

BRD and the ALCB Fund

Reducing currency risk to build Rwanda's local currency bond market

The situation

Across Africa, more development banks want to raise funding in their own currencies, and investors are increasingly willing to lend to them. However, what often prevents the funds from flowing is the cost of carrying currency risk. In frontier markets in particular, no commercial counterparty prices that risk far enough out, so capital market issuances stay domestic and short-term, and international borrowing stays in hard currency by default.

TCX was created to address this, by absorbing currency risk where the market cannot yet price it and by establishing the reference points a market needs before it can price that risk on its own.

"Capital markets develop in a sequence. The sovereign builds the yield curve, then the banks come, then the corporates. The question in any African market is where it sits in that evolution, and what it takes to reach the next stage."

Brock Hoback — Fund Lead · ALCB Fund



In Rwanda, the answer to that question runs through the national development bank, and its most recent bond offers an example of how that next stage is reached.

In May 2026 the African Local Currency Bond Fund (ALCB Fund) invested RWF 16 billion, equivalent to around USD 11 million, in a reopening of the Development Bank of Rwanda's Sustainability-Linked Bond (SLB) issued the year prior.

For the ALCB Fund it was a first investment in Rwanda and for the market it was the first time an international investor had held Rwandan-franc risk in a local currency SLB. The transaction was possible because TCX took that franc risk onto its own balance sheet for the life of the bond.



ALCBFUND

The African Local Currency Bond Fund has anchored first-time and innovative local currency bond issuances across Africa since 2012. Managed by Cygnum Capital, it has invested close to USD 450 million across roughly 17 markets.

It takes no more than half of any issuance, leaving the balance to local institutional investors so that each deal deepens the domestic market rather than displaces it, and it carries no FX risk, hedging every position to maturity with TCX or other providers. Its historical default rate sits below two percent.

14 years
of anchoring first-time issuances

~17
markets

~USD 450m
invested to date

<2%
historical default rate

"This sits squarely with our mandate. We are deepening a local capital market while backing a credible issuer with real development impact."

Folahan Pedro — Executive Director · ALCB Fund



The issuer

BRD arrived at this transaction at the end of a deliberate institutional transformation. Founded in 1967, the bank long funded itself through lines of credit alone. New leadership arrived in 2019 and rebuilt the institution as a development bank proper: implementing close to USD 500 million across six World Bank projects, embedding environmental and social specialists in its risk management from 2021, and obtaining a first international credit rating from Fitch at B+, on par with the sovereign.

"The rating was intentional from the start. We wanted to put the bank on a trajectory where at some point it could stand on its own and raise private capital from the capital market of Rwanda, which had never been done before."

Fernand Kamanzi

Director of Strategy and
Resource Mobilization
BRD



The first Sustainability-Linked Bond followed in 2023, the first SLB issued by a national development bank anywhere. The structure also broke with how BRD and the World Bank had worked until then. *"Before, the World Bank would give us ten dollars and we would lend out the same ten dollars," Kamanzi says. "We asked whether we could use leverage instead. They gave us ten million as a guarantee, and with it we raised close to thirty million from the capital market of Rwanda."*

That first issuance was bought entirely by domestic investors, with pension funds and banks alongside roughly one hundred retail subscribers. The second, in 2024, tripled retail participation from RWF 1 billion to RWF 3 billion on the back of district campaigns, radio and television shows, and diaspora webinars that drew Rwandan investors living in seventeen countries.

BRD



Three issuances, each oversubscribed

All three issuances to date have been oversubscribed, at 110, 130 and 126 percent, respectively, and tenors have lengthened from seven to ten years in the last issuance.

2023

110%

First SLB by a national development bank anywhere; bought entirely by domestic investors, ~100 retail subscribers.

2024

130%

Retail participation triples to RWF 3bn; diaspora investors in seventeen countries subscribe.

2025

126%

Tenor lengthens from seven to ten years; this is the issuance reopened for the ALCB Fund.

THE CONSTRAINT ABROAD

Three walls for international investors

International investors took notice after the first two issuances, then hit a series of walls: the cost of carrying franc depreciation, the inability to settle Rwandan francs through international clearing even with a Luxembourg cross-listing, and issue sizes of USD 25 to 30 million that left little room for a meaningful ticket. At home a constraint of a different kind applied.

THE CONSTRAINT AT HOME

100%–20% risk weight

Despite the B+ international rating, local regulation assigned a 100 percent capital charge to banks and insurers investing in BRD paper. BRD responded by obtaining Rwanda's first AAA domestic rating from Moody's-owned Global Credit Rating Company at the end of 2024, and by engaging its regulator. In the first quarter of 2026 the risk weight on BRD paper was cut from 100 to 20 percent.

"We never saw the regulation as a blocker. We wanted an additional incentive for local insurance companies and banks, so they could see an efficient way of deploying their capital. It changed how they approached us."

Fernand Kamanzi – BRD

The bond



The BRD bond is issued under its Note Programme and listed on the Rwanda Stock Exchange, with proceeds directed to SME finance, energy, infrastructure and agriculture, and a World Bank partial credit guarantee covering roughly 30 percent of the issuance.

What distinguishes it is that its SLB status ties BRD's cost of funding to its own sustainability performance. The coupon steps down by up to 40 basis points as BRD meets three targets, set out in a KPI framework with a second-party opinion from S&P.

RF

Three KPI targets, up to 40 basis points of step-down.

01

Women-led SMEs

15–30%

Raising the share of financing to women-led and women-owned SMEs from 15 to 30 percent of its SME portfolio by end-2028.

02

Affordable mortgages

500–20k

Growing the stock of affordable mortgages from around 500 to 20,000 under a target revised upward this year from an initial 10,000.

03

E&S systems

75%

Bringing 75 percent of its roughly 32 partner financial institutions onto working environmental and social management systems.

Step-down, not step-up

The structure is deliberately a step-down rather than the more common step-up, which rewards delivery instead of penalizing shortfall and pushes the issuer to set targets that are genuinely demanding. *"The step-down gives BRD a real financial incentive to deliver, not only to report,"* says Pedro. *"It links the reward directly to meeting the targets."* For the anchor investor, the thematic format serves a second purpose. *"We like thematic issuance because it improves transparency on where the money goes,"* Hoback adds, *"and sets a framework for monitoring impact that a plain bond does not."*

The SLB label also changed how the bond was sold at home. BRD pays less than 100 basis points over Government of Rwanda paper, so the pitch to domestic institutions rested on purpose rather than yield. *"Investors connected to the cause and to the KPIs we committed to,"* Kamanzi says. The issuance even preceded the rulebook: Rwanda's Capital Market Authority and the Rwanda Stock Exchange developed their guidelines for sustainability, social and green bonds only after BRD's first SLB reached the market.

TCX's role

Today, Rwanda does not lack a credible issuer or domestic demand as much as a price at which an international investor could take Rwandan-franc risk over a longer tenor. No commercial provider offers franc hedging at that maturity, which is the kind of gap TCX is mandated to fill. By giving the ALCB Fund a hedge that converts its franc exposure into hard currency terms, TCX moved the currency risk onto its own balance sheet and set a price where none existed.

The numbers make the gap concrete: in TCX's initial simulation, an unsubsidized hedge would have required BRD to pay a yield close to 19 percent in Rwandan francs to deliver the dollar return the ALCB Fund needed. With the cost of the hedge subsidized, the bond's existing 12.9 percent franc coupon translated into roughly 9 to 9.5 percent in dollar terms, allowing the Fund to buy the bond on exactly the same franc terms as every domestic noteholder. *"We had been looking at investing in Rwanda for a couple of years," Hoback says, "but there was no structure in which the currency risk was controlled. The hedge removed it from the transaction."*

The economics of the concessional support also explain the deal's form. Because the subsidy required rises with tenor, the hedge could run to five years at most, so rather than issue a new long-dated bond BRD reopened the issuance that still had close to five years to maturity. The tap of the second SLB, placed privately with the ALCB Fund, was the result.

The ALCB Fund continues to fund in hard currency, as its mandate and investor base require. The hedge TCX provides indexes that funding to the Rwandan franc, which keeps the Fund's economics in US dollar terms while leaving BRD's obligations in francs and placing the currency risk between them with TCX. Hard currency lending remains the norm in cross-border development finance and the hedge is what prevents that norm from passing currency risk to a franc-earning issuer, and through it to the domestic borrowers it serves.

The price alone would not have cleared the deal, since hedging long-dated franc risk remains costly in a market this early in its development.

Two donor facilities bridged that cost.

FACILITY ONE

01

Covered the larger share of the hedge cost.

The European Commission's Market Creation facility Plus (EUMCF+)



European
Commission

FACILITY TWO

02

Covered the portion linked to the bond's green and energy use of proceeds.

The German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN)



Federal Ministry
for the Environment, Climate Action,
Nature Conservation and Nuclear Safety

"The TCX team was proactive and flexible," says Pedro. "They steered us toward the right structure and the right subsidy for this transaction." The concessional support reduced the cost of protection without altering TCX's risk-reflective pricing. Importantly, TCX does not select, assess or promote the sustainability characteristics of the bond, which are defined by BRD and its framework.

Why it matters for the market

The hedged franc price set here does more than enable a single investment. It gives local and international investors a reference for what holding Rwandan-franc risk over a long tenor costs, and it shows that an international investor can take that risk on the same terms as the domestic market. The donor support that made this first transaction viable is best understood as a one-time cost of creating that reference. Once it exists, subsequent franc issuance can be priced against it, with progressively less support.

TCX judges its ultimate contribution not by the volume it transacts but by whether the markets it helps to price can eventually operate without it. The ALCB Fund's experience points the same direction. *"We anchored a first microfinance bond in Nigeria, and a wave of local currency issuance followed,"* says Hoback. *"We did the same in Botswana, and that borrower set up note programmes in several other markets. That demonstration effect is what we are always trying to create."* The end state both institutions describe is a domestic one. *"What we want is to crowd local pension funds and insurers into SDG-aligned issuers,"* he adds. *"They are in this ecosystem for the long run, in good times and bad, long after the rest of us have moved on."*

For BRD the effect is already visible. *"From this transaction, another funder now wants to give us a line of credit in local currency using the same solution,"* Kamanzi says. *"Our excitement was never only about closing the deal. It is about the doors it opens, for anyone moving money from north to south who was held back by currency risk."*

The bank is now exploring whether it can face TCX directly and issue a global note, opening its programme to international investors without depending solely on the domestic market. The funding raised today stands behind BRD's commitments on women-led SMEs and affordable housing, the outcomes against which it reports.

It shows that

- 01 International capital will enter a frontier local currency market once the cost of currency risk can be priced and carried.
- 02 A single well-structured transaction can establish the reference price a young market needs to grow.
- 03 Concessional support works hardest when it funds that first price, after which the market can carry the next issuance with less help.
- 04 Regulation can follow demonstration: Rwanda's guidelines for sustainable bond issuance and the revised risk weights that brought local institutions in – both came after an issuer led the way.

Transaction snapshot

ISSUER

Development Bank of Rwanda (BRD Plc.)

INVESTOR

African Local Currency Bond Fund (ALCB Fund), managed by Cygnum Capital

AMOUNT

RWF 16 billion (USD 11 million equivalent)

INSTRUMENT

Private placement via a tap of BRD's second Sustainability-Linked Bond

HEDGED VIA

A cross-currency swap arrangement between TCX and ALCB

BLENDED FINANCE

EU Market Creation Facility Plus (EUMCF+) and BMUKN facility

USE OF PROCEEDS

- SME finance
- Energy
- Infrastructure
- Agriculture

LISTING

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