ASSESSMENT OF CAPITAL MARKET POTENTIALS: UNLOCKING FINANCIAL INVESTMENT OPPORTUNITIES IN RWANDA

(A CASE STUDY OF CAPITAL MARKET AUTHORITY)

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ABSTRACT

This research entitled paper “Assessment of Capital market potentials to unlock financial investment opportunities in Rwanda” was conducted mainly in Capital Market Authority with the main aim of assessing the investors understanding of the functioning of capital market in Rwanda, identifying the extent to which capital market can contribute to financial investment in a country and play a crucial role in economic development as envisaged in Rwanda vision 2020 to transform the financial sector and open opportunities to local and international investors.

To achieve the research objectives, the population under this research consisted of capital market beneficiaries totaling to 50 potential investors from the different institutions and the research was conducted by based on both exploratory and descriptive designs. Data was gathered by means of a structured self-administered questionnaires and the respondents to be interviewed to supplement on information gathered with questionnaires. The stratified random sampling technique was used to select respondents. The researcher considered the secondary and primary data using triangulation approach which consisted of both qualitative and quantitative tools to explore and present data and the emerging relationships among the variables studied.

The result which were arrived at based on review, description and analysis of the existing literature (theories and empirical studies). Despite different thoughts as to the capital market as a financial and investment opportunity, a well-developed capital market can lead a country to the economic growth and prosperity provided that the it is backed by well organised and regulated capable institutions of various sorts (rules, laws, social values and norms, financial, political…..etc.) and domestic resources(smaller households savings)mobilized through strengthening the formal sector like banks and the informal financial institutions.

The researcher ended with recommendations to different actors in a country development on how capital market boost economic development and prosperity and provide easy access to long term financing, attract foreign direct investment that has been the missing link and impetus in Rwanda’s economic enablers. To unlock Rwanda’s capital market, a lot of lessons and benchmarking needs to be made and lessons learn from globally comparable best practices.

Keywords: Capital market, CMA, vision 2020, Capital market potentials, Financial investment opportunities
INTRODUCTION

This chapter aims at describing the background of the study, problem statement, and objectives of the study, research questions, area scope, the content scope and the time scope of the study. Capital markets are financial markets for the buying and selling of long-term debt- or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long term investments. This study intends to conduct a qualitative research on the potential of Capital markets in unlocking financial investment opportunities to Rwanda, Andrew, 2009 [1]

Background of the study

Today most economies around the world are judged by the performance of their capital markets, Stulz, 2008[2]. Capital markets play an important role in the economic growth and prosperity of a nation. Recently many countries around the globe have undergone financial sector reforms due to global economic crisis such as restructuring or privatizing state-owned banks and establishment of capital markets. A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, the capital market includes the stock market (equity securities) and the bond market (debt). Money markets and capital markets are parts of financial markets. Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere.

The purpose of this project proposal is to conduct a qualitative study on how the capital market potentials can unlock financial investment opportunity in Rwanda and investigate the role the government can play to open up the market and allow ordinary investors access the market; In addition the research also integrated the importance of domestic financial resource (households’ savings) to the performance of capital markets in Rwanda which requires educating and giving enough information to invest in stock market. In the literature there are different views on how capital market as financial investment opportunity leads to economic growth and development. The statement will provide more details and clear understanding on potentiality of capital market as a financial investment opportunity. The other debatable issue will be to study the performance of the Rwandan capital markets during the period of (2008 to 2012). This research will mainly highlight in the literature the importance of capital market, its role and benefits to boosts investment and later on economic development and try to pinpoint and relate this case to Rwandan context. Therefore, this study will also examine the impact of savers in the capital markets.

Capital Market in Rwanda

Simply defined, a capital market is a place in which financial securities are traded by individuals and institutions/organizations. It can be a primary market where initial public offers (IPOs) take place or a secondary market where IPOs are traded subsequently. Players in capital markets can be divided into investors, issuers and intermediaries. The market intermediaries in Rwanda include the Rwanda Stock Exchange, licensed brokers, dealers, and sponsors. The regulator is the Capital Markets Authority. Like all formal capital markets, Rwanda’s capital market has been established and is governed by legal and regulatory frameworks. Of particular interest in this study are the listing requirements for firms to raise investment funds from the public through capital markets. The other market players have not been covered because they are still very few.

The Capital Markets Authority (CMA) was established in 2011 under the Capital Market Act of 2011, to guide in the development of Rwanda’s capital market. Prior to the establishment of CMA, the Rwanda Capital Market Advisory Council had been established in 2007 to develop the Capital Market in Rwanda, facilitate the trading of debt and equity securities and enable securities transactions, as well as perform regulatory functions over the Rwanda Securities Exchange (RSE). CMA is responsible for promoting and developing an orderly, fair and efficient capital market. Its mandate includes: implementing government policy on capital markets; preparing draft policies on capital markets; advising government on policy relating to capital
markets; and promoting public awareness on the capital market and developing such a market. Other functions include regulating and supervising all capital market activities with a view to maintaining proper code of conduct and acceptable practices; issuing or withdrawing licenses related to capital markets, and, protecting citizens from unfair practices such as misinformation by the market players. In addition to licensing and regulating the RSE, CMA regulates stockbrokers/dealers and any other persons dealing in securities within the national territory. This research is focused on exploring capital market as a potential financial investment opportunity to boost economic development and prosperity to Rwanda. The main assumption is that the capital market will provide easy access to long term financing that was previously lacking and is absolutely needed in the country. This work is also based on the assumption that the capital market will help to attract foreign direct investment.

Statement of the problem

Capital markets are coined as per their respective role and significance to the economic growth and prosperity to nations. In developed economies like in USA (New York city Capital market), UK, China, Singapore and Japan an example of USA where capital markets are well developed than anywhere else in the world with a highest number of listed companies with a capital of more than US $ 14.242 trillion as of December 2012, constitute investment opportunities for US savers and traders by generating many economic benefits like to easily raise capital to fund productive activities or search for somewhere to invest their savings, with companies’ ability to raise funds allows them to grow very quickly, this growth in turns speeds the dissemination of new technologies throughout the economy, households are the main participants, allowed the economy to perform at a lower employment rate, facilitated revolution in housing finance and higher capital returns, and has led the country to perform at superior economic performance. That is contrary to least developed economies where there’s lack or absence of a well-developed financial sector and the poor economic policies and institutions financing mainly limited to the banking sector and yet accessible only to private companies and state owned enterprise; Saunders & Cornett, 2004 [3].

As capital markets play such a vital role for raising investment funds making it possible for industry, trade and commerce to flourish without any obstacle in terms of resources...many least developed countries have undergone extensive financial reform case of Rwanda after being engulfed severely with financial and political problems mainly originating from 1994 genocide and previous wars that destroyed the financial sector in general. It is from that perspective that the country established the capital market in 2007 to play a crucial role in economic development as envisaged in vision 2020 to transform the financial sector and open opportunities to local and international investors, currently the said five years old capital market is seen at its initial stage with a small number of registered companies in the region only 4 with two locals and other two cross listed companies from the region, little knowledge on that institution ,a small number of market transactions, lower number of participants all these constitute challenges for its development while it is intended to be one of the main pillars on financial sector development towards achievement of vision 2020 targets. It is in this regard therefore, that this study intends to conduct a qualitative research on the potential of Capital markets in unlocking financial investment opportunities in Rwanda.

Objectives of the study

Overall Objective

The overall objective meant to assess the Capital markets’ potential to unlock financial investment opportunities in Rwanda

Specific Objectives

i. To assess the investors understanding of the functioning of capital market in Rwanda;

ii. To identify the level of participation of the Rwandan government in capital market;

iii. To identify the extent to which capital market can contribute to financial investment opportunities in Rwanda;

iv. To suggest areas for improvement to strengthen capital market in Rwanda.

Research questions

i. What are the functions of capital market?

ii. How does government participate in capital market?

iii. How can a capital market act as a financial investment opportunity to Rwanda?
iv. What are the possible ways of developing a strong capital market in Rwanda?

Rationale of the study
A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds and the later was established by the government of Rwanda for the purpose of developing financial sector and play a key role in economic development, it is in this regard that this study was needed to complement the various academic courses under in the field of financial area. It is an addition to the pre-existing literature on the capital markets and help the government of Rwanda and other interested parties to educate the population on the benefits of capital market. Lecturers and fellow students will find this work helpful, especially those in the field of finance, as it will supplement their knowledge in capital market, use it for further research and advises or teaching those in need and be kept as a documentation on any capital market study. This study will provide a better understanding to individuals in business like traders' businessmen and women and those working in related fields not familiar with the financial sector to get well understanding of why capital markets matters and its importance. Recommendations will be helpful to the development of capital market in Rwanda.

Limitations of the study
This research was limited to financial evaluation and did not therefore take into consideration the technical evaluation of a capital market, of non-response to some questions, especially the open questions was also encountered due to the fact that some respondents could not understand the technical language in the questionnaire as the concept of capital market is still new in the country, simple questions were used to such respondents, the researcher worked with the respondents who are dispersed in different areas of work; this was quite demanding because and booking appointment with interviewees was not easy.

Scope of the study
Scope of the study refers to the depth and breadth of a study, cooper & schindeler, 2008[4]. In the scope the research can be based on statistical studies or case studies. With this study, the empirical method is embedded in a case study design. The research was conducted in Kigali city mainly at Capital Market Authority and its stakeholders because the capital market authority and main stakeholders are situated in Kigali, and the time period considered will be from 2008 to 2012 as the said institution was established in 2007 while operations started in 2008 and findings are up to end of Dec 2012; the research findings are useful to all capital markets stakeholder

LITERATURE REVIEW
As the activities of the capital market tend to be specialized and not understood by common people, this chapter will give some basic definitions and review capital market history, participants, operations and importance so as to serve as a basis for understanding how capital market can help promote investment. Besides, reviews of other studies will be done in this chapter to give various dimensions on Capital market in an economy

Review of related studies
Capital markets provide for the buying and selling of long term debt or equity backed securities. The capital markets channel the wealth of savers to those who can put it to long term productive use, such as companies or governments making long term investments. Financial regulators, such as the UK's Financial Services Authority (FSA) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their designated jurisdictions to ensure that investors are protected against fraud, among other duties, Andrew, 2009[5]. 21st century capital markets are almost invariably hosted on computer based Electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public—There are many thousands of such systems, most only serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong. Capital markets are defined as markets in which money is provided for periods longer than a year, Steven, 2003[6]. A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often
via a mechanism known as underwriting. The main entities seeking to raise long term funds on the primary capital markets are governments and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises. A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors).

Capital markets are the markets in which firms and governments raise capital, and where securities that represent claims to capital – such as shares and bonds – are traded, Stulz, 2008[7]. Capital markets are valuable because they mobilize and then pool savings from the public and efficiently channel them into business investment. They also help companies and individuals to manage risk and, properly structured, they provide incentives for companies to raise their performance. Capital markets complement other sectors of financial system, such as banks. For firms, capital markets expand the range of funding sources - including public markets, private, and the issuance of debt securities such as bonds. For savers, they provide alternative investment opportunities and risk-adjusted returns.

**Capital market potentials**

Capital markets solve a number of problems that people face when they either raise capital to fund productive activities or search for somewhere to invest their savings ,Levine, 1997[8].

For the investor, these problems include deciding: which projects are most worthy of funding; how much to pay for investments; how much of their savings to put into particular risky investments, and whether the managers of the firm might use the investment unwisely or to benefit themselves at the expense of the investor. In the absence of capital markets to balance the demand and supply of investment products, these problems can discourage savings and investment. Consider the problem of converting an investment back into cash. People will be much keener to invest if they have some means of getting their money out if they need to. So capital market structures that allow investors to hold tradable shares and debt securities for as long as they wish .Levine, 2002[9].

Another problem is deciding how much to pay for an investment. For example, what price should one pay for 100,000 shares in Telecom? Capital markets generate and collect information about firms. By participating in capital market, buying and selling securities, traders unintentionally disclose information they have about firms’ prospects. This information is reflected in market prices, which tends to ensure that investors pay approximately the right price for investments, given all that is known about their risks and returns. In this way capital markets make resource allocation decisions easier and more efficient.

A third problem for potential investors is dealing with risk. High-risk projects may be worthwhile (because of the potential for high returns), but will be unattractive to risk-averse investors if they have to invest large amounts in them. Capital markets allow investors to hold a diversified portfolio with small quantities of many different securities. This encourages investors to place some of their money into a given high risk project knowing that most of their portfolio is invested elsewhere.

In solving the above problems, capital markets encourage people to invest more, and more efficiently, than they otherwise would. This makes it easier for firms to raise capital. For the firm, capital markets also solve a number of other problems, such as locating potential investors, raising capital more cheaply, funding large projects, and hedging risks. Some projects are too big to be financed by a single investor. For example, few investors could, alone, pay for a power station or a cellular telephone network. Yet these projects offer potentially high returns to investors and society. The pooling of funds through capital markets allows much larger projects to be financed than might be financed by individuals. Capital markets make investing and raising capital market easier, more rewarding, and less risky. In achieving this they promise to
to fulfil: development that capital markets are better equipped to raise long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital. Provides equity capital and infrastructure development capital that has strong socio-economic benefits - roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities. It provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. Encourages broader ownership of productive assets by small savers to enable them benefit from economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction. It promotes public-private sector partnerships to encourage participation of private sector in productive investments. Pursuit of economic efficiency shifting driving force of economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish.

Capital market assists the Government to close resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project based capital and provides a gateway to a country for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio ,Levine, 2002[10].

Capital markets within the broader financial system
It should be recognized that capital markets are only one part of the broader financial system; in particular, bank intermediation provides many of the same functions a capital markets, there are however other functions necessary for economic growth and development that capital markets are better equipped to fulfil:

Foster greater incentives for a wide range of participants to research firms and pool information in markets, resulting in more accurate price signals; Discipline companies by making it easier to take over underperforming companies and providing mechanisms to tie managerial compensation to firm performance; Provide competition to banking, and reduce the excessive profits associated with concentrated banking sectors; Fund a greater range of investment opportunities, for example by providing equity, cheaper debt, or higher interest debt for projects that bank will not finance; Provide additional services for firms, such as risk hedging .Levine, 2002[11].

Efficient capital markets should also increase the supply of funds to support growth and development, as investors are able to better diversify their risks. Levine, 2002[12] argues that financial structure – for example, whether external financing comes predominantly from stock markets or banks – appears to be less important to economic growth than the overall level of financial development. In other words, both bank and capital markets financing are necessary to maximize economic growth. Banking and capital markets provide different types of investment and funding opportunities. Firms make use of both equity and debt, and a range of capital markets exist to fund investment opportunities with different combinations of risk and return from those financed by banks.

The basic Modigliani and Miller, (1958) proposition is that the debt/equity mix doesn’t matter for firm financing. There are two key reasons why this doesn’t hold in practice: tax, and bankruptcy costs. Firms will seek to maximize debt in order to reduce tax costs, but they also need to hold equity to reduce the impact of failure on debt holders. Debt holders are deeply interested in the likelihood that a firm may not survive (probability of bankruptcy). The less certain the value of the firm’s assets the greater the risk faced by lenders and other holders of debt. Higher risk projects and those where the value of the firm’s assets are less certain need a greater proportion of equity in their finances.

Critical review
Why invest?
According to Khan, 2008[14] Investment is a necessary condition for creating wealth. Investment helps in realizing one's dream such as buying a home, a vehicle, a farm, a factory, a business, or even education. Investment puts your savings to work to earn returns. It is impossible to create wealth without
investing. Investing gives you the key to secure the future. Investing can let you have a comfortable retirement. Investment is a time-honored practice for increasing wealth.

An OTC (Over the Counter) market is a securities market where transactions are negotiated between a buyer and a seller. OTC markets are usually small in size compared to established securities exchanges or stock markets. OTC markets also have rules and regulations that are also less restrictive especially with regard to the issuing and listing requirements. In capital markets with both the OTC and fully fledged stock exchanges companies that may not meet all the listing requirements of the large and established stock exchanges prefer to list in the OTC market. Many established stock exchanges have grown from OTC facilities into large exchanges we see today. More OTC markets keep emerging as business needs demand.

According to Jochen, 2007[13], the money markets are used for the raising of short term finance, sometimes for loans that are expected to be paid back as early as overnight. Whereas the Capital markets are used for the raising of long term finance, such as the purchase of shares, or for loans that are not expected to be fully paid back for at least a year. Funds borrowed from the money markets are typically used for general operating expenses, to cover brief periods of liquidity. For example a company may have inbound payments from customers that have not yet cleared, but may wish to immediately pay out cash for its payroll. When a company borrows from the primary capital markets, often the purpose is to invest in additional physical capital goods, which will be used to help increase its income. It can take many months or years before the investment generates sufficient return to pay back its cost, and hence the finance is long term. Together, money markets and capital markets form the financial markets as the term is narrowly understood.

Theoretical framework

A company raising money on the primary markets

According to Jochen, 2007[15]) when a company wants to raise money for long term investment, one of its first decisions is whether to do so by issuing bonds or shares. If it chooses shares, it avoids increasing its debt, and in some cases the new shareholders may also provide non-monetary help, such as expertise or useful contacts.

On the other hand, a new issue of shares can dilute the ownership rights of the existing shareholders, and if they gain a controlling interest, the new shareholders may even replace senior managers. From an investor's point of view, shares offer the potential for higher returns and capital gains if the company does well. Conversely, bonds are safer if the company does poorly, as they are less prone to severe falls in price, and in the event of bankruptcy, bond owners are usually paid before shareholders. When a company raises finance from the primary market, the process is more likely to involve face-to-face meetings than other capital market transactions. Whether they choose to issue bonds or shares companies will typically enlist the services of an investment bank to mediate between themselves and the market. A team from the investment bank often meets with the company's senior managers to ensure their plans are sound. The bank then acts as an underwriter, and will arrange for a network of broker(s) to sell the bonds or shares to investors. This second stage is usually done mostly through computerized systems, though brokers will often phone up their favoured clients to advise them of the opportunity. Companies can avoid paying fees to investment banks by using a direct public offering, though this is not a common practice as it incurs other legal costs and can take up considerable management time.

A government raising money on the primary markets

When a government wants to raise long term finance it will often sell bonds to the capital markets. Jochen, 2007[17] argues that in the 20th and early 21st century, many governments would use investment banks to organize the sale of their bonds. The leading bank would underwrite the bonds, and would often head up a syndicate of brokers, some of whom might be based in other investment banks. The syndicate would then sell to various investors. For developing countries, a multilateral development bank would sometimes provide an additional layer of underwriting, resulting in risk being shared between the investment bank(s), the multilateral organization, and the end investors.
However, since 1997 it has been increasingly common for governments of the larger nations to bypass investment banks by making their bonds directly available for purchase over the Internet. Many governments now sell most of their bonds by computerized auction. Typically large volumes are put up for sale in one go; a government may only hold a small number of auctions each year. Some governments will also sell a continuous stream of bonds through other channels. The biggest single seller of debt is the US Government; there are usually several transactions for such sales every second, which corresponds to the continuous updating of the US real time debt clock.

According to Merton, 1990[16] has argued that governments have five roles in financial markets. They act as: Direct participants; Industry competitors and benefactors of innovation; Legislators and enforcers; Negotiators in international markets; and unwitting interveners.

As participants they follow the same rules as the private sector. Merton cites the example of open market operations, but it is generally recognized that the effective functioning of bond markets is likely to be aided by the existence of deep and liquid markets for government securities. A government securities market means that investors gain access to instruments with no risk of credit default, and it thus becomes possible to develop a risk-free yield curve, which can provide a benchmark for the pricing of other bond-type securities. Government’s participation in capital markets may have more general advantages. Capital markets are subject to “network effects” in which the benefits to each participant increase with the number of participants. An initial lack of investors can lead to a vicious circle, undermining the development of markets.

For example, stock and bond markets provide liquidity only if there are many participants. Also, the fixed costs of exchanges can be shared across many trades. If there are too few participants, illiquidity and higher trading costs will deter those who do take part, leaving the markets underdeveloped Andritzky, 2007[18]. Similar vicious circles can occur in other markets. It might be argued that some capital markets, such as venture capital, fail to develop because there are few investment opportunities. But potential entrepreneurs may be unwilling to generate investment opportunities (which may require them to undertake costly R&D) if venture capital is underdeveloped. The importance that is attached to early-stage funding, and a belief that market failure inhibits development, has led many governments to provide overt support Lerner, 1998[19].

Forms of government support can include more favourable tax treatment of venture capital investments (particularly in respect of capital gains) and government-created venture capital funds. Merton, 1990[20]. Further identifies a role for government as a legislator, setting and enforcing rules and restrictions on market participants, product and markets. These can have either positive or negative effects on capital market development. To give an extreme example of the latter, outright bans on trading, such as in the former Soviet Union, clearly hinder markets. The development of Russia’s stock market since the early 1990s demonstrates that growth can be very rapid when restrictions are removed. However, beyond this, regulation can help to overcome market failures, such as the promoter’s incentives to utilize information asymmetries to disguise the quality of stock being issued. Regulation can also curb the power of insiders to divert corporate wealth to themselves at the expense of minority investors. These issues can be ameliorated through minority investor protection and disclosure, and research shows such regulation helps stock market development.

For instance, Djankov, 2008[21] find that legal protection of minority shareholders against expropriation by corporate insiders (anti-self-dealing) leads to greater stock market capitalization. La Porta, 2006[22] present similar conclusions in favour of stronger disclosure requirements and issuer liability - though interestingly public enforcement of these rules (e.g. by the Securities Commission) appears to be less important in their results. The effect of regulation on other capital markets is less studied, but the basic principles are that regulation can help to overcome problems that arise due to asymmetric information, legal costs and uncertainty, and transaction costs. As such, appropriate regulation is an important component of
well-functioning capital markets. The final two roles for government that Merton identifies are as negotiators in international markets, and as unwitting interveners, by changing general corporate regulations, taxes and other laws or policies that frequently have significant unanticipated and unintended consequences for the financial services sector. As with regulation, in both roles government can have either a positive or negative impact on capital markets.

The link between capital markets and growth

Financial systems of some sort have served as channels for the accumulation of capital in all modern economies. And financial institutions remain large and persistent despite the costs they impose on their users. This suggests that some level of financial development is beneficial to economic activity and growth. But how much is enough? If a country already has a functioning financial system, will financial development - and in particular capital market development - lead to faster growth? There are alternative arguments that economic growth causes financial market development (rather than the other way around); financial development is harmful to growth, or even that financial markets don’t matter at all.

One line of argument is that economic growth leads to an increased demand for financial services. Once an economy achieves a certain level of development, people look to invest retirement savings, leading to the development of pension funds and other collective investment vehicles. Similarly, if a country is expecting strong economic growth, investors and banks are more likely to invest, Khan, 2008[23]. Turning to the econometric evidence, the majority of studies support either financial market development leading to faster economic growth, or two-way causality.

There is an argument associated with Stiglitz, 2004[24], that more open financial systems engender greater volatility, which is harmful to economic development. Greater openness would generally be associated with more developed markets. Stiglitz, 2004 [25]. However, history suggests that financial markets do develop in response to economic opportunity (hence, growth may “cause” financial development), while also enabling further growth to occur (financial development “causes” growth). For example, venture capital developed in the United States during the 1940s and 1950s in an environment of new technological and economic opportunities. However, once venture capital financing became established it enabled many new opportunities to be taken up that otherwise would have been delayed or foregone altogether, Gompers & Lerner, 2001[26]

Schematic presentation of conceptual framework for unlocking potentials of Rwandan Capital market

**Capital market potentials**  
(Independent variables)

**Financial investment opportunités**  
(Dépendent variables)

**Figure 1 Conceptual framework**
Rwanda sees investors as key partners in this nation’s economic transformation. As the economy grows, companies shall need financing, professional services, and larger markets; all of which an effective capital market helps provide. A competitive and growing private sector will allow firms to flourish and entrepreneurs to take advantage, which is in the interest of all Rwandans. Rwanda’s capital markets will be one of the many cornerstones to building the type of knowledge based economy envisioned by educating and giving enough information to people about the benefits of capital market, the later will be considered as source of financing for companies looking for funds to expand and those with money will be an investment venue.

Capital Markets Authority Business including: Rwanda Stock Exchange (RSE), Stock Brokerage Firms and investors. It was established by the government of Rwanda Prime Minister’s decree of March 2007, to guide in the development of a capital market in Rwanda. Since the capital market Authority was established in 2007, it has registered number achievements in areas and setting up a legal and regulatory frame work as well as trading. The market business and regulatory is now separate. Rwanda Stock exchange (RSE) is now operating independently. Listed company on RSE include: Bralirwa, BK, NMG, KCB and Government Instruments (Bonds).

**METHODOLOGY**

Research design is the total plan the researcher will use to aid in answering research questions. Grinnell & William, (1990, p. 238) As part of the plan, we decide what the research questions will be, what data will be required to answer the questions, from whom will the data be obtained and determine which is the best way to gather the data. The aim of this study’s design is to collect data that could be used to answer the study’s research questions. The researcher made a survey and descriptive design to assess how the capital market and stakeholders across the country can positively impact economic development of Rwanda. The researcher considered the secondary and primary data using triangulation method which consist of both qualitative and quantitative tools to explore and present data and their relationships. The primary sources concern the data and information to be collected directly from respondents through the use of a questionnaire CMA was chosen as a case study, the researcher reviewed respondents’ perceptions as well as documentary evidences, however the sample units was drawn from different strata.

**Target Population**

The population under this research consisted of capital market beneficiaries totalling to 50 potential respondents and be conducted mainly in capital market authority head office located in Kigali City. According to Grinnell, (1990), Study population is a totality of persons or objects with which a study is concerned.

**Sample Design**

The research will be carried out by gathering information from selected respondents. The researcher adopted a sample size from different management level.

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**Data Collection**

**Secondary Data Sources**

This involved reviewing various published materials in the libraries and CMA reports, National Bank of Rwanda reports, Minecofin, text books and many other materials. These constitute the bulk of the data used in this study. Suffice to mention the fact that these data were originally collected and compiled for other purposes. The major source of secondary data
was CMA and other researches done in related or similar fields. There are readily available and already compiled statistical statements and reports whose data were used to facilitate this study. Specifically, they include the RSE statements and newspapers. There is no way this method could be avoided being aware of the fact that most of the materials used for the study were from the secondary data, reviewing them before the analysis is inevitable.

**Primary Data Sources**

This consists of the original data directly collected from the field. It is the first-hand information collected through observation, interviews and focus group discussions. This was collected using both open-ended questionnaires and focused group interview.

**Data Collection Instruments**

Various methods were used for data collection during this study. Key instruments were:

**Questionnaires**

Self-administered questionnaires were designed, and administered and given to technical and operational staffs who understand the concepts of capital market. They consisted of open ended and closed questions. They were administered to all staffs and managers of the said institutions.

**Interview Guides**

These were used to get information from selected respondents or especially busy staffs who could find it hard to respond to questionnaires. This is because the mentioned groups of people form the key informants of this study and yet have very limited time to respond to questionnaires.

**Focused Group Discussion**

This involved face-to-face conversations with CMA stakeholders; this method is applied because it provides an opportunity of face-to-face interaction with various CMA stakeholders.

**Data analysis**

This is treated as an important intermediary stage of the research between data collection and data analysis. It is not possible to obtain answers to research questions straight away from these data sources. They all need to be processed. Data analysis essentially involves editing, summarization (coding) and classification of data in order to make them easily understandable.

Data collected were edited, coded and analyzed using the computer package. Because the study is specific and has limited respondents, the researcher largely used the qualitative approach in analyzing data. Data analysis was done in line with the study objectives, which also aligned to the conceptual framework. Verbatim quoting was also applied if and when deemed relevant to the study.

**DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

Capital market was identified as a supplement to other sectors of financial system such as banks and significant evidence shows that capital market development leads to more investment, higher labor productivity, and faster economic growth. Data on capital market potentials were collected for the period 2009 to 2012.

**General information**

**Table 1: Personal Characteristics of respondents**

<table>
<thead>
<tr>
<th>Position Held</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Finance managers</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Financial Analysts</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Middle Managers</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Investors</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Others</td>
<td>20</td>
<td>40</td>
</tr>
</tbody>
</table>

Total 50 100

Source: Primary Data, 2013
From the above table, senior management position represent 10% of the total respondents, financial analysts represent 10% of the total respondents, middle management represent 14% of the total respondents, investors represent 26% of total respondents while 40% of the total respondents were either lecturers of Economics and Finance, auditors, marketing managers, accountants or Business people.

Table 2: Working Experience of respondents

<table>
<thead>
<tr>
<th>Level of Experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years</td>
<td>37</td>
<td>74</td>
</tr>
<tr>
<td>3-5 years</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>5-10 years</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>10 years and above</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data, 2013

From the table above 37 respondents have spent 1-5 years in the field as represented by 88% of total respondents, 12% of respondents have spent 10 years or more working in this field of capital market, the study revealed that as capital market is young in Rwanda most respondents are also still young in capital market field as it has not existed for long in the country implying a need of capital market awareness between the population and trainings of capital market specialists.

Table 3: Highest level of education attained by respondents

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postgraduate</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>31</td>
<td>62</td>
</tr>
<tr>
<td>Tertiary College diploma</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Secondary</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data, 2013

From the above table 26% of total respondents their highest level of education is postgraduate, 62% of total respondents their highest level of education is undergraduate and 12% of total respondents either have diploma or attained secondary school, these qualifications give the researcher hope that respondents provide the real information as they are qualified. It would be possible for respondents to not have basic knowledge in capital markets due to their educational background but to gain it later from their professional experience. From the above table, it is evident that the majority of respondents have knowledge in financial markets and that the information provided by them is trustworthy.

Table 4: Professional qualification of respondents

<table>
<thead>
<tr>
<th>Professional Qualification</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCA</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>CPA</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>CFA</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>None</td>
<td>44</td>
<td>88</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data, 2013
From the table above, 12% of total respondents have professional qualifications while 88% have no professional qualifications; this implies a big gap in professional qualifications in this field of capital market.

4.3 Capital market awareness

4.3.1 Level of understanding of the capital market among general public

Table 5: Capital market awareness

<table>
<thead>
<tr>
<th>Source of information</th>
<th>TV</th>
<th>Internet</th>
<th>Other channels</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>17(34.0)</td>
<td>8(16.0)</td>
<td>25(50.0)</td>
<td>50(100.0)</td>
</tr>
<tr>
<td>Disagree</td>
<td>15(30.0)</td>
<td>20(40.0)</td>
<td>15(30.0)</td>
<td>50(100.0)</td>
</tr>
<tr>
<td>Non-committal</td>
<td>18(36.0)</td>
<td>22(44.0)</td>
<td>10(20.0)</td>
<td>50(100.0)</td>
</tr>
</tbody>
</table>

Source: Primary Data, 2013

From the above information provided on the table, 50% of total respondents get information on capital market via other channels like newspapers, public campaign and radio, 16% of total respondents get informed via Internet while the remaining 34% of total respondents get informed via TV. From the above statistics which shows that most people get capital market information on other channels like public campaign, radio and some others via TV, it shows that the road is still long people do not have much knowledge on capital market and not even more interested on its benefits as they are not informed, new mechanisms need to be put in place to make sure capital market awareness to general public is well conducted specifically in all public and private learning institutions and make sure some clubs are formed and a follow up is made on the same institutions to motivate them.

4.3.2 Contribution of capital market as a financial investment opportunity

Table 6: Contribution of capital market as a financial investment opportunity

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Disagree/ Frequency&amp;%</th>
<th>Agree/ Frequency&amp;%</th>
<th>N.C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy access to long term financing</td>
<td>4(8.0)</td>
<td>26(52.0)</td>
<td></td>
</tr>
<tr>
<td>Providing K to Entrepreneurs of SME’s</td>
<td>5(10.0)</td>
<td>9(18.0)</td>
<td></td>
</tr>
<tr>
<td>Attracting capital from neighbouring countries</td>
<td>25(50.0)</td>
<td>04(8)</td>
<td></td>
</tr>
<tr>
<td>Promoting public education on Investment</td>
<td>6(12.0)</td>
<td>10(20.0)</td>
<td></td>
</tr>
<tr>
<td>Attracting FDI’s</td>
<td>10(20.0)</td>
<td>1(2.0)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>50(100.0)</td>
<td>50(100.0)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data, 2013
From the information provided in the above table, 52% of total respondents agreed that the Rwandan capital market will provide easy access to long-term financing, 20% of total respondents agrees that it will promote investment while 18% agreed that it provides capital to entrepreneurs of SMEs. This is explained by the fact that stock exchanges encourage investment by enabling unused money and savings to become productive by bringing the borrowers and lenders of money together at a low cost. From the information provided in the above table, respondents agreed that the stock market also provide capital to entrepreneurs. The stock market enables governments and industries to raise long-term capital for financing new projects, and expanding and modernizing industrial or commercial firms. It is in this regard that the Rwandan stock market is expected to become a financing source for entrepreneurs who wish to run their projects in the country while 8% agreed that the Rwandan capital market will attract capital from neighbouring countries. This is evidenced by the fact that the existence of a stock market in Rwanda will attract investors, especially from East Africa, who wish to extend their shares by investing them in the new stock exchange as Rwanda is largely opening its doors to the East African Community.

Attracting Foreign Direct Investment is another advantage to be gained by the established Rwandan capital market. The government of Rwanda could use the capital markets to increase Foreign Direct Investment by allowing foreign strategic investors to acquire major shareholding through take-over in the stock market. The establishment of a stock exchange market in Rwanda will generate an interest in the minds of foreign investors. The capital markets through the brokerage community, investment advisers, security analysts, and well developed financial journalists, capital market university, secondary school challenges and capital market club in different learning and public institutions serve to educate the investment culture. Such institutions are critical to an economy. The exchange can in fact be mandated to educate the public on the benefits associated with trading on stock markets.

### Table 7: Obstacles to capital market operations

<table>
<thead>
<tr>
<th>Types of obstacles</th>
<th>Disagree/Agree/N.C</th>
<th>Frequency &amp;%</th>
<th>Frequency &amp;%</th>
<th>Frequency &amp;%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low saving rate</td>
<td></td>
<td>14(28.0)</td>
<td>10(20.0)</td>
<td>10(20.0)</td>
</tr>
<tr>
<td>Complex tax regime</td>
<td></td>
<td>5(10.0)</td>
<td>6(12.0)</td>
<td>5(10.0)</td>
</tr>
<tr>
<td>Absence of financial intermediaries</td>
<td></td>
<td>5(10.0)</td>
<td>1(2.0)</td>
<td>8(16.0)</td>
</tr>
<tr>
<td>Inadequate accounting and legal framework systems</td>
<td></td>
<td>11(22.0)</td>
<td>2(4.0)</td>
<td>9(18.0)</td>
</tr>
<tr>
<td>Lack of qualified accountants &amp; auditors</td>
<td></td>
<td>6(12.0)</td>
<td>1(2.0)</td>
<td>6(12.0)</td>
</tr>
<tr>
<td>Small economy</td>
<td></td>
<td>5(10.0)</td>
<td>3(6.0)</td>
<td>6(12.0)</td>
</tr>
<tr>
<td>Low Financial literacy</td>
<td></td>
<td>2(4.0)</td>
<td>20(40.0)</td>
<td>4(8.0)</td>
</tr>
<tr>
<td>Insufficient Technology infrastructure</td>
<td></td>
<td>2(4.0)</td>
<td>7(14.0)</td>
<td>2(4.0)</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td><strong>50(100.0)</strong></td>
<td><strong>50(100.0)</strong></td>
<td><strong>50(100.0)</strong></td>
</tr>
</tbody>
</table>

Source: Primary data, 2013

As shown in the above table, 40% of total respondents agreed that a low financial literacy is an obstacle to the development of a capital market in Rwanda while 20% agreed on low saving rate while 14% agreed on insufficiency of technology infrastructure. The low domestic savings rate is probably due to low income (real GDP per capita used rather for consumption than for saving. The culture of domestic savings and deposits not heritage in Rwandese culture.

Rwanda is said to have a complex tax regime at 12% of total respondents from taxes on goods and
services, taxes on external trade, taxes on income, taxes on property, customs taxes to value added taxes. This obstacle need to be addressed and the government should simplify the tax regime to attract more investors.

The lack of financial intermediaries is also an obstacle but also lack of merchant banks, financial advisory services and investment banks which are vital to the successful functioning of stock markets. An investment bank is an institution that acts as an advisor to institutions which may wish to raise money from capital markets by way of shares or bonds. At the present time there are no investment banks in Rwanda and therefore normal merchant banking services such as underwriting of equities and bonds, asset management and corporate advisory services do not exist. These need to be created in order to facilitate the operations of Rwandan Stock Exchange. The country lacks an adequate accounting and legal framework systems in which the stock exchange should operate.

The authorities are conscientious of the necessity to address deficiencies in accounting and auditing system. To this end, a steering body IPCAR responsible for the certification of chartered accountants is doing a great job to encourage Rwandese to study professional courses. One of the major requirements for any company wishing to list is that it will be required to provide a full disclosure of its financial and operating activities. Rwandan companies should be encouraged to adopt international accounting standards and to agree to report along the lines of international best practices if they wish to be listed on the stock exchange. So far the government, through the Ministry of Finance, is running a long term professional accounting training leading to ACCA (Association of Chartered Certified Accountants) certificate in collaboration with the School of Finance and Banking (SFB) and CBS. Both accountants and auditors from different government institutions have joined that programme.

The small economy and the structure of companies that are family owned is also an obstacle; Rwanda has a large number of businesses that are family owned and which are likely to have enough resources to issue shares but whose managers may fear losing control by opening up their businesses to public ownership. Generally, it was found that the main factors limiting the supply of equities include the unwillingness of small, family-owned businesses to reduce ownership and the perception by many companies that the risks associated with additional disclosure are not adequately compensated by additional returns. Since banks do not require public disclosure like the stock market does, many firms would prefer to remain unlisted and source their capital from banks. As a result, these firms cannot be for any use to the stock market.

The government should encourage privately owned companies to go public. Another obstacle which was suggested by respondents is that there still a minimum role played by the private sector a big part is still government. The capital market infrastructure is underdeveloped; especially the payment system is traditional and underdeveloped and could not facilitate transaction payments particularly with regard to trading, settlement and delivery using a manual system, this will indeed lead to low settlement and delivery of securities traded. The manual trading system is slow, costly and limits the range of products that can be provided. It also delays international integration of the market.

### 4.3.3 Role of government in capital market

#### Table 8: Investors’ confidence in Rwandan Capital market

<table>
<thead>
<tr>
<th>Viability and facilities</th>
<th>No</th>
<th>Don’t know</th>
<th>Yes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency and %</td>
<td>Frequency and %</td>
<td>Frequency and %</td>
<td>Frequency and %</td>
</tr>
<tr>
<td>Commercial viability of Rwanda stock market</td>
<td>5 (10.0)</td>
<td>17 (34.0)</td>
<td>28 (56.0)</td>
<td>50 (100.0)</td>
</tr>
<tr>
<td>Readiness of financial institutions and investors to invest</td>
<td>4 (8.0)</td>
<td>9 (18.0)</td>
<td>37 (74.0)</td>
<td>50 (100.0)</td>
</tr>
<tr>
<td>Sufficiency of ICT facilities</td>
<td>20 (40.0)</td>
<td>5 (10.0)</td>
<td>25 (50.0)</td>
<td>50 (100.0)</td>
</tr>
</tbody>
</table>

Source: Extracted from primary data, 2013
The government understood that access to long term capital will become a reality a culture of investment is and wide spread of ownership of shares become a norm a norm among Rwandese, and then created IPO. During the study, 56% of them agreed that with the government participation the stock market is commercially viable; 10% disagreed and 34% was not able to say yes or no to the statement. Commercial viability implies self-sustainability of the stock exchange from profits of its operations.

Rwanda has a large number of businesses that are family owned and which are likely to have enough resources to issue shares but whose managers may fear losing control by opening up their businesses to public ownership. Explicitly, with government influence, revenues from registration, licensing and listing fees can be used to make the stock market commercially viable. Those who replied negatively to the question indicated that, the government should intervene to make the stock market a subsidiary from the Nairobi stock market. Taking into account the prerequisites and the opportunities that have been pointed out earlier, there is a sign of readiness for investment. Specifically in Rwanda, there are several governmental organizations such as RSSB, SONORWA and CHR that have committed investments in different organizations or institutions out of which they are unable to exit simply because there are no exit mechanisms. However, the economy is too small and too informal. The savings rate is low due to the needs of consumption; it needs to grow first. The public sector has to join efforts with the private sector in order to respond to all of the prerequisites.

Government prepare its People and the local financial institutions step by step with sensitization programs. Some institutions may surely recognize the benefits of the stock exchange which is a source of capital but others may not be ready to invest in it by reason of the high risk involved due to uncertainty.

According to the majority of respondents, 50% said the government has put in place ICT facilities such as computers and communication infrastructures are expected to enhance stock market operations. Many financial institutions are equipped for this issue. Indeed, Rwanda is the forefront of ICT within the region and beyond. Nevertheless, the payment system is still under the development process still traditional and underdeveloped and could not facilitate transactions payment as mentioned earlier. There is CMAC and directly participated in first trading by offering 128,570 ordinary shares of its shares in Bralirwa through also a lack of e-business which is an important online negotiation tool frequently used in capital markets throughout the world.

Respondents have suggested that the government should allow many public companies to go trading to accelerate this capital market in Rwanda and some of the companies owned by the government suggested include: EWASA, MTN RwandaCell, Inyange Industries Ltd, TERRACOM, OCIR Thé, OCIR Café, RSSB, SERENA Hotel, RWANDAIR, Akagera Game Lodge, Kivu Sun, all Banks and Insurance companies. The reason being advanced is that all of them are leading companies in the country and some of them comply with International Accounting Standards. Indeed, SONARWA, BCR, ECObANK and TERRACOM already comply with these standards. Suggestions, comments and recommendations made by respondents on the potential of the Rwanda Capital market to unlock financial investment opportunities and which appears in Part F of the questionnaire, will be used in chapter 5 regarding the conclusion and recommendations.

4.3.4 Areas for improvement to strengthen Rwandan Capital market

Findings have shown that Rwanda still faces an obstacle on financial literacy, lack of understanding of financial products and the financial market in general; there are still big gap of skills in this industry, low level of saving. In particular, Individual businessmen and women and most of the enterprises in Rwanda are closely held, often family-owned businesses, which have little or no interest in ceding control to outside shareholders. In addition, modern concepts of good corporate governance required for listing in capital market are not widely known or practiced, and the small size of the business community makes it difficult to maintain arm’s lengths relations and protect minority shareholder rights. Finally, neither the base of institutional investors, nor the market infrastructure has reached a level that would allow the general public to get necessary knowledge on capital market benefits. The research revealed that capital market is the only way to raise long term resources; The Rwanda capital authority council need to prioritize the sensitization of the general public on capital market benefits to the
economic development of the country. The researcher found out that capital market in Rwanda have only a limited number of listed companies in their stock exchanges; two domestic companies and other are

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS
This chapter presents the final summary of the research findings, the conclusion, the recommendations and suggestions for future research. Both the summary of findings and recommendations are based on the objectives of the study.

Summary of major findings
Role of government of Rwanda in capital market
From the study carried out, it can be concluded that as African continent is now emerging to be a favorite destination for international capital due to prospects for high returns on investment, the government has aimed to develop its capital market as a foundation for long term capital formation and access to long term financing by both private and public sectors, this is because the government understood that access to long term capital will become a reality when the culture of wide spread ownership of shares and other financial assets becomes a norm among the population. Capital markets are normally influenced by government policies the later as direct participants, industry competitors, legislators and enforcers, negotiators in international markets and as interveners. Government’s participation in capital market have more general advantages. Government of Rwanda has been active in creation of CMAC by giving financial assistance and by directly participating in trading where for example the government offered 128,570,000 ordinary shares representing its 25% shareholding in Bralirwa Ltd to the public through an initial Public offer (IPO) the same as BK, the government of Rwanda identified the capital market as a channel for long term savings mobilization and an opportunity to promote public ownership through the privatization programme.

Capital market contribution as a financial investment opportunity
As no single country can progress without capital market, the research revealed that capital market is the only way to raise long term resources Rwanda particularly has been performing well in terms of economic growth at an impressive average of 8 to 9%, to sustain this development Rwanda would need to foster its economic growth by making long term investments in all areas and capital market was viewed as a key contribution as an investment opportunity based on its benefits to the economy like: Easy access to long term financing, providing capital to entrepreneurs of SME’s, attracting capital from neighboring countries, financial literacy awareness which shown in table 6, but the most contribution is that the later makes it to access long term financing for individuals willing to expand their businesses or firms.

One argument for a country of having its own capital market also is that they provide a form of self-insurance against volatile cross-border funding flows and overseas financial crises. A number of emerging economies that are highly dependent on foreign borrowing have fostered capital markets, particularly bond markets, in an attempt to create a more stable source of funding for both the public and corporate sectors. Capital markets are valuable because they mobilise and then pool savings from the public and efficiently channel them into business investment. They also help companies and individuals to manage risk and, properly structured, they provide incentives for companies to raise their performance.

For firms, capital markets expand the range of funding sources - including public equity markets, private equity, and the issuance of debt securities such as bonds. For savers, they provide alternative investment opportunities and risk-adjusted returns. As an example for Bralirwa which became the first company to register in Rwanda stock market, for an investor who used RWF 100 million two years ago to buy Bralirwa shares at Rwf 136 each that moment, today is close to becoming billionaire, as shares are now at Rwf 800 each, an increase of close to 500% in wealth. The researcher found out that there are still huge untapped investment opportunities such as collective schemes (CIS) like unit trusts, real estate investment trusts (REITS) and asset-backed securities (ABS), he says.

Areas for improvement in the Rwandan Capital market

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For a country’s capital market to constitute a financial investment opportunity for investors; it has to strengthen financial institutions like: Banks (saving, investment), mutual funds, pension funds, credit unions, SME’S, saving associations are the most important FI’s that could mobilize financial resources from households and inject fund back to the capital market. However, the researcher found out that there are no as such developed set of financial institutions in Rwanda and that the expectant key players in capital market are not aware or don’t have adequate financial literacy.

It was revealed that in Rwanda financial sector only Commercial banks, insurance companies and financial institutions such as Microfinance Institutions (MFIs) are the only institutions active. Financial institutions such as MFIs (usually in the form of saving and credit associations) and co-operative banks which are the common FI’s in rural areas are the means through which the country could mobilize financial resources from the rural community. However, FI’s are not developed yet, so there’s a need of strengthening other financial institutions that could mobilize financial resources from households and elsewhere to inject back in the capital market.

If the government financial policy can strengthen FI’s in the rural areas and create capital market awareness in these institutions including banks, insurance companies, and pension funds and other institutions to actively participate in the capital markets they can contribute significantly for the development of the capital market for it in turn to contribute to the growth of the economy. It’s only through building the capacity of FI’s in rural areas that they can trap financial resources from rural area.

As per this research, the informal financial sector has a leading role in the mobilization of domestic financial resources that are out of reach for the formal sector (banking). The informal sectors are based on traditional foundations and they are not subject to control. For the government of Rwanda to exploit all possible domestic resources for the mobilization of development finance the informal sector needs to integrate with the formal financial sector.

The researcher found out that capital market in Rwanda have only a limited number of listed companies in their stock exchanges: two domestic companies and other are regional companies. But the market is becoming illiquid and trade volumes becoming narrower, we need more listings for diversification and liquidity boosting.

The fixed income securities have however been dormant for very long, the NBR should regularly issue government bonds and the private sector should exploit the debt raising opportunity that the capital market offers. CMA should also rollout a massive campaign to bring SME’s on board as major segment of the market, so that they can tap into the opportunities of raising capital and expand their businesses.

**Recommendations**

**Investors understanding on capital market operations**

Generally the study recommended that the level of understanding of the capital market is not in the cultural heritage of Rwandan community, the culture of saving the same, causing most of the enterprises in Rwanda to be closely held, often family-owned businesses, which have little or no interest in ceding control to outside shareholders. In addition, modern concepts of good corporate governance required for listing in capital market are not widely known or practiced, and the small size of the business community makes it difficult to maintain arm’s lengths relations and protect minority shareholder rights.

The main issue key players do not have adequate knowledge on financial products or financial market in general; Capital market awareness campaign and encouraging the culture of saving to be on government’s top agenda. Increasing educational activities, public awareness campaign, support the development of institutional investors and training key institutional market players such should be under taken extensively to deal with the openness of the capital market to the general public.

**5.3.2. Role of government of Rwanda in capital market**

The study recommended that since the capital markets are normally influenced by government policies the later as direct participants, industry competitors, legislators and enforcers, negotiators in international markets and as interveners, the government of Rwanda has aimed to develop its capital market as a foundation for long term capital formation and access to long term financing by both...
private and public sectors. Its participation should encourage so many other local companies to go for listing because only two listed counters are not enough while local investors always like to invest in local counters. Since the government holds shares in many local companies which brokers are targeting them, the later should use capital market by promoting public ownership through its privatization programme.

**Capital market contribution as a financial investment opportunity**

Recommendations of the study on contribution of capital market as a financial investment opportunity states that as no single country can progress without capital market, the research revealed that the most contribution is that the later makes it to access long term financing for individuals willing to expand their businesses or firms. The CMA,BNR&RSE have successfully set up an appropriate framework to facilitate capital market activities now the players, stockbrokers and investment banks should play the biggest role in investing but the researcher underline the fact that the Rwandan market is very small compared with regional markets and some issues need to be tackled like setting up of a regional trading platform which will include Kenya, Tanzania, Uganda & Rwanda, this will help in boosting volume traded and will give investors a larger choice of financial instruments.

**Areas for improvement in the Rwandan Capital markets**

For a country’s capital market to constitute a financial investment opportunity for investors; it has to strengthen financial institutions like: Banks (saving, investment), mutual funds, pension funds, credit unions, SME’S and saving associations. However, the researcher found out that there are no as such developed set of financial institutions in Rwanda and that the expectant key players in capital market are not aware or don’t have adequate financial literacy. The government financial policy should strengthen FIs in the rural areas and SME’s and create capital market awareness in institutions including banks, insurance companies, and pension funds in order to actively participate in the capital market for it in turn to contribute to the growth of the economy.

As per this research, the informal financial sector has a leading role in the mobilization of domestic financial resources that are out of reach for the formal sector (banking).

The government of Rwanda should exploit all possible domestic resources for the mobilization of development finance to integrate with the formal financial sector.

The researcher found out that capital market in Rwanda have only a limited number of listed companies in their stock exchanges ;two domestic and two other regional, the government should play a big role to motivate private investors by listing its shares it holds in so many local companies targeted by brokers.

**Hidden Potential and experience from elsewhere**

Regulatory Intervention as part of Financial Inclusion, is required to foster Inclusive growth

To make financial inclusion a reality, a strong regulatory framework is necessary to bring in financial stability, which can act as an enabler for this initiative. To aid financial intermediaries in delivering their services effectively to the low income group segment of the population, technology needs to be leveraged with economies of scale.

Regulate and monitor the SHGs (very good reach to the ultimate borrower) – There is a need to measure and monitor the performance of SHGs. Regulation of these intermediaries will place inclusive growth on a better footing.

Technology support – Inclusive growth cannot be achieved without the required technology support. The advent of mobile technology is being leveraged to reach out to the under-banked and the un-banked population. MFIs need a proper product design and model. They need to be well equipped with information on various products to pass it on to the target group.

A well designed business model needs to be devised, in order to sustain a cost-effective delivery model for penetration in the rural areas. Banks need to refine and review their delivery models to ensure greater operating efficiency.

A well-developed financial system skewed towards banking inclusion plays an important role in economic development.

**Product offerings** – The product portfolio needs to be customized to cater to the requirements of the target group. Complex products needs to be avoided and offerings should be designed keeping in mind transparency, simplicity and flexibility. Credit
products should be given priority over other products like insurance and savings.

**Foreign Institutional Investors.** The number of FIIs/sub-accounts and the amount invested by them in the Rwandan capital markets is a reflection of the potential of the Rwandan economy. Allowing FIIs to invest in debt markets including corporate debt, government securities and security receipts issued by Asset Reconstruction Companies. Permitting stock exchanges to allow Direct Market Access (“DMA”) to institutional clients. An institutional investor can access broker’s system from its office and can book orders directly into the system.

**Retail investors:** One of the daunting challenges before the Rwandan capital markets is expanding the investor base and provides them access to high quality financial services. With a population of more than a billion, a mere 1% of the population participates in capital markets, and of that only a fraction is active. Trading volumes in Rwandan Capital Markets are lower as compared to other markets such as United States, the United Kingdom, Germany, China etc.

Similarly, Rwandan households invest much less in equity markets than do their developed market counterparts, particularly in the United States and the United Kingdom. As a result, retail equity ownership (non-promoter) amounts to only around 10 percent of total equity ownership, and has come down by 3 per cent over the last seven years. While corporates see markets to raise low cost risk capital, investors see liquid secondary markets for exit options. The regulated markets have grown significantly, but the markets need greater depth and liquidity.

**Strengthen Education**

Increasing public knowledge about the functioning of the stock market could promote the development of the stock market in Africa. Knowledge about stock market activity can be improved through regular and intensive education programs. Educating the public about the role of the stock market can help increase the investor based and improve the liquidity of the stock market.

Education about stock markets must be at the firm and individual level. At the firm level, it is important to allay the fears of firms by educating them strongly and regularly on the benefits of listing.

**Conclusion**

The rays of hope are bright and the potential immense for the Rwandan capital market. The key to unlocking such potential is employing focused multi-pronged approach.

**REFERENCES**


