



ECONOMIC AND FISCAL IMPLICATIONS OF USAID WITHDRAWAL ON RWANDA

February 2025

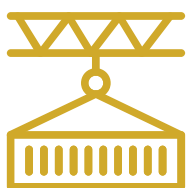
The abrupt withdrawal of USAID (and broader US Government) funding will have significant economic implications for Rwanda. It will place downward pressure on the currency, reduce government revenues, and further tighten fiscal space. Under the current macroeconomic climate, this situation worsens existing vulnerabilities and calls for pressing policy attention.

- **NEGATIVE PRESSURE ON CURRENCY AND EXTERNAL BALANCE**

**\$1.1
Billion**

USG's Role in Dollar Inflows

US Government injected substantial dollar inflows into sub-Saharan economies, helping to stabilize foreign exchange reserves. In 2023, USAID disbursed approximately **\$126 million** to Rwanda,¹ supporting sectors such as healthcare, education, and agriculture. Reducing these inflows will place pressure on the external balance. Rwanda's largest export in 2023 was the mining sector, which generated **\$1.1 billion** in export earnings, meaning USAID inflows were **~11.8%** of the value of exported mining products.²



Continued Need for Dollar-Based Imports

A significant portion of USAID funding has been used to procure essential imports, including medical supplies and agricultural inputs. The loss of this funding increases Rwanda's need for hard currency to sustain critical imports, potentially affecting exchange rate stability.

15.32⁰%

Impact on debt servicing:

In 2023, Rwanda's total debt service was **15.32%** of exports (goods, services, and primary income),³ and the strengthening of the U.S. dollar globally increases the cost of debt repayment. Without USAID inflows, the government may face increased fiscal pressure to meet its external obligations.

• LOSS OF GOVERNMENT REVENUE

**40K
Jobs**

Direct Job Losses and Tax Implications

USAID-funded programs have created thousands of jobs across Rwanda, particularly in healthcare, agriculture, and education. The withdrawal could lead to significant job losses, reducing PAYE tax revenues and contributions to social security schemes.



Ripple Effect on Domestic Consumption

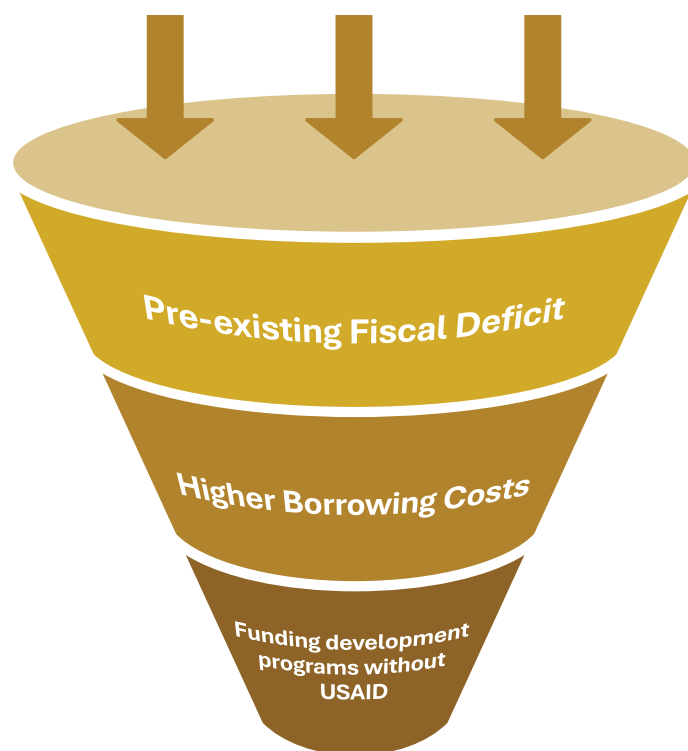
USAID-supported employees contribute significantly to domestic consumption through spending on housing, education, and local services. A reduction in their income will lead to decreased VAT collections and lower business revenues, particularly in urban areas.



Impact on local business ecosystem:

Sectors reliant on USAID funding—including healthcare supply chains, smallholder agriculture, and education—will face revenue declines. This could lead to further layoffs and economic slowdowns in these industries.

• INTENSIFIED FISCAL SPACE PRESSURES



- Rwanda has a proactive development agenda but continues to face a fiscal deficit of **6% of GDP** in 2024.⁴ The withdrawal of USAID funding—approximately **\$138 million in 2024**—could impact the economy by approximately **1.01% of GDP**, based on Rwanda’s nominal GDP of **\$13.66 billion**.^{5&6} However, this figure does not account for broader economic multipliers, which could further amplify the fiscal strain, particularly in sectors reliant on external funding, such as healthcare, education, and agriculture
- Rwanda has maintained disciplined borrowing strategies, but the reduction in grant funding will increase pressure to borrow from other sources. International borrowing will become more expensive in the face of a rising dollar and risk perceptions of fiscal strain.
- USAID has supported Rwanda’s key social programs, including healthcare (HIV/AIDS, maternal health), education, and infrastructure. The government must now decide whether to reallocate scarce resources, seek emergency financing, or scale down programs, each carrying social and political risks.

• INFRASTRUCTURE DEVELOPMENT DELAYS



Delayed infrastructure investments

USAID has played a critical role in financing infrastructure development in Rwanda, particularly in energy and transport. The withdrawal may delay planned investments, affecting economic growth and increasing business costs.



Energy Sector Impact

Under the Power Africa initiative, USAID supported off-grid energy expansion in Rwanda, enhancing rural electrification. The absence of this funding could slow progress towards universal energy access.



Economic Consequences

USAID-supported financial mechanisms, including credit guarantees, have facilitated financing for Rwanda's small and medium-sized enterprises (SMEs). The withdrawal of these programs could reduce SME financing availability, limiting business expansion and job creation.

A crisis presents an opportunity for transformation. While the full impact of USAID's withdrawal in Rwanda remains uncertain, early action is critical. The highest levels of government must **proactively** develop targeted strategies to adapt to this shifting landscape, ensuring fiscal sustainability, safeguarding essential programs, and accelerating domestic resource mobilization to reduce dependency on external funding. Preliminary considerations should include:



Maintaining price stability:

Rwanda's central bank maintains a cautious monetary policy, ensuring inflation remains within its target band. The government should leverage this stability by securing concessional financing for essential imports and reinforcing policies that support domestic productivity growth.



Strengthening local health commodity production:

Most USAID funding for Rwanda’s health sector has supported imported medical commodities. The government should accelerate efforts to develop local pharmaceutical production and diversify procurement sources to ensure uninterrupted supply chains.



Managing public debt efficiently:

Exploring debt-for-development swaps, renegotiating loan terms, and prioritizing concessional borrowing can help mitigate fiscal pressures arising from the loss of grant funding.



Auditing USG programs to identify gaps:

A full assessment of programs previously funded by USAID should be conducted to develop appropriate alternatives. While health has been the primary focus, other sectors—including education, agriculture, and trade—will also be impacted and require mitigation strategies.



Securing alternative funding sources:

Engaging with multilateral development banks, regional financial institutions, and private sector investors will be critical to filling the financing gap left by USAID’s withdrawal. Expanding public-private partnerships (PPPs) can also help sustain key development initiatives.



Enhancing revenue efficiency and governance:

The withdrawal of donor funding presents an opportunity for Rwanda to improve efficiency in government spending. Reducing financial leakages, strengthening due diligence mechanisms, and curbing inefficiencies can help redirect resources to critical social programs.

While USAID’s withdrawal presents significant challenges, it also catalyzes Rwanda to enhance domestic resource mobilization, improve fiscal discipline, and strengthen regional cooperation. Proactive policy adjustments, efficiency-driven spending, and innovative financing mechanisms will sustain Rwanda’s economic progress despite external funding constraints

1. *ForeignAssistance.gov. (2024). Rwanda disbursements from U.S Agency for International Development*
2. *RDB. (2024). Trade and Market Information*
3. *IDA. (2023). Debt Vulnerability*
4. *Fitch Ratings. (2023). Rwanda’s Outlook*
5. *Foreign Assistance. (2024). Rwanda Country Profile*
6. *Statista. (2024). Rwanda GDP*



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