rise in public debt was much smaller, though, thanks to fast economic growth: from 24% of GDP in 2006 to

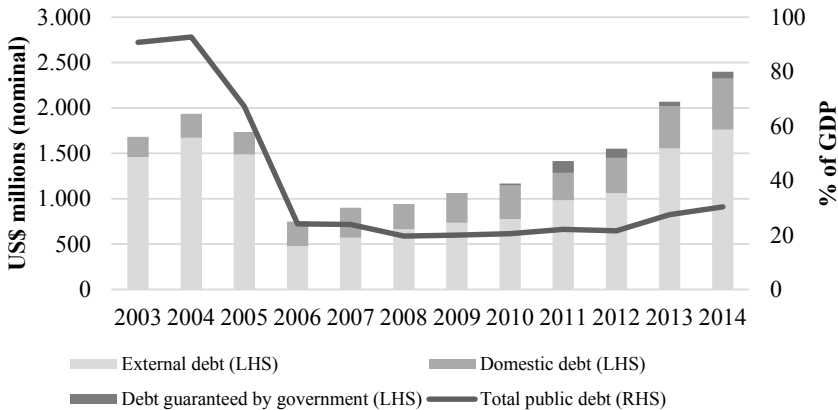
<sup>7</sup> See <https://www.imf.org/external/np/sec/pr/2005/pr0584.htm>, visited on 21 April 2016.

<sup>8</sup> CASSIMON, D., VERBEKE, K., *op. cit.*

<sup>9</sup> INTERNATIONAL MONETARY FUND, May 2005, *op. cit.* and NATIONAL BANK OF RWANDA, "Annual report 2003", June 2004.

30% in 2014. So while nominal public debt nowadays exceeds pre-relief levels, it amounts to only a third of what it used to be in relative terms.

**Figure 2: Composition of Rwandan public debt (2003-2014; US\$ millions and % of GDP)**



Note: Domestic public debt is defined as debt denominated in local currency; this corresponds almost exactly with debt issued on domestic markets or debt owed to Rwandan residents (two alternative definitions).

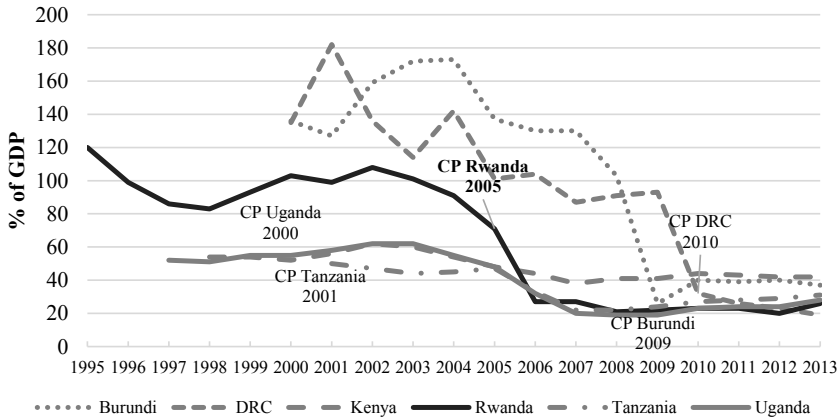
Source: NATIONAL BANK OF RWANDA, MINECOFIN.

Rwanda also compares well to its regional counterparts. Figure 3 shows that in all Great Lakes and/or East African Community (EAC) countries public debt in 2013 had decreased to below 40% of GDP following the full implementation of HIPC and MDRI, except in Kenya.<sup>10</sup> Only the DRC had a lower relative debt burden than Rwanda. In Sub-Saharan Africa on the whole, public debt averaged 42% of GDP in 2013.<sup>11</sup>

<sup>10</sup> Kenya did not take part in the HIPC initiative as its debt was judged to be sustainable without HIPC debt relief. See CASSIMON, D., ESSERS, D., VERBEKE, K., *op. cit.*

<sup>11</sup> WORLD BANK, "Africa's pulse", Volume 12, October 2015.

**Figure 3: Regional comparison of Rwandan public debt (1995-2013; % of GDP)**



Note: CP refers to each country's HIPC completion point.

Source: INTERNATIONAL MONETARY FUND, World Economic Outlook, April 2016.

Not all sub-categories of Rwandan public debt have increased equally over time and hence the debt composition has changed. Due to the focus of relief on external public debt, initially the domestic share of public debt shot up from about 16% prior to HIPC to 36% in 2006. But as external debt has since grown at a faster rate, domestic debt represented just under a quarter of the total in 2014. Debt guaranteed by the government makes up a much smaller share of public debt, reaching a maximum of 9% in 2011, but decreasing to 3% by 2014.<sup>12</sup>

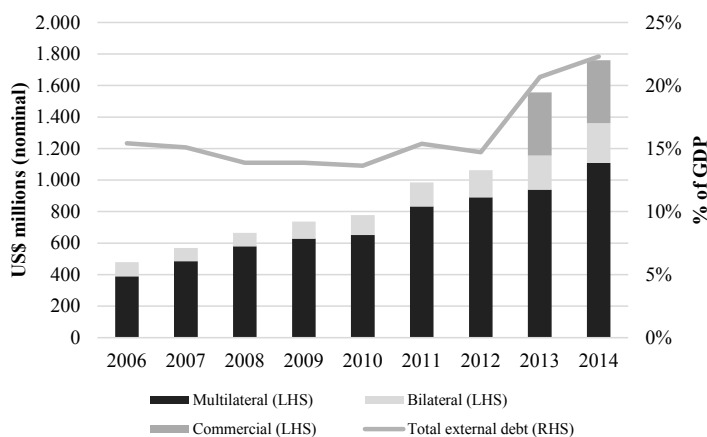
### 3.1. Evolution of external public debt

Small domestic savings and the lack of well-developed domestic debt markets have historically pushed developing countries towards external funding, both grants and loans. In Rwanda, even after debt relief, external debt still remained the largest component of public debt. In 2006 the stock amounted to US\$479 million or 15.4% of GDP. This increased to US\$1.8 billion or 22.3% of GDP in 2014. Between 2006 and 2012 Rwanda's ex-

<sup>12</sup> Due to its relative insignificance, we do not discuss in detail publicly guaranteed debt. Guarantees are for the moment only extended on debt owed by the national airline RwandAir and the Rwanda Energy Group (Interview Ministry of Finance and Economic Planning (MINECOFIN), Kigali, 16 March 2016). The fall in guaranteed debt in 2013 is related to the repayment of outstanding claims on RwandAir by the Eastern and Southern African Trade and Development Bank (PTA Bank) with the proceeds from Rwanda's Eurobond (see further). Recently the PTA Bank also decided it no longer requires government guarantees for its future loans to RwandAir. See INTERNATIONAL MONETARY FUND, "Rwanda: Fourth review under the policy support instrument", *IMF Country Report*, No. 16/24, January 2016, p. 37.

ternal debt consisted exclusively of (very concessional) loans by official bilateral and multilateral creditors (cf. Figure 4). Only in 2013 did Rwanda accumulate new debt from commercial creditors, by issuing its maiden Eurobond. In the following subsections we zoom in, consecutively, on Rwanda's post-relief multilateral, bilateral and commercial creditor debt.

**Figure 4: Composition of Rwandan external public debt (2006-2014; US\$ millions and % of GDP)**



Source: NATIONAL BANK OF RWANDA, MINECOFIN.

### 3.1.1. *Multilateral debt*

Multilateral debt remains the single largest component of Rwandan public debt. As is evident from Figure 5, between 2006 and end June 2015 it more than tripled, from US\$390 million to US\$1.2 billion. Compared to pre-relief stocks, the composition of multilateral debt has hardly changed. The two multilateral development banks, who have a broad portfolio of investments in Rwanda, still dominate. IDA had outstanding claims of US\$688 million at the end of June 2015 or nearly 60% of the multilateral debt.<sup>13</sup>

The main focal areas of the latest World Bank country strategy for Rwanda are the agricultural sector, rural feeder roads, energy, public sector governance and social protection.<sup>14</sup> The AfDB comes in second place; it was owed US\$262 million at the end of June 2015 or 22% of multilateral debt. Projects in the latest AfDB country strategy focus on infrastructure (including transport, energy, ICT and in agriculture) and enterprise and institutional development (targeted to small and medium-sized enterprises). The International Fund for Agricultural

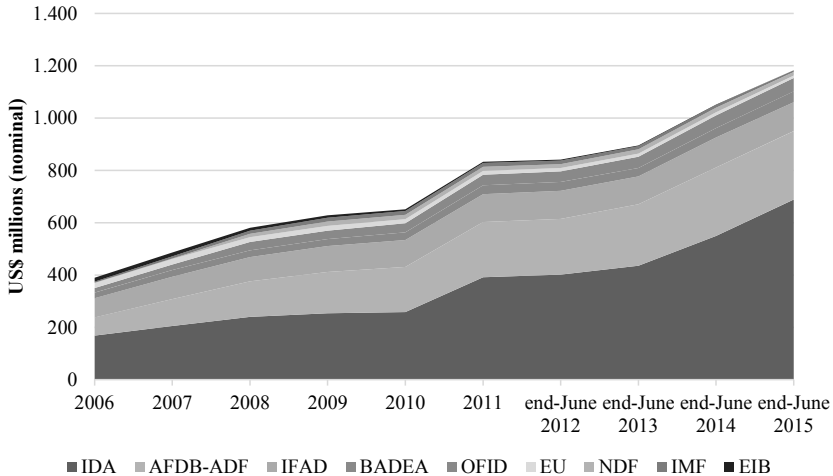
<sup>13</sup> Debts owed to IDA have further increased to US\$893 million as of March 2016.

<sup>14</sup> WORLD BANK, "Country partnership strategy for Rwanda: accelerating economic growth", June 2014.



Development (IFAD) is the third biggest multilateral creditor, good for US\$111 million end June 2015. IFAD's projects are all related to rural development.

**Figure 5: Composition of Rwandan multilateral external public debt (2006-end June 2015; US\$ millions)**



Note: In order to align with the budget calendar of the EAC, Rwanda switched from using calendar years to the July-June fiscal year. BADEA is the Arab Bank for Economic Development in Africa; OFID is the OPEC Fund for International Development; EU is the European Union; NDF is the Nordic Development Fund; and EIB is the European Investment Bank.

Source: NATIONAL BANK OF RWANDA.

Since 2014, there has been an additional factor that has contributed to rising multilateral debt in Rwanda. As the country's classification was upgraded to a 'low risk of debt distress' by the IMF and the World Bank in 2013 (see further), multilateral donor support has shifted from grants towards concessional loans.<sup>15</sup> Indeed, the share of loans in multilateral assistance to Rwanda increased from around 20% between 2006 and 2013 to more than 50% in the fiscal year 2014/15. Since Rwanda aims to maintain its low risk status, one can expect this trend to continue. Moreover, certain bilateral donors are following the same course.

The impact of the (growing) multilateral debt stock on Rwandan debt service has so far been limited. Newly contracted multilateral loans include a grace period during which no principal has to be repaid and carry low interest rates.<sup>16</sup> In the following years, however, multilateral debt servicing is bound to increase as some of these grace periods near their end. Furthermore, the debt relief through debt service reduction provided by multilateral donors like IDA and AfDB (see before) is only now tapering off. Projected debt

<sup>15</sup> INTERNATIONAL MONETARY FUND, January 2016, *op. cit.*

<sup>16</sup> IDA loans to Rwanda, for example, have a grace period of six years.

servicing to IDA, for example, will increase from an average of US\$12.9 million per year between 2017 and 2019 to US\$35.8mln for 2020-2030.<sup>17</sup>

### 3.1.2. *Bilateral debt*

Bilateral external public debt also tripled in nominal terms between 2006 and 2015, from US\$89 million to US\$269 million (cf. Figure 6). In relative terms it hovered around 10% of total public debt, or 3% of GDP. Unlike multilateral debt, the creditor composition of bilateral debt has changed significantly since debt relief. While before HIPC, Paris Club creditors accounted for more than 40% of bilateral debt, none of these creditors currently has any claims on the Rwandan government. As Figure 6 shows, today non-Paris Club creditors like the Chinese and Indian Export-Import (EXIM) Banks and the Kuwait and Saudi Funds dominate. Projects financed by these non-traditional creditors are generally situated in infrastructure and energy: examples include the co-financing of the Kivu Belt road by EXIM China, the Saudi Fund and Kuwait Fund<sup>18</sup>; the rehabilitation of the Kigali road network co-financed by EXIM China<sup>19</sup>, the construction of a hydropower project on the Nyabarongo river and irrigation facilities by EXIM India<sup>20</sup>; the Saudi Fund's contribution to Rwanda's multi-donor Electricity Access Rollout Program<sup>21</sup>; and the Kuwait Fund's participation in the rehabilitation of the Gitarama-Mukamira road project and the expansion of the Munini hospital in Nyaruguru District.<sup>22</sup>

Although it is difficult to obtain detailed information on the exact repayment terms of non-Paris Club bilateral debt, grant elements of Indian and Chinese credits to Rwanda are deemed to be around 35%-40%, slightly below the 45% threshold which has recently been set by the Development Assistance Committee of the OECD (OECD-DAC) as the minimum for loans to least-developed countries to be counted as Official Development Assis-

<sup>17</sup> Estimates based on World Bank balances as of 30 June 2015. See <http://www.worldbank.org/en/country/rwanda>, visited on 18 April 2016.

<sup>18</sup> For China, see, e.g., STRANGE, A. M., DREHER, A., FUCHS, A., PARKS, B., TIERNEY, M. J., "Tracking underreported financial flows: China's development finance and the aid-conflict nexus revisited", *Journal of Conflict Resolution*, advance online, 20 September 2015. For Saudi Fund, see MINECOFIN, "Saudi Fund to support construction of Nyagatare-Rukomo road", 29 October 2015. For Kuwait Fund, see KUWAIT FUND, "Signature of a loan agreement for Kuwaiti dinars KD 4,500,000 for financing the Nyagatare-Rukomo road project in the Republic of Rwanda", 10 December 2015.

<sup>19</sup> STRANGE, A. M., DREHER, A., FUCHS, A., PARKS, B., TIERNEY, M. J., *op. cit.*

<sup>20</sup> See <http://hci.gov.in/kampala/?0890?000>, visited on 13 April 2016, and MINECOFIN "Rwanda signs Frw 80 billion financial agreement with EXIM bank India to boost agriculture", 27 October 2013.

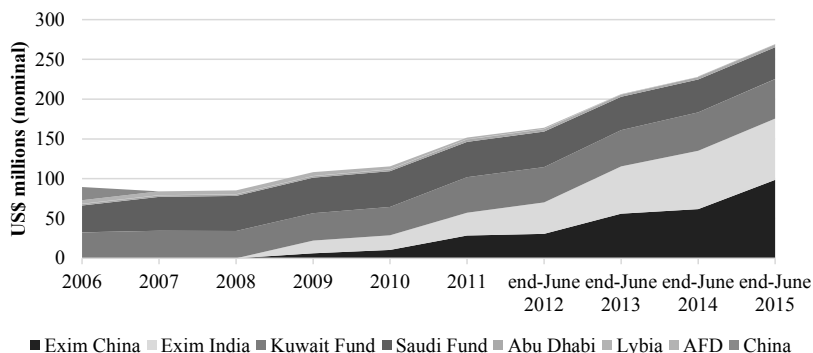
<sup>21</sup> WORLD BANK, "New push to boost electricity access in Rwanda", *World Bank Press Release*, 19 February 2013.

<sup>22</sup> See [www.kuwait-fund.org](http://www.kuwait-fund.org), visited on 13 April 2016.

tance (ODA).<sup>23</sup> Loans from the Kuwait Fund had grant elements above 55%.<sup>24</sup>

The importance of bilateral debt in Rwandan debt service has been negligible following debt relief. Since 2006, bilateral debt service has never exceeded US\$7 million, with the exception of US\$10.8 million in fiscal year 2013/14. Given high concessionality and relatively low levels of bilateral debt, this part of debt service is not expected to increase significantly in the immediate future.

**Figure 6: Composition of Rwandan bilateral external public debt (2006-end June 2015; US\$ millions)**



Note: In order to align with the budget calendar of the EAC, Rwanda switched from using calendar years to the July-June fiscal year. AFD is the Agence Française de Développement.

Source: NATIONAL BANK OF RWANDA.

While OECD-DAC donors have until recently provided all new aid to Rwanda in the form of grants, the Rwandan government itself now asks OECD-DAC donors, generally through their respective development finance institutions, to provide additional finance in the form of loans for larger infrastructure projects.<sup>25</sup> Long-time proponents of loans within the OECD-DAC, Korea and

<sup>23</sup> Interview MINECOFIN, Kigali, 16 March 2016. INTERNATIONAL MONETARY FUND, “Rwanda: fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for waiver of nonobservance of performance criterion”, *IMF Country Report*, No. 09/58, February 2009 provides an estimate of 40.7% for the EXIM China loan related to roadworks in Kigali. INTERNATIONAL MONETARY FUND, “Rwanda: fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for waiver of nonobservance of performance criterion and modification of performance criteria”, *IMF Country Report*, No. 08/222, July 2008 reports a grant element of 40% for the Nyabarongo project loan offered by EXIM India. Note however that the discount rates used by the IMF differ from those recently approved by the OECD-DAC.

<sup>24</sup> See [www.kuwait-fund.org](http://www.kuwait-fund.org), visited on 17 April 2016.

<sup>25</sup> This can be explained by the fact that, for any given donor aid budget, loans imply larger transfers to the recipient country today than grants. Also, in 2012 different donors cancelled or suspended their general budget support (GBS, an important part of grant aid) following the publication of a UN report on alleged Rwandan support to armed groups in the Eastern part of

Japan, which condition their loans on a low risk of debt distress, have responded positively to these demands.<sup>26</sup> Korea will provide a US\$51 million loan for the University of Rwanda's infrastructure<sup>27</sup> and Japan will lend US\$18.4 million to improve the stability and efficiency of Rwanda's electricity supplies. More recent proponents of loans, such as Germany, France and the EU, could follow.

### 3.1.3. Commercial debt

Ever since debt relief, the Rwandan government has entered into only one sizeable debt contract with external commercial creditors, although it has also guaranteed other international commercial loans contracted by state-owned companies (see footnote 12). On 25 April 2013 Rwanda issued a 10-year 'Eurobond' of US\$400 million in international markets.<sup>28</sup> The Eurobond bears a fixed coupon of 6.625% per annum and requires a single 'bullet' repayment of the principal in May 2023. It was rated 'B' by both Standard & Poor's and Fitch (below investment grade, but in line with Rwanda's overall country rating). Investment banks BNP Paribas and Citigroup jointly acted as the lead managers, organizing roadshows in Europe, Asia and the US and selling the Eurobonds' notes on to interested investors. The bond's size, below the US\$500 million threshold, made it ineligible for global benchmark indices like JP Morgan's EMBI+ or EMBI Global that have been shown to be important drivers of international asset allocation and capital flows.<sup>29</sup> Yet total orders received for the Rwandan Eurobond amounted to no less than US\$3.5 billion (an oversubscription of almost 900%), primarily from UK and US-based fund managers. And with a yield at issuance of 6.875%, Rwanda paid only a moderate premium over the Eurobond of resource-rich Zambia, which was trading at a yield of 5.7% at that time.<sup>30</sup>

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the DRC. Ever since, the GBS modality of aid provision has fallen from grace in Rwanda and authorities have asked donors to consider instruments that are more predictable and reliable. For more details about the 2012 aid suspension and its consequences, see CASSIMON, D., ESSERS, D., VERBEKE, K., "The changing face of Rwanda's debt", *ACROPOLIS-BeFinD Working Paper*, forthcoming.

<sup>26</sup> Interview MINECOFIN, Kigali, 16 March 2016.

<sup>27</sup> For Korea, see MINISTRY OF FOREIGN AFFAIRS AND COOPERATION, "Rwanda and Korea sign agreement to support construction of University of Rwanda", s.d., and *New Times*, 15 November 2014. For Japan, see BUTERA, S., "Rwanda gets \$18.4 million Japanese loan to improve power supply", *Bloomberg News*, 8 March 2016.

<sup>28</sup> The term 'Eurobond' generally refers to an international bond denominated in a currency other than that of the issuer or of the place where it is issued. Like the majority of African Eurobonds, Rwanda's is payable in US dollars. The Rwandan Eurobond is listed on the Irish Stock Exchange, governed by English law, and available as Regulation S notes outside the US and as Rule 144A notes to qualified US institutional investors.

<sup>29</sup> See RADDATZ, C., SCHMUKLER, S. L., WILLIAMS, T., "International asset allocations and capital flows: the benchmark effect", *World Bank Policy Research Working Paper*, No. 6866, May 2014.

<sup>30</sup> These yield data were obtained from the Thomson Reuters Datastream platform.

The Rwandan Eurobond's fortunate timing, before Federal Reserve Chairman Ben Bernanke's infamous tapering speech, and the overwhelming investor attention earned it the title of 'African Deal of the Year 2013', awarded by leading international finance magazine Euromoney. Whereas overall Sub-Saharan African Eurobonds' performance has worsened significantly since late 2014, on the back of steep oil and other commodity price declines, large currency depreciations and prospects of US interest rate hikes, the increase in Rwandan yields has been relatively muted so far.<sup>31</sup> Besides the country's low risk of debt distress classification by the IMF and World Bank (see further) and generally favorable macroeconomic fundamentals, the Rwandan Eurobond's appeal has been explained by the government itself and by others as linked to clarity and vision about how the money would be used.<sup>32</sup>

Indeed, the investor prospectus explains how Eurobond proceeds were to be spent primarily on infrastructure projects related to Rwanda's ambitions of becoming an international business conference hub in the region. About US\$120 million was used to repay outstanding balances on two earlier, less advantageous loans that the government had contracted with Citibank and the Eastern and Southern African Trade and Development Bank (also known as the PTA Bank) for the construction of the Kigali Convention Centre (KCC), and US\$80 million to retire publicly guaranteed debt owed by the national airline RwandAir to the PTA Bank (used for fleet expansion). Another US\$150 million was reserved for completing the construction of the KCC. The remaining US\$50 million would be used to co-finance (with EXIM India; see before) the ongoing 28 megawatt Nyabarongo hydropower project in the Southern province of the country. All this seems to stand in sharp contrast to Zambian and Ghanaian statements that their respective Eurobonds would be used to finance "capital expenditure" or for "general budgetary purposes".<sup>33</sup>

Nevertheless, there have been serious problems on the implementation

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<sup>31</sup> As of early February 2016, the Rwandan Eurobond yielded 8.2% annually, according to Datastream figures, compared to 9.2%, 15.0% and 15.8% on similar instruments issued by Nigeria, Zambia and Ghana, respectively. Also the Eurobonds of more diversified Kenya and Ethiopia yielded 9.3% and 9.8%. For more background on international and domestic factors contributing to higher Eurobond yields in Africa, see, e.g., MASETTI, O., "African Eurobonds: will the boom continue?", *Deutsche Bank Research Briefing*, 16 November 2015, and STANDARD & POOR'S, "Sub-Saharan African sovereigns to face increasingly costly financing", *Standard & Poor's RatingsDirect*, 24 December 2015.

<sup>32</sup> When asked about this, MINECOFIN staff argued that "investors liked the Rwandan story". Officials also stated that the main reason for not issuing a US\$500 million bond (in spite of market pressures to do so) was the lack of another US\$100 million worth of sufficiently developed projects at the time (Interview, Kigali, 16 March 2016). In 2012, when Eurobond plans were starting to take shape, an even smaller US\$300 million was put forward by then Finance Minister John Rwangombwa. See MALINGHA DOYA, D., KAY, C., "East Africa nations plan at least \$800 Million bond sales", *Bloomberg News*, 31 May 2012.

<sup>33</sup> Quoted from the prospectuses of the Zambian 2012 and Ghanaian 2013 Eurobonds.

and management side of the Eurobond projects, in particular the KCC.<sup>34</sup> Work on the KCC already started in 2009, when the Chinese firm Beijing Construction Engineering Group (BCEG) was awarded the contract for its construction. Initially, the center, costed at US\$226 million all-in, was to be completed by 2012, but adjustments to the (originally German) design and a lack of private sector co-financing (supposedly because many deemed the project to be overambitious) caused serious delays. Following further quarrels with BCEG about the slow progress of the KCC and the use of inferior materials, the Rwandan government hired a Swiss company, Axiome, in March 2015 to perform a full audit of the project. Apparently the final audit report was so damning that the whole BCEG team was sacked and replaced in June 2015 by Turkish construction firm Summa, which promised to finish the job by the first quarter of 2016. But again, the deadline was missed. At the time of writing, the KCC was expected to be operational by June 2016, when Kigali will host the African Union summit. The now four-year delay has inflated the KCC budget to an alleged US\$400 million. Moreover, the postponement of the project has implied a substantial 'cost of carry': since 2013 Rwanda has been paying significant interests on its Eurobond while part of the proceeds has remained idle (supplementing the BNR's foreign exchange reserves).<sup>35</sup> At US\$26.5 million per year, interest payments on this single Eurobond accounted for more than 46% of total external public debt service.

Meanwhile, the Rwandan government has contemplated issuing a second, larger Eurobond. At the Washington US-Africa Leaders' summit in August 2014, President Kagame said Rwanda could issue up to US\$1 billion in 2015 to erect a new international airport and to finance extra energy facilities. These plans were criticised by opposition parties for overburdening Rwanda with too much unnecessary debt, for discouraging domestic resource mobilization, and with reference to the KCC delays.<sup>36</sup> With African Eurobond prices currently under pressure, a second Rwandan issuance has now been temporarily shelved. But once the external environment improves and a new set of strategic projects is ready for implementation, the country will likely return to international capital markets. Since a second Eurobond would be used to finance additional projects *and* roll over (part of) the US\$400 million bullet repayment on the

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<sup>34</sup> What follows is based on several accounts in the regional, international, and Rwandan press. See, among others, *The East African*, 28 March 2015, 25 April 2015, 8 August 2015 and 2 April 2016; *Financial Times*, 24 April 2015; *New Times*, 25 April 2009, 24 February 2011 and 3 February 2016. On delays in the completion of the Nyabarongo hydropower station, see, e.g., *New Times*, 31 August 2014.

<sup>35</sup> The latest available IMF figures show that US\$66.7 million of Rwandan Eurobond proceeds were still unused at end-June 2015. See INTERNATIONAL MONETARY FUND, January 2016, *op. cit.*

<sup>36</sup> RICHARDSON, P., NICHOLS, H., "Kagame says Rwanda plans \$1 billion bond on investor demand", *Bloomberg News*, 6 August 2014; *The East African*, 17 August 2014.

first, due in 2023, bond size would (most probably) have to be larger indeed.<sup>37</sup>

### 3.2. Evolution of domestic public debt

External public debt has received far more attention from policymakers and researchers than domestic debt, given its historical prominence in the overall public debt stocks of Rwanda and other former HIPCs. But as pointed out before, because of external debt relief, domestic debt has come to represent a non-negligible share of overall public debt. In nominal terms, Rwandan domestic public debt has grown from RWF147 billion (US\$269 million) in 2006 to RWF391 billion (US\$563 million) in 2014 (cf. Figure 2). As a percentage of GDP, domestic public debt first decreased from 8.6% in 2006 to 4.7% in 2011, before increasing again to 7.1% in 2014.

Rwandan domestic debt is made up of both ‘marketable’ and ‘non-marketable’ components. The latter includes various legacy debts incurred by the government to the BNR (as a result of Rwanda’s switch from a fixed exchange rate regime to a managed float in 1995), to local commercial banks and to the former *Caisse Sociale du Rwanda* (CSR) (mostly in the form of consolidated arrears), as well as more recent overdrafts from the BNR (used to smooth the government’s cash flow management). Most of these non-marketable debts are now gradually being paid off. Conversely, the marketable part of domestic debt, i.e., Treasury bills and bonds, is on the rise. This trend can be explained by the Rwandan government’s deliberate efforts in building local capital markets, which could reduce the country’s dependence on external, foreign currency-denominated financing and facilitate domestic savings mobilization and intermediation.<sup>38</sup> Indeed, different vintages of Rwanda’s Medium-Term Debt Strategy (MTDS) explicitly mention the objective of expanding and deepening the domestic bond market, above and beyond the usual cost-risk considerations that guide public debt management. The issuance of longer-term local-currency Treasury bonds has also been a structural benchmark in Rwanda’s Policy Support Instrument (PSI) arrangement with the IMF. According to BNR figures for September 2015, outstanding Treasury bonds and bills amounted to about 80% of total domestic public debt.

In 2008 Rwanda issued its first (post-genocide) two- and three-year Treasury bonds, followed by the issuance of five-year bonds in 2010 and 2011.

<sup>37</sup> Interview, MINECOFIN, Kigali, 16 March 2016. Alternatively, Rwanda could set aside a portion of its foreign exchange reserves each year to save for the 2023 bullet repayment of the Eurobond. No such ‘sinking fund’ arrangement is currently considered.

<sup>38</sup> For a more detailed overview of the benefits (and potential downsides) of local currency government bond market development in Sub-Saharan Africa, see ESSERS, D., BLOMMESTEIN, H. J., CASSIMON, D., IBARLUCEA FLORES, P., “Local currency bond market development in Sub-Saharan Africa: a stock-taking exercise and analysis of key drivers”, *Emerging Markets Finance and Trade*, Vol. 52, No. 5, 2016, pp. 1167-1194 and references therein.

Only in February 2014, however, did the government initiate a pre-announced quarterly bond issuance program, with larger volumes and longer maturities (up to 15 years at the moment of writing). Most of the 18 Treasury bonds auctioned so far since 2008 (amounting to about RWF152 billion in total) have been heavily oversubscribed, suggesting a large appetite among domestic investors for such safe assets. This should perhaps not come as a surprise. All of these bonds have yielded returns of between 8% and 13% per annum, while inflation has generally remained below 6% in recent years.<sup>39</sup>

The available evidence indicates that local commercial banks and non-bank institutional investors such as pension and insurance funds are the main investors in Rwandan Treasury bonds, in addition to much smaller individual and other retail investors like community savings and credit cooperatives (*Umurenge* SACCOs).<sup>40</sup> The government-owned Rwandan Social Security Board (RSSB), which was created in 2010 after the merger of the CSR and the *Rwandaise d'Assurance Maladie* (RAMA), clearly dominates the institutional segment of the bond investor base.<sup>41</sup> Whereas all recent Treasury bonds are listed and can be traded on the Rwandan Stock Exchange (RSE) (itself operational since 2011), hardly any bond trading has taken place in the secondary market.<sup>42</sup> This 'buy-and-hold' is likely due to a combination of factors: the lack of critical mass of bonds (and number of investors) in the primary market; the fact that retail investors (with a more actively managed asset portfolio) have been largely missing; and the relative attractiveness of Treasury bonds vis-à-vis alternative investments in Rwanda. Investors may also be refraining from selling relatively high-yielding safe assets like Treasury bonds out of fear that

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<sup>39</sup> Rwandan Treasury bond yields are determined in auctions whereby competitive bidders propose volumes and prices and smaller, non-competitive bidders are price takers. See <http://www.bnr.rw/index.php?id=202> and <http://www.bnr.rw/index.php?id=213>, visited on 30 March 2016. For comparison, average bank lending rates (for much riskier individual or corporate projects) have hovered around 16-17% between 2008 and early 2016. See <http://www.bnr.rw/index.php?id=329>, visited on 30 March 2016.

<sup>40</sup> As of February 2016, 11 local commercial banks, three microfinance banks, one development bank and one cooperative bank are licensed by the BNR. Most 'local' banks are now subsidiaries of regional or pan-African banking groups headquartered in Kenya, Nigeria, Uganda, Morocco or Togo. Furthermore, 14 insurance companies, 54 pension funds and almost 500 SACCOs operate in Rwanda. For more details on Rwanda's financial sector, see WORLD BANK, "Financing development: the role of a deeper and more diversified financial sector", *Rwanda Economic Update*, No. 8, June 2015 and annual reports of the BNR.

<sup>41</sup> Similar to other, private pension and insurance schemes the RSSB seeks to match its long-term liabilities with long-term assets. The RSSB's own balance sheets show that, as of February 2016, the organisation holds between 20% and 40% of each of the Treasury bonds issued since 2014 in its investment portfolio. Unlike other domestic investors the RSSB is exempted from the 5% withholding tax on bond interest earnings.

<sup>42</sup> According to data received from the RSE, total bond turnover on the exchange amounted to a paltry RWF2 billion between January 2014 and February 2016. This figure includes trading of two corporate bonds listed on the RSE. Rwandan Treasury bills, issued in weekly auctions, cannot be traded.



other investors and the broader public would interpret this as a sign of liquidity or other balance sheet problems. The collective outcome is that no single investor is comfortable with being the first to put large amounts of bonds on sale.<sup>43</sup>

The Rwandan government has taken several initiatives to further develop the domestic bond market and boost bond trading, which could lower domestic debt service costs. For example, the government is looking to attract more retail investors by familiarizing people with the financial instruments available in Rwanda through the organization of education and training; by reserving allotment shares in bond auctions; and by setting up the Rwanda National Investment Trust (RNIT), which will manage a number of collective investment schemes aimed at lower-income clients. Plans exist to increase the volume (and frequency) of different Treasury bond issues over the medium term. So far the Rwandan Ministry of Finance and Economic Planning (MINECOFIN) has been very cautious in setting bond sizes to avoid crowding out credit to the private sector (which competes for limited domestic savings). More precise forecasting of the available liquidity in the economy may clear the path towards larger bond issuance.<sup>44</sup>

As a relatively small economy it is only natural for Rwanda to look to its EAC neighbors for further capital market development. Regional integration of capital markets will help to realize economies of scale and knowledge transfers, by sharing market intermediaries and infrastructure, and may result in cheaper and more stable (government) financing, by means of a larger and more diversified investor base.<sup>45</sup> As a matter of fact, Articles 85 and 86 of the EAC Treaty urge member countries to harmonize the regulatory and legislative frameworks of their respective capital markets, to remove constraints to cross-border investment and trade of financial instruments, and to establish a regional stock exchange.<sup>46</sup> Kenya in particular has much better-developed banking, insurance and pension sectors than Rwanda, which could potentially invest part of their portfolios in Rwandan Treasury bonds. At the moment, there is, however, little EAC or other foreign participation in Rwandan bond markets. Despite capital market harmonization efforts by the Rwandan authorities, regional investors may be put off by costly and risky currency conversions, by the limited supply and illiquidity of Rwandan Trea-

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<sup>43</sup> Interview, Head of Treasury of local commercial bank, Kigali, 14 March 2016.

<sup>44</sup> Interview, MINECOFIN, Kigali, 16 March 2016.

<sup>45</sup> For Rwanda in particular, see IRVING, J., SCHELLHASE, J., WOODSOME, J., “Framing the issues: developing capital markets in Rwanda”, Center for Financial Markets, Milken Institute, *Viewpoints*, February 2016.

<sup>46</sup> See <http://www.eac.int/resources/documents/eac-treaty>, visited on 30 March 2016. Kenya, Tanzania and Uganda formed the EAC in 2000, whereas Rwanda and Burundi joined in 2007. South Sudan was admitted to the EAC in March 2016 and ratified the Treaty in May 2016. In 2013 the then five EAC countries signed a protocol describing the prerequisites and convergence criteria for a monetary union. A single currency and common EAC central bank are expected to be phased in by 2023/2024.

surety bonds, and by the bond returns, which are relatively attractive for domestic investors but generally lower than in the other EAC member countries.<sup>47</sup>

#### 4. DEBT MANAGEMENT

Back when developing countries' public debt consisted almost exclusively of concessional, long-maturity bilateral and multilateral debt, debt management was relatively easy, and the room for error considerable. In the case of serious debt repayment difficulties, traditional Paris Club creditors proved willing to provide several rounds of debt restructuring and, eventually (and reluctantly), generous debt relief; so did multilaterals.<sup>48</sup> Rwanda, like many other developing countries, now has a much broader choice of public financing options and therefore faces a much more daunting task in managing its debt portfolio. It needs to trade off very heterogeneous creditors and debt instruments with different repayment modalities against each other (local vs. foreign currency, short vs. long maturities, amortizations vs. bullet repayments, etc.). New commercial creditors like Eurobond holders are likely to pay more attention to overall debt levels/composition and other macroeconomic parameters and to be much more impatient than official creditors.<sup>49</sup> If the situation gets out of hand, the former will not be as forgiving as the latter. As was painfully illustrated by the Argentina holdout saga, a multitude of commercial creditors can be difficult to coordinate in the event of default.<sup>50</sup>

To assist in achieving the best possible financing mix in terms of costs and risks, the Rwandan MINECOFIN prepares a three-year MTDS document (updated annually on a rolling basis) where it sets out and compares different borrowing strategies, combining multilateral, bilateral and commercial external debt and short- and longer-term domestic public debt in various proportions. In collaboration with the BNR, MINECOFIN also undertakes its own Debt Sustainability Analysis (DSA) every year, in which it claims to be more conservative than similar DSA exercises by the IMF and World Bank.<sup>51</sup> In 2008 the World Bank conducted a first Rwandan Debt Management Performance

<sup>47</sup> Interviews, MINECOFIN and Head of Treasury of local commercial bank, Kigali, 14-16 March 2016. There has however been one exceptional RWF3 billion investment by the Ugandan National Social Security Fund (NSSF) in Rwanda's May 2015 10-year Treasury bond.

<sup>48</sup> On the evolving nature of public debt restructuring and relief, see e.g., CASSIMON, D., ESSERS, D., "A chameleon called debt relief", *IOB Working Paper*, No. 2013.01, February 2013, and CASSIMON, D., ESSERS, D., VERBEKE, *op. cit.*

<sup>49</sup> MEROTTO, D., STUCKA, T., THOMAS, M. R., "African debt since HIPC: how clean is the slate?", *World Bank MFM Global Practice Discussion Paper*, No. 2, March 2015.

<sup>50</sup> In that sense, 'Twenty-first Century Africa may... have more to learn from Latin America [which learned to manage its access to international capital markets the hard way] than from its own recent past'. THOMAS, M. R., GIUGALE, M., "African debt and debt relief", in: MONGA, C., LIN, J. Y., *The Oxford handbook of Africa and Economics, Volume 2: Policies and Practices*, Oxford University Press, Oxford, UK, July 2015, pp. 186-203.

<sup>51</sup> Interview, MINECOFIN, Kigali, 16 March 2016.

Assessment (DeMPA), an on-demand tool designed to help countries improve public debt management capacity and identify reform priorities.<sup>52</sup> In line with the DeMPA's recommendations, MINECOFIN has established a new Debt Management Unit (DMU), operational since 2014, that aims to bring together expertise previously scattered over different departments. At the moment, the DMU performs both the middle office (strategy and analysis) and back office functions (recording and reporting) of debt management, whereas the External Finance Unit of MINECOFIN and the BNR remain responsible for most front office tasks (debt negotiation and contracting). The DMU's relatively limited human resources (only five staff members) and inexperience are considered to be among the main weaknesses of current Rwandan debt management.<sup>53</sup> A second DeMPA mission was conducted in July 2015, with the results and associated reform plan to be finalized over the summer of 2016.<sup>54</sup>

## 5. DEBT SUSTAINABILITY

Ever since the IMF and World Bank's December 2013 DSA, Rwanda has been consistently classified as having a 'low risk of debt distress', meaning that under the baseline scenario and several stress tests all public debt stock and debt service indicators are projected to remain below their indicative thresholds.<sup>55</sup> One exception to this concerns the bullet repayment of the Eurobond, which implies marginal, one-year breaches of the threshold debt-service-to-exports and debt-service-to-revenue ratios in 2023 when scenarios of export shocks

<sup>52</sup> The World Bank was assisted by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), a regionally owned institute specialized in public debt management. Rwanda's first DeMPA report is classified as strictly confidential, at the request of country authorities.

<sup>53</sup> Interviews, World Bank and MINECOFIN, Kigali, 15-16 March 2016.

<sup>54</sup> Judging from the World Bank's Country Policy and Institutional Assessment (CPIA), overall Rwandan debt management seems to be assessed quite favorably. Since 2013 the country has scored 4 out of 6 points on the CPIA's 'debt policy' sub-dimension, which evaluates whether budgetary risks are minimized and long-term debt sustainability is ensured by existing debt management practices. This score trumps that of Burundi (3), the DRC (3.5) and the Sub-Saharan African average (3.2) and is on a par with Tanzania. However, fellow EAC countries Kenya and Uganda (both 4.5) perform slightly better.

<sup>55</sup> Between HIPC/MDRI completion point (2005/2006) and 2013, Rwanda's risk of debt distress was deemed 'moderate' rather than 'low', as stress tests indicated violations of the debt-to-exports threshold. A major factor underlying the 2013 upgrade to 'low risk' was the gradual improvement in Rwanda's overall CPIA score, assigned by the World Bank. As a strong performer on the CPIA (a three-year moving average score of more than 3.75 out of 6), Rwanda's debt sustainability is now evaluated against higher thresholds than before. Also, since October 2013 the IMF and World Bank use a fixed, unified annual discount rate of 5% in its debt analyses, instead of the (currency-specific) 3% previously. This decision has lowered the present value of Rwandan external debt mechanically. See INTERNATIONAL MONETARY FUND, "Rwanda: seventh review under the Policy Support Instrument, request for a three-year policy support instrument and cancellation of current policy support instrument", *IMF Country Report*, No. 13/372, December 2013.

or large currency depreciations are considered. But given the assumption that Rwanda will be able to refinance the maturing Eurobond somewhere around 2020, in view of its low debt levels overall and provided that macroeconomic and fiscal prudence is maintained, these temporary breaches have not altered the IMF and World Bank's conclusion about the low likelihood of debt distress.<sup>56</sup>

Both the international financial institutions and the government itself, however, acknowledge that the main risk to Rwanda's debt sustainability continues to be its limited export base. Rwandan exports have traditionally been dominated by coffee and tea and minerals such as cassiterite (tin ore) and coltan (columbite-tantalite, used in capacitors of electronic devices), commodities that expose the country to large international price fluctuations.<sup>57</sup> Recent developments showcase these vulnerabilities very well. A global fall in commodity demand and prices, which has intensified since late 2014, led to a 43% decline in Rwanda's export earnings from cassiterite and coltan between 2014 and 2015; higher coffee and tea exports could only partially compensate for these foreign exchange losses. Meanwhile, total import value did not drop equally rapidly, despite cheaper oil imports, as imports of food, capital goods and construction materials remained strong.<sup>58</sup> As a result, the Rwandan franc came under pressure and official foreign exchange reserves dwindled to less than four months of import cover, before recovering end 2015.<sup>59</sup> These are trends that holders of dollar-denominated Rwandan debt, like Eurobond investors, will watch closely. In June 2016 the Executive Board of the IMF approved an 18-month arrangement under its Stand-by Credit Facility (SCF) for US\$204 million. Half of this amount was immediately made available to bolster Rwanda's reserves.<sup>60</sup>

Over the medium to longer term, Rwanda will have to expand and di-

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<sup>56</sup> See INTERNATIONAL MONETARY FUND, January 2016, *op. cit.*

<sup>57</sup> For a detailed overview of the composition of Rwanda's exports over 1998-2014, see <http://www.bnr.rw/index.php?id=212>, visited on 19 April 2016. Some accounts suggest that a significant share of 'Rwandan' mineral exports constitutes minerals that are smuggled into the country from the DRC. See, e.g., GROUP OF EXPERTS ON THE DEMOCRATIC REPUBLIC OF THE CONGO, "Letter addressed to the Chair of the UN Security Council Committee established pursuant to resolution 1533 (2004) concerning the Democratic Republic of the Congo", 12 October 2012.

<sup>58</sup> Based on official export and import figures. See <http://www.bnr.rw/index.php?id=212>, visited on 19 April 2016. Taken over the whole year however, the trade balance improved from 2014 to 2015.

<sup>59</sup> Whereas the Rwandan franc has depreciated against the US dollar (by 7.6% over 2015), it has *appreciated* against the currencies of its fellow EAC member countries. In 2015 the BNR used a substantial amount of its foreign exchange reserves in sales to local commercial banks (which had depleted their own forex reserves), in order to support the exchange rate. See INTERNATIONAL MONETARY FUND, January 2016, *op. cit.* The BNR has accused exchange bureaus of speculating against the Rwandan franc by hoarding US dollars to create artificial shortages. See *New Times*, 30 July 2015.

<sup>60</sup> See <https://www.imf.org/external/np/sec/pr/2016/pr16270.htm>, visited on 13 June 2016.

versify its exports of goods and services if it is to keep (external) public debt sustainable. To this end, the Rwandan government has already taken a number of initiatives. For example, it is investing heavily in the infrastructure needed to attract more high-end tourism and business events, including hotels and international transport facilities. As pointed out before, the projects financed with the Eurobond proceeds fit neatly within this strategy, although actual project implementation leaves much to be desired. As a matter of fact, for a number of years tourism has been the single largest source of foreign exchange for Rwanda. Between 2010 and 2014 total tourist numbers and receipts grew at average annual rates of about 20% and 10%, respectively.<sup>61</sup> The government is also attempting to develop non-traditional, higher value-added exports, such as horticultural and milling products, mainly destined for regional markets (which would help to diversify in terms of export partners too). In 2014 and 2015 these non-traditional exports grew substantially, although they still make up no more than one fifth of the total value of exported goods.<sup>62</sup>

## 6. CONCLUDING REMARKS

This paper has studied how Rwandan public debt has evolved after having benefited from large relief operations in 2005 and 2006. Overall it appears the Rwandan government has followed a prudent course in re-accumulating debt to finance its economic development. Whereas in absolute terms total public debt now again surpasses its pre-relief levels, the debt-to-GDP ratio of about 30% is still only a third of what it used to be before the HIPC initiative. Moreover, highly concessional multilateral loans continue to dominate Rwandan public debt, which, together with favorable institutional assessments, helps to explain the ‘low risk of debt distress’ label Rwanda has been awarded with by the IMF and World Bank.

At the same time, however, Rwanda has ventured into non-traditional, alternative forms of public debt, in view of diversifying its debt portfolio and in anticipation of declining donor support over the medium to longer term. First, Rwanda has increasingly sought credit from non-Paris Club bilateral, including EXIM China and India. Second, with its maiden 2013 Eurobond the country has made a (relatively successful) entry into international capital markets. And third, it has gradually stepped up its efforts in developing domestic markets for longer-term local currency Treasury bonds.

While such debt diversification is a laudable (and perhaps necessary) strategy, experimentation with different, yet-to-be optimized debt instruments means Rwanda is leaving money on the table, at least in the short run. More importantly, the transition to a new equilibrium of a well-balanced and sustainable debt portfolio has not been and will not be, in the foreseeable future,

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<sup>61</sup> WORLD BANK, June 2015, *op. cit.*

<sup>62</sup> INTERNATIONAL MONETARY FUND, January 2016, *op. cit.*

without ‘hiccups’. First of all, the growing complexity of its debt composition requires Rwanda to further build debt management capacity. On the domestic debt side, the buy-and-hold of local investors and lack of regional participation in Treasury bonds implies that costs are currently higher than they could be. Of course, efficient domestic (and, by extension, regional) government bond markets are not built overnight, and Rwanda is right to keep an eye on potential crowding out of credit to the private sector. The Eurobond experience, on the other hand, has illustrated how in the areas of project appraisal and implementation there is also much room for improvement and how such instruments expose Rwanda to refinancing risk and large, time-concentrated claims on scarce foreign exchange over a long planning horizon. It is one thing to present an attractive and coherent story to external commercial creditors, but putting projects into practice that will generate sufficient foreign exchange to (at least) cover their own financing is quite another. Finally, future debt sustainability will be largely made or broken by how successful Rwanda is in expanding and diversifying its exports. Again, this is something that will not come without a struggle and depends, in part, on developments beyond Rwanda’s borders.

Antwerp, June 2016