VIEWPOINTS

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Capital Markets in Rwanda: Assessment and Aspirations

Capital Market Authority

This paper was prepared to inform the discussion during the Rwanda Capital Market Authority's Strategic Planning Roundtable on Capital Market Development, held October 14-16, 2015, in Rubavu, Rwanda.

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Introduction: "Vision 2020" and Financial Sector Development

In 2015, the Rwandan Ministry of Finance and Economic Planning mandated the Capital Market Authority of Rwanda (CMA) to develop a Capital Market Master Plan (CMMP). This plan will set the CMA's policy strategy for the next 10 years. It will advance a strategic agenda for deepening debt markets, expanding listings on the Rwanda Stock Exchange (RSE), developing an ecosystem of financial sector intermediaries, and further integrating Rwanda's capital markets with those of its East African neighbors.

With the forthcoming CMMP in mind, the following pages provide essential background information on the state of the Rwandan financial sector and the prospects for capital-market deepening. Section I describes the Rwandan economy generally; Section II examines the Rwandan business environment; Section III provides an overview of the financial sector; Section IV presents data on the size of Rwanda's capital markets in relation to those of the East African Community (EAC) as a whole; and Section V maintains the regional focus and considers recent developments in capital-market integration in the EAC. Finally, Section VI concludes with a discussion of the CMA's aspirations for capital-market development for the next 10 years.

The government of Rwanda (GOR) views the forthcoming CMMP as an opportunity to build on an ambitious set of national priorities presented in the year 2000, when the leadership published "Vision 2020" after a two-year, nationwide consultative process. This policy document advanced a holistic development agenda to "fundamentally transform Rwanda into a middle-income country by the year 2020." In the short and medium term, the government committed to promoting macroeconomic stability and working to transform the agricultural economy to a knowledge-based one. In the long term, "Vision 2020" emphasized the need for a growing, productive, and entrepreneurial middleclass, which the government believes requires strong, deep capital markets.

The original "Vision 2020" referred to the financial sector in two places. In the first, the government presented financial-sector deepening as key to its long-term goal of expanding the middle class:

> *Stimulating the private sector, particularly with regard to the promotion of exports and competitiveness, is not achievable without broadening and deepening the financial sector such as banking, insurance and the application of information technology.*

The second reference to the financial sector appeared in the presentation of "private-sector led development," which is one of the pillars of the 20-year plan:

> *The development of the financial sector will be crucial, as it is currently underdeveloped and poorly adapted to the economic needs of the country. The financial sector must be able to provide the necessary capital for private sector development.*

In 2012, the government released an updated version of "Vision 2020" with revised targets and additional priorities. The document, for example, included new targets for the number of Internet users and mobile subscriptions. The 2012 revisions also expanded on the need for financial-sector development. Repeatedly, the government committed to "find a niche market in the region by becoming a logistics, telecommunication and financial hub." The document also emphasized the need to expand financial access to households, strengthen the financial sector as a catalyst for continued private-sector growth, and develop capital markets for long-term public and private investments. Finally, as shown in Table 1 below, the revised plan introduced three financial-market indicators to the inventory of measures of development progress: domestic credit to the private sector, the percentage of the adult population accessing financial services, and the percentage of payments transacted electronically.

TABLE 1: Financial Sector Indicators Introduced in the 2012 Update to 'Vision 2020'

Indicator	*Status in 2000*	*Status in 2012*	*Original Target*	*Proposed Target*
Domestic credit to private sector (% of GDP)	Not available	13	None	30
Percentage of adult population accessing financial services	Not available	47	None	90
Percentage of payments transacted electronically	Not available	Less than 10	None	75

Source: "Rwanda Vision 2020: Revised 2012," Republic of Rwanda.

Since the release of the revised national plan, the Ministry of Finance and Economic Planning has increasingly focused its attention on deepening Rwanda's capital markets. This emphasis recently culminated in a directive to the Rwandan Capital Market Authority to produce the 10-year master plan referred to above. The GOR has maintained that a well-designed and successfully implemented CMMP is essential to lock in the country's recent economic gains and sustain high levels of private-sector growth, thereby meeting the ambitious targets in "Vision 2020."

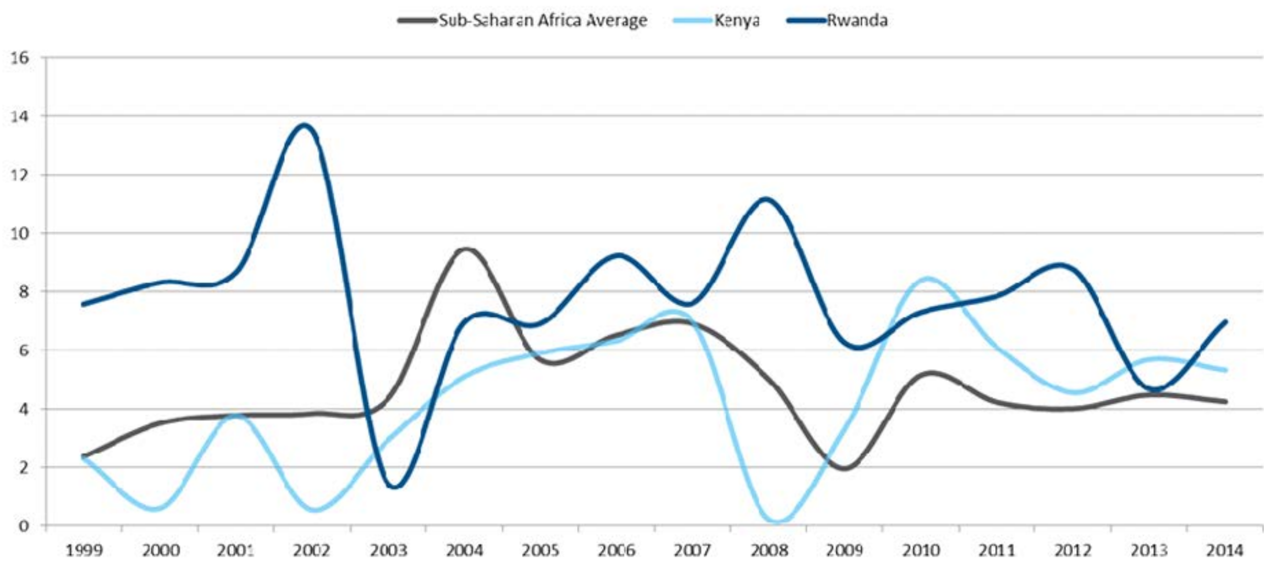
I: The Rwandan Economy

Size and Growth

The total size of the Rwandan economy in nominal GDP in 2014 was $7.9 billion. The economy is small compared to neighboring Kenya ($60.9 billion) and Uganda ($26.3 billion). It has been steadily growing, however. Rwanda has tripled its purchasing power in per-capita terms in the last 20 years, from just above $500 in 1995 to over $1,550 in 2014, as measured in current international dollars. As illustrated in Chart 1, annual growth in gross domestic product (GDP) has dipped below 5 percent only twice since the government put forward "Vision 2020." Impressively, since 2000 Rwanda has averaged annual GDP growth of 7.7 percent, and this growth rate is expected to continue. African Economic Outlook, a collaborative product from the African Development Bank, the Organization for Economic Cooperation and Development (OECD), and the United Nations Development Programme (UNDP), estimates the Rwandan economy will grow at 7.5 percent in both 2015 and 2016.

While poverty rates remain elevated, they are falling. At the national poverty line of 159,000 Rwandan francs—or around $240 per adult per year—poverty fell from 60 percent of the population in 2000 to 40 percent in 2014. The Rwandan economy is also becoming more equitable. The Gini coefficient — a statistical measure of income inequality, in which 1.0 equals maximum inequality and 0.0 equals total equality — dropped from 0.507 to 0.448 during this period.

CHART 1 GDP, Annual % Growth



Source: World Bank, World Development Indicators.

Stable Inflation

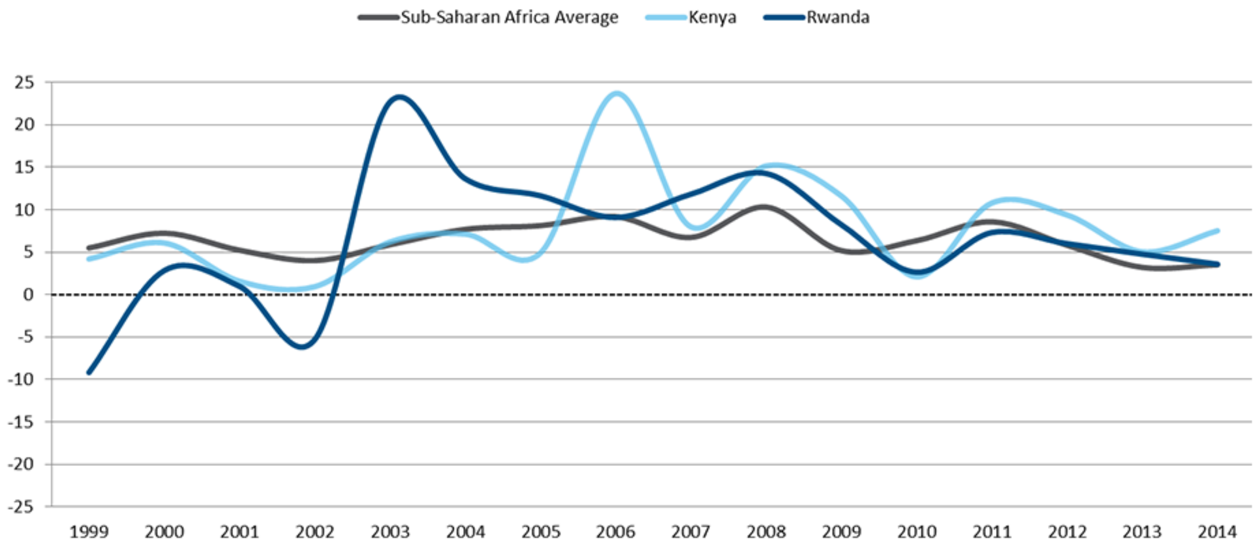
Since 2000, the average annual inflation rate has been 6.8 percent. In 2014, the inflation rate in Rwanda was 1.3 percent, far below the sub-Saharan African average of 4.3 percent. Inflation has remained under control in 2015, with year-over-year headline inflation of 1.4, 0.7, and 0.8 percent in January, February, and March, respectively. Chart 2 shows annual inflation rates since 1999.

Structure of the Economy

The agrarian sector remains the main source of employment in Rwanda. More than 80 percent of economically active workers were employed in agriculture in 2014, according to statistics from the African Development Bank. These figures reflect the fact that the population is overwhelmingly rural, with only 17 percent of Rwandans living in cities. Though urbanization is likely to accelerate in coming years, Rwanda currently has one of the least urbanized populations in Africa.

While employment remains agrarian, economic activity has shifted to the services sector. The transition from an agricultural to a knowledge-based, service economy that motivates “Vision 2020” was already underway in the late 1990s, and services surpassed agriculture as the largest contributor to GDP in 1999. A further widening between the two sectors occurred in 2006 and 2007. In 2014, services accounted for 52.5 percent of economic production, with agriculture contributing 33.1 percent. Industry (which includes manufacturing, mining, and construction) formed 14.4 percent of the economy that same year, as it has for roughly the last decade.

CHART 2 Inflation in Consumer Prices, Annual % Change



Source: International Monetary Fund, International Financial Statistics.

External Sector

The Rwandan economy has become more open over the last 15 years, with trade as a percentage of GDP growing from 31.2 percent in 1999 to 45.5 percent in 2014. This growth in trade has brought Rwanda almost to par with the trade levels of its EAC peers, Kenya, Tanzania, and Uganda, where trade measures about 50 percent of GDP. Most Rwandan exports go to countries it immediately borders, while it largely imports from countries farther afield, including China, India, and the United Arab Emirates. Major Rwandan exports include mineral ores, coffee, and tea. Imports consist primarily of oil, cement, sugar, machinery parts, electronics, and chemical products. Like all other EAC member states, Rwanda has run trade deficits since at least 2005, and in 2014, Rwandan imports outweighed exports by $1.8 billion.

Inflows of foreign direct investment (FDI) have risen in recent years. Before 2006, annual inward FDI rarely exceeded $10 million. Since 2006, inflows have averaged just under $100 million a year. In 2014, around $200 million in FDI came into Rwanda. Though the country is welcoming greater levels of investment, aggregate FDI inflows from 1999 to 2014 barely surpassed $1 billion. Interestingly, this figure falls below aggregate remittance inflows during the same period by about $50 million.

The major source of foreign investment in Rwanda has been development assistance from international financial institutions and national development agencies. In 2013, for example, Rwanda received $1.1 billion in development assistance from international donors. This figure was equivalent to 110 percent of central government expenses that year. Total international aid from 1999 to 2013 came to $14.5 billion. Ending aid dependency by promoting macroeconomic stability and private wealth creation is a centerpiece of "Vision 2020." Still, as former Minister of Finance and Economic Planning Donald Kaberuka noted in his foreword to the original plan in 2000, "It is clear that donor support will remain necessary to successfully attain the goals outlined in this document."

II: The Business Environment

In line with the 2012 revisions to "Vision 2020," credit to the private sector has expanded in recent years. Domestic credit to the private sector, which measures the financial resources provided to companies through bank loans, trade credit, and other sources, rose from 12.8 percent of GDP in 2012 to 17.6 percent in 2014.[1] For the last three years, most new private-sector lending has been concentrated in three areas: hospitality, real estate and construction, and manufacturing. The first quarter of 2015 is representative of this trend, as 41.9 percent of the $267 million in new loans went to commercial restaurants and hotels, another 36.2 percent to the real estate industry, and 4.4 percent to manufacturing.

As credit to the private sector has expanded, the government has worked to reduce the burdens of starting and operating a business. In 2008, Rwanda ranked 150th in the world in ease of doing business, according to the World Bank's annual *Doing Business* index. Over the last seven years, however, Rwanda has climbed more than 100 places in the index and today ranks 46th globally. In sub-Saharan Africa, Rwanda stands as the third-easiest country in which to do business, following only Mauritius and South Africa. Among low-income countries globally, Rwanda ranks first in the index.

Recognizing the international prestige of the *Doing Business* rankings, the government of Rwanda initiated a surgically targeted reform process designed to raise its score. These efforts have produced a number of improvements, including:

- Reducing the time it takes to start a business from 18 to 6.5 days
- Reducing the cost of starting a business from 235 percent of per-capita income to 52 percent
- Reducing the time to obtain construction permits from 277 to 77 days
- Reducing the time to register property from 370 to 32 days
- Reducing the time to export from 60 to 26 days and the time to import from 95 to 27 days

Remarkably, Rwanda now ranks fourth in the world (tied with Australia and Montenegro) on the "ease of getting credit" category of *Doing Business*. In other words, Rwanda has a strong legal framework for borrower/lender protection and the sharing of credit information. This framework includes both a public credit bureau for financial institutions maintained by the National Bank of Rwanda (BNR), as well as a newly introduced private bureau. In 2010, following the passage of a law addressing credit information, the BNR licensed Credit Reference Bureau Africa (CRB-Africa), a continent-wide private company, to operate in Rwanda. By 2014, CRB-Africa covered credit data for more than 27,000 Rwandan businesses.

III: The Financial Sector

Rwanda's second Financial Sector Development Programme (FSDP II) maps out the financial-sector reform agenda for the period 2013 to 2018 and is designed to complement "Vision 2020" and the government's Economic Development and Poverty Reduction Strategy (EDPRS I and II). It covers all aspects of Rwanda's financial system, to include banking, insurance, pensions, capital markets,

1. Authors' calculation based on figures reported in "Quarterly Economic and Financial Report: Developments and Prospects (First Quarter 2015)," National Bank of Rwanda.

microfinance, payments, mobile banking and payments, and financial literacy. Many of FSDP II's policy recommendations respond to issues raised by the International Monetary Fund (IMF) and the World Bank in their 2011 Financial Sector Assessment Program update.

FSDP II builds on the progress made under FSDP I, which covered the period 2008 to 2012. The first FSDP focused on: 1) expanding access to credit and financial services, 2) strengthening the legal and regulatory regime, 3) improve the environment for mobilizing domestic savings, and 4) mobilizing long-term capital for investment. By 2012, over 90 percent of FSDP I's policy recommendations had been implemented, and, according to the authors of the second FSDP, "the major regulatory and institutional elements of a developed financial sector [had] been put in place." As such, FSDP II is "less about the creation of institutions and markets, and more about building from a sound base to expand outreach, efficiency and innovation, and integration in the EAC."

Table 2 presents the Ministry of Finance and Economic Planning's analysis of the strengths, weaknesses, and opportunities of the Rwandan financial sector, as well as the threats to financial-market development. Next, it assesses the Rwandan banking system and the state of financial inclusion. The section concludes with a discussion of mobile money and the Rwandan financial sector.

Banking Sector Strength

As the Ministry of Finance and Economic Planning noted in its Rwanda Financial Sector Strategy for 2013 to 2018, "Currently, Rwanda's financial system is dominated by the banking sector." At present, the banking sector comprises 10 commercial banks, which control the bulk of financial assets, as well as four microfinance banks, one development bank, and one cooperative. Together, these 16 banks hold 67.6 percent of financial assets in the country, according to the BNR. Total bank assets at the end of the 2013/2014 fiscal year came to 1.8 trillion RWF, or around $2.6 billion, a 28 percent increase from the previous fiscal year. Total deposits have grown from around $225 million at the end of 2000 to $885 million in 2010 and $1.6 billion by year-end 2014.

The Rwandan banking sector has remained profitable. In 2014, Rwandan banks reported return on assets of 1.9 percent and return on equity of 10.7 percent. While higher than the previous year, Rwandan banking sector profitability falls below the levels seen in its neighbors Kenya and Uganda, as shown in Table 3. Like banks across the region, the Rwandan banking industry continues to have relatively high rates of nonperforming loans, around 6 percent of total loans, compared to a global average of 3 to 4 percent. It is in this context that banks in Rwanda and other East African countries maintain fairly high capital adequacy ratios. At the end of 2014, Rwandan banks maintained an average capital adequacy ratio of 24.2 percent, nearly 10 points higher than the regulatory minimum of 15 percent. Kenyan, Tanzanian, and Ugandan banks maintain similar capital adequacy ratios.

TABLE 2: "SWOT" Analysis of the Rwandan Financial Sector

Strengths ▪ Strong political will: Financial Sector Development Secretariat aims to spearhead growth ▪ Strategies in place: national savings mobilization strategy, savings and credit cooperatives strategy (SACCOs), national microfinance implementation strategy, payments systems framework and strategy ▪ Increased oversight and supervision through enactment of laws governing the central bank, the banking industry, payment systems, capital markets, collective investment schemes, mortgages, and launch of mobile money ▪ Institutional set-up: Rwanda market advisory council and Rwanda Stock Exchange established ▪ Rwanda Cooperation Agency, Rwanda Association of Insurers, Rwanda Association of Bankers, and Rwanda Association of Microfinance Institutions established ▪ MFIs/SACCOs able to reach people through local branches ▪ Diaspora willingness to invest	**Weaknesses** ▪ Relatively small financial market ▪ Low savings and investment ▪ Low penetration of financial institutions, particularly in rural areas ▪ Lack of diversified products ▪ Limited product innovations, single products "fit all" mentality, lack of demand-driven products ▪ Lack of skilled and specialized professionals ▪ Most financial institutions are located in urban areas ▪ Lack of education on financial products and services ▪ SACCOs' membership limited ▪ Limited credit to the private sector ▪ Limited products and services comparable to those of competing countries
Opportunities ▪ Untapped market, 28% (1.3 million adults) financially excluded in 2012 ▪ Availability of technical assistance ▪ Strong support from development partners ▪ Existence of the Capital Market Authority and Rwanda Stock Exchange ▪ Modernized electronic payment system ▪ Presence of foreign banking institutions ▪ Establishment of business development fund ▪ East African integration ▪ Use of high-tech products such as mobile money transfers and internet banking ▪ International Finance Corp. opportunities in banking, trade finance, captive insurance, pension and fund management (equity and trusts), international business, microfinance and microinsurance	**Threats** ▪ Instability in international markets ▪ Limited use of financial products ▪ Inadequate number of BNR inspectors ▪ High inflation and interest rates ▪ Fraud through modernized payment systems ▪ Continued cuts to donor budgetary support ▪ Lack of international financial players in the banking sector

Source: Rwanda Financial Sector Strategy 2013-2018: Final Report, Ministry of Finance and Economic Planning, Republic of Rwanda.

TABLE 3: Measures of Banking Sector Stability in the East African Community

Indicator	*Rwanda*	*Kenya**	*Tanzania***	*Uganda**
Solvency Ratio (capital adequacy)	24.2	23.2	17.4	22.1
Nonperforming Loans	6.0	5.0	8.0	6.0
Return on Average Assets	1.9	3.6	2.6	2.0
Return on Average Equity	10.7	28.8	13.9	12.4
Liquid Assets / Total Deposits	49.2	47.0	44.8	42.5

*Figures from Kenya and Uganda refer to 2013

**Figures from Tanzania refer to 2012

Sources: "Quarterly Economic and Financial Report: Developments and Prospects (First Quarter 2015)," National Bank of Rwanda; "East African Community Facts and Figures – 2014," East African Community Secretariat.

TABLE 4: Quarterly Interest Rate Developments in Rwanda

	March 2014	*June 2014*	*September 2014*	*December 2014*	*March 2015*
Money Market Interest Rates					
Key Repo Rate	7.0	7.0	6.5	6.5	6.5
Discount Rate	11.0	11.0	10.5	10.5	10.5
Repo Rate	4.3	3.1	4.2	2.8	2.0
T-Bills Rate	6.4	6.0	5.5	4.9	4.3
Interbank Rate	5.6	5.8	5.6	4.8	3.8
Market Interest Rates					
Deposit Rate	8.3	8.6	7.3	7.8	8.1
Lending Rate	16.8	17.5	17.1	17.7	17.4
Spread	8.5	8.9	9.8	9.9	9.3
Risk Premium	10.8	11.9	11.6	12.8	13.0

Source: "Quarterly Economic and Financial Report: Developments and Prospects (First Quarter 2015)," National Bank of Rwanda.

For bank customers, credit has grown more expensive. The medium-term, end-of-year market lending rate rose from 16 percent in 2007 to 17.7 percent in 2014. At the end of the first quarter of 2015, the market lending rate had fallen slightly to 17.4 percent. Table 4 summarizes these figures and other developments in money market interest rates over the past five quarters of available data.

Financial Inclusion

As mentioned above, total deposits in the Rwandan banking sector have doubled in the last five years. The larger value of deposits reflects the rapid growth of the Rwandan economy as well as broadened access to financial services among the general population. The evidence comes from a pair of FinScope[2] surveys, one in 2008 and a 2012 follow-up conducted by Access to Finance Rwanda. Based on these surveys, financial inclusion—defined as access to and ability to use financial (including microfinancial)

2. FinScope is a survey tool designed by the FinMark Trust, sponsored by the UK Department for International Development.

products and services—has increased from 47.6 percent of the adult population in 2008 to 71.8 percent in 2012.

Inclusion has widened in tandem with the expansion of the commercial banking sector. The number of branches increased from 259 at the time of the 2008 survey to 467 branches and outlets in 2012, along with 229 new ATMs throughout the country. The percentage of adults accessing formal products and services from commercial banks grew from 11.6 to 22.8 during the same period. As these figures suggest, much of the financial activity in Rwanda occurs in non-bank formal institutions such as the community savings and credit cooperatives known as SACCOs and other microfinance institutions, as well as through informal means. Rwanda has been expanding its SACCO network as well, with more than 400 branches dispersed throughout the country.

Mobile Money

Transactions online and via mobile phones have also expanded financial inclusion in Rwanda. According to the IMF, the number of mobile banking payments rose by 155 percent between 2013 and 2014.[3] The IMF also reports that 84 percent of Rwanda's 7.7 million mobile subscriptions are linked to mobile money payment programs. According to the 2012 FinScope survey, 44 percent of adults sending remittances (whether domestically or internationally) did so through mobile money transfers. It was, by far, the most common way for Rwandans to send money home.

While these trends show growth in mobile payments in Rwanda, the country still lags behind its East African neighbors in terms of offering expansive access to mobile finance. According to a 2014 report from the EAC Secretariat, mobile financial transactions amounted to less than 0.1 percent of GDP.[4] The figure for Kenya was 49.0 percent of GDP in 2012, while Tanzania and Uganda saw mobile payments equivalent to 38.9 percent and 23.4 percent of GDP, respectively, that year. These numbers suggest that Rwanda is behind, but has a great deal of potential to expand the use of mobile financial transactions.

IV: The State of Rwandan Capital Markets

Capital-market development is a key part of Rwanda's Financial Sector Development Programme. With the 2011 passage of the Capital Markets Authority Law (which established the CMA), the Capital Markets Law, and the Law on Collective Investment Schemes, most of the necessary legal architecture is now in place. The main capital-market development issues in FSDP II center on how to build "a viable capital market in a small economy within a regional context." They include:

- Creating a government bond market and yield curve
- Promoting private sector bond issuance
- Broadening the investor base by encouraging the growth of contractual savings institutions
- Completing the necessary infrastructure to support regional trading

3. "Rwanda: Third Review Under the Policy Support Instrument," IMF, June 2015.
4. "Mobile and Agency Banking in the EAC Countries: A Diagnostic Analysis," East African Community Secretariat, April 2014.

- Establishing guidelines for shelf registrations, medium-term notes (MTNs), and private placements
- Developing a sustainability plan for the Rwanda Stock Exchange, including attracting additional local and cross-listings

Appendix 1 includes a full review of the status of all policy action items related to capital markets in FSDP II. The current section reviews the state of Rwanda's debt markets, the Rwanda Stock Exchange, current assets available to domestic institutional investors, and Rwanda's private markets. As reference, Rwanda's markets are often benchmarked against their regional peers in the East African Community. These aggregated figures also provide context for the discussion of capital-market integration efforts in Section V.

Debt Markets

Rwanda's sovereign debt markets remain small compared with those of regional neighbors. As shown in Table 5 below, the value of sovereign bonds outstanding was just below $70 million in 2014, or 0.9 percent of GDP (note that significant developments have occurred since then). That year, Uganda's outstanding public debt was significantly larger, at $879 million, or 3.2 percent of Ugandan GDP.

TABLE 5: The Size of the Capital Markets in East Africa in 2014

	Rwanda	*Burundi*	*Kenya*	*Tanzania*	*Uganda*	*EAC Total*
Listed companies	6	0	64	21	16	107
Domestic	2*	0	63	14	8	87
Cross-listed firms	4	0	1	7	8	20
Corporate bonds	2	0	14	4	5	25
Market capitalization, US$ millions						
Equities	1,931	0	25,393	12,800	6,218	46,342
Domestic firms	859	-	25,393	5,751	815	32,818
Cross-listed firms	1,072	-	-	7,049	5,403	13,524
Bonds	92	10	11,314	2,914	928	15,248
Government	69	10	10,541	2,889	879	14,378
Corporate	23	0	773	25	49	870
TOTAL	2,023	10	36,707	15,714	7,146	61,590
Market capitalization, % of GDP						
Equities	24.1	0	41.8	26.7	22.5	31.6
Domestic firms	10.7	-	41.8	12	3.0	22.3
Cross-listed firms	13.4	-	-	14.7	19.6	9.2
Bonds	1.1	0.4	18.6	6.1	3.4	10.4
Government	0.9	0.4	17.3	6.0	3.2	9.8
Corporate	0.3	0	1.3	0.1	0.2	0.6

*Note that these data refer to 2014 and significant developments have occurred since. For example, the RSE now lists three domestic companies.

Source: Rwanda Economic Update, World Bank, June 2015.

In one of the more significant developments in recent years, the National Bank of Rwanda established a regular, quarterly debt issuance program in early 2014. Following its quarterly schedule faithfully, the BNR has completed five local-currency bond issuances since then, totaling 82.5 billion RWF, or roughly $115 million. These five issuances have included Rwanda's first sovereign bonds with seven- and 10-year tenors. The inaugural 10-year issuance was sold in May 2015 with an annual coupon rate of 12.925 percent and was oversubscribed by 118 percent. The BNR is planning to issue its first 15-year maturity bond in May 2016.

All government bonds are traded on the Rwanda Stock Exchange, though secondary trading is minimal. The RSE also lists two corporate bonds. The first, set to mature in 2018, is a 10-year, 1 billion RWF (about $1.4 million) issuance from I&M Bank (formerly the Banque Commerciale du Rwanda) with a 10.5 percent coupon rate. The second is a five-year instrument from the International Finance Corp. (IFC) issued in May 2014 with a 12.25 percent coupon rate. The 15 billion RWF (about $22 million) IFC bond was issued with the explicit goal of deepening the country's local-currency capital markets. As a percentage of GDP, Rwanda's corporate bond market is slightly larger than the corporate debt markets in Tanzania and Uganda.

The Rwanda Stock Exchange

The RSE is still a young exchange, the youngest in East Africa. Trading began in 2011, and in addition to bond listings, the exchange currently lists equity shares of seven companies. Four of these equity listings are cross-listed Kenyan firms, whose stock is primarily traded on the Nairobi Securities Exchange (NSE). The latest Kenyan firm to be cross-listed on the RSE is Equity Bank, which began trading in Kigali in February 2015. The three Rwandan firms that have listed shares are the government-majority-owned Bank of Kigali, the beverage company Bralirwa (a subsidiary of Heineken), and most recently, Crystal Telecom, which listed in May. With the addition of Equity Bank and Crystal Telecom, the market capitalization of the RSE now exceeds 3 trillion RWF (about $4.2 billion). Despite the additions of these new companies and the implementation of a regional interdepository transfer mechanism (discussed further in Section V), secondary trading remains minimal on the RSE, as it does across the region.

In 2013, the RSE relaxed the rules for small- and medium-sized enterprises (SMEs) that want to issue stock on the exchange. The newer rules waive the regular listing criteria, which include attaining a minimum initial market capitalization of 500 million RWF (about $700,000) and having a verifiable financial track record of at least three years. Instead, SMEs may list on the exchange without achieving any minimum initial market capitalization, and they need only provide their last year-end financial records as audited within the previous six months. SMEs must also produce a two-year sponsorship agreement with a licensed broker or investment advisor. Despite the relaxed requirements, no SMEs had joined the RSE at the time of writing.

Institutional Investors

Rwanda's institutional investors are likely to grow in importance as securities traders as the capital markets continue to develop. Assets under management (AUM) in the Rwandan pension and insurance sectors are limited, but growing. According to the BNR, AUM in the pension sector increased 19 percent between 2013 and 2014, from about $570 million to about $700 million. Likewise, insurance sector AUM grew 13 percent, from roughly $325 million in 2013 to about $370 million in 2014. Table 6 below presents a slightly out of focus snapshot (due to discrepancies in year used for each indicator) of the size of the institutional investor base across the EAC.

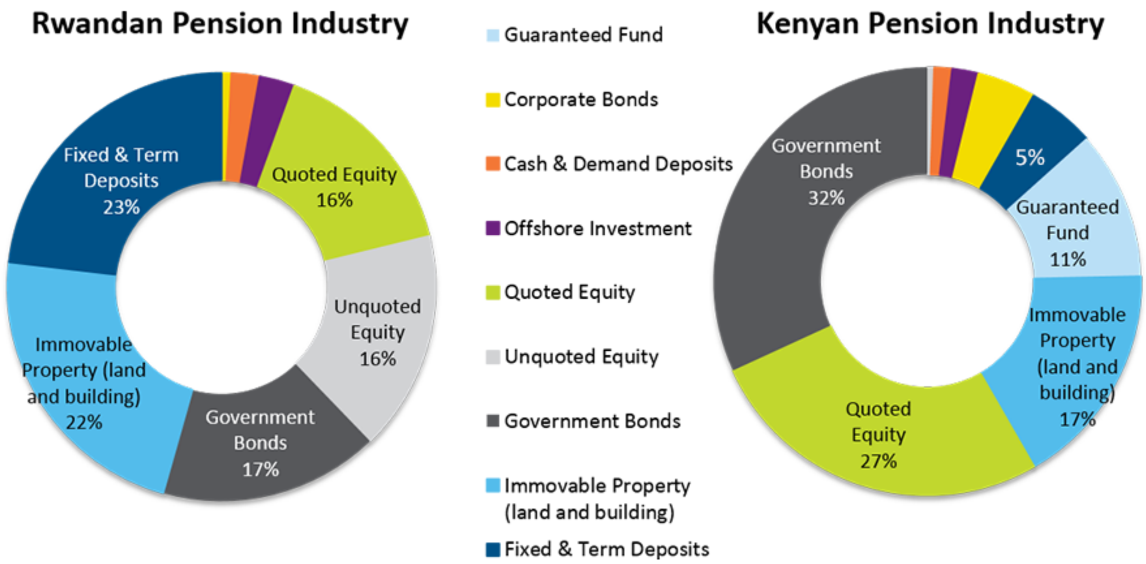
TABLE 6: The Institutional Investor Base of the East African Community

	Rwanda	*Burundi*	*Kenya*	*Tanzania*	*Uganda*	*EAC Total*
Pension industry (end of year 2014)						
Number of defined benefit schemes	1	2	81	5	1	90
Number of defined contribution schemes	53	0	1,160	5	61	1,279
Active/contributing members (public scheme)	352,085	251,548	1,815,082	1,856,245	18,979	4,293,939
Total assets (US$ millions)	698	361	8,319	3,514	1,151	14,041
Insurance industry (2013 for Rwanda, Kenya, and Uganda; 2012 for Burundi and Tanzania)						
Number of regulated insurance companies	12	6	48	28	22	104
Number of reinsurance companies	0	0	3	1	1	5
Number of medical insurance providers	0	0	29	0	0	29
Insurance penetration (% of population)	2.3%	0.8%	0.9%	0.9%	3.4%	-
Total assets (US$ millions)	312	NA	4,072	263	293	4,940
Total institutional investor assets (US$ millions)	1,010	NA	12,391	3,777	1,444	18,621

Sources: "EAC Pension Statistics," East African Community Secretariat, December 2014; "Study Report: Assessment of the Insurance Industry from the Perspective of EAC Regionalization," East African Community Secretariat, August 2014.

As Chart 3 illustrates, East African institutional investors are already active participants in the region's capital markets. The chart compares the asset allocation of the Rwandan and Kenyan pension industries as of December 2014. Both of these countries' pension sectors invest largely in government bonds, real estate, and public equities. Interestingly, the Rwandan pension sector, which in this chart refers solely to the Rwandan Social Security Board, also invests 16 percent of its assets in unquoted equity securities. On the other hand, nearly a quarter of Rwandan pension assets are allocated to fixed and term deposits at banks. Neither country's pension sector allocates more than 5 percent of assets to corporate bonds, which reflects the underdeveloped nature of the corporate debt markets.

CHART 3 Asset Allocation of the Pension Industry in Kenya and Rwanda in 2014



Source: "EAC Pension Statistics," East African Community Secretariat, December 2014.

Private Markets

As with its public markets, Rwanda's private equity and venture capital sector is still small. According to the African Private Equity and Venture Capital Association, of the 158 private equity transactions reported in East Africa between 2007 and 2014, only 13 occurred in Rwanda. Those transactions totaled around $90 million, or 6 percent of the $1.5 billion in East African private equity investments made during that period.

In 2013, the Rwandan Private Sector Federation (PSF) reported that domestic collective investment groups had amassed around $450 million in assets. In Rwanda, collective investment groups play a role that very roughly corresponds to small venture capital firms or angel investor networks in other countries, and by PSF's count, there were 88 such organizations in Rwanda in 2013. One of the earliest and largest investment collectives is the Rwanda Investment Group (RIG), which was formed in 2006 by 20 wealthy individuals in Kigali. In recent years, RIG has made multimillion-dollar domestic investments in peat production, methane gas extraction, and cement manufacturing.

Most of Rwanda's collective investment groups are small, however. In 2013, 53 of the 88 groups identified by PSF had 200 million RWF (about $275,000) or less to invest. Despite generating some enthusiasm in the local press, these groups have faced difficulties discovering and assessing investment opportunities. As one PSF market researcher told the *New Times*, "Most of them collect money, but they don't know what to do with it, and they are reluctant to invest."[5] The small groups that have invested have typically targeted commercial real estate projects.

5. "Technical challenges still hamper investment groups," *New Times*, April 4, 2013.

Commodities Markets

A large volume of commodities trading in East Africa is still done through networks of small cooperatives and traders, limiting farmers' ability to obtain competitive prices for their products. In 2014, Rwanda took the lead in formalizing commodities markets by becoming the home of the East Africa Exchange (EAX). Based in Kigali, the EAX is now the third-largest agricultural exchange in sub-Saharan Africa, after the South African Futures Exchange and the Ethiopia Commodities Exchange.

With a platform run by the NASDAQ OMX's X-stream trading and clearing systems, the EAX currently facilitates auctions and spot trading in corn, beans, soy, and rice. The exchange will eventually include other agricultural and non-agricultural commodities, as well as trading in futures contracts. Through a partnership with the Rwanda Ministry of Agriculture and Animal Resources, the EAX maintains a network of warehouses for cleaning and bagging, grading and storage. The EAX issues electronic receipts for commodities stored at its warehouses. Ecobank Rwanda and Urwego Opportunity Bank have begun accepting these receipts in place of other collateral for term loans for agricultural cooperatives. Other banks are planning to offer similar credit facilities for agricultural producers based on EAX receipts. The exchange estimates that such programs will expand lending to farmers by 20 percent in 2016.

Household Savings and Retail Products

The amount of gross domestic savings has grown from $52 million in 2005 to $843 million in 2014, or from 2 percent of GDP to 10.7 percent. The Ministry of Finance and Economic Planning wants to see this figure rise to 20 percent of GDP by 2020. While Tanzania and Uganda have higher savings rates, Rwandans are more likely than their EAC neighbors to place their money in formal savings products.[6] Only about 30 percent of adult savers in Rwanda keep some or all of their savings hidden at home, unlike the majority of savers in every other EAC country. Rwandans are more likely to hold cash in banks, SACCOs, or informal credit associations.

Efforts to mobilize household savings for investment are relatively new in Rwanda. Retail investors are, to a large degree, only able to participate in the capital markets by directly purchasing securities on the RSE. Recent developments include the 2011 passage of a law that provides the legal foundation for regulating collective investment schemes (CIS). Not to be confused with the collective investment groups described above, CIS operate as mutual funds or unit trusts, investing pooled assets in security portfolios. In 2013, the legislature established the legal foundation for real estate investment trusts (REITs), though these regulations are currently being amended. Despite the new legislation, CIS trusts and REITS are virtually nonexistent at the present time in Rwanda.

As a catalyst for developing a true private asset management sector, the Ministry of Finance and Economic Planning created the Rwanda National Investment Trust Ltd. (RNIT) in 2014. This public unit trust is open to investments from Rwandan and EAC citizens who can buy in for as little as 2,000 RWF (less than $5). Hoping to attract 100,000 investors, the RNIT is currently selling units. After this initial offering, a professional asset manager will use the pooled funds to invest in a diversified portfolio of

6. See "Determinants of Household Savings Mobilization across EAC Countries: An Exploratory Analysis," East African Community Secretariat, September 2014.

bonds, equities, and money market instruments. The RNIT's ultimate goal is to develop a more widespread savings culture in Rwanda while simultaneously deepening the country's financial markets.

V: Developments in Regional Capital-Market Integration

The East African Community was formed in 1999 by Kenya, Tanzania, and Uganda, with Rwanda and Burundi joining the regional bloc in 2007. Together, these five countries represent nearly 160 million people, and they have a combined nominal GDP of $147 billion. Like Rwanda, the total economy of the EAC has been growing steadily in recent years. Between 2005 and 2014, average annual GDP growth for the region was 6.1 percent. As shown above, the market capitalization of the region totals just over $60 billion.

Capital-market integration was a founding aspiration of the EAC. Article 85 of the Treaty for the Establishment of the East African Community commits member states to "harmonise capital market policies on cross-border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards" and pursue other goals of capital-market development, including cooperation among stock exchanges, cross-listings, and the "establishment of a regional stock exchange within the Community with trading floors in each of the Partner States." Article 86 continues in this vein, obligating partner states to three objectives:

- To ensure the unimpeded flow of capital within the Community through the removal of controls on the transfer of capital among the Partner States
- To ensure that the citizens of and persons resident in a Partner State are allowed to acquire stocks, shares and other securities or to invest in enterprises in the other Partner States
- To encourage cross-border trade in financial instruments

In 2010, the Protocol on the Establishment of the East African Community Common Market was ratified by all five member states and entered into force. The Common Market Protocol established standards for the free movement of goods, services, capital, and citizens. The agreement also established all EAC citizens' right to take up residence or start a business in any of the partner states. In general, Rwanda, Kenya, and Uganda have moved quickly to eliminate restrictions, while Burundi and Tanzania have lagged behind. This dynamic is discussed further below.

Organizational Structure and Process

The EAC makes regional policy through the Council of Ministers, which consists of the ministers or cabinet secretaries from each member state who are responsible for regional integration. The council's mandate is to interpret the provisions of ratified treaties and issue binding regulations and directives for member states. For capital-market integration, the council oversees a number of technical working groups that deliberate how to resolve differences in legal frameworks and market infrastructure among EAC members. Based on this work, the council announced several capital-market directives in 2015. The new directives include regional frameworks for collective investment schemes, trading on a secondary exchange, public offers of equity and debt securities, regional securities-market listings, asset-backed securities, and corporate governance standards for market intermediaries. These directives harmonize definitions, principles, and procedures for market participants across EAC member states.

In addition to the EAC Council of Ministers, the capital-market authorities of the member states have created their own regional association focused on cooperation and policy harmonization. The East African Securities Regulatory Authorities (EASRA) started in 1997 through a memorandum of understanding between Kenya, Tanzania, and Uganda. The Capital Market Authority of Rwanda joined EASRA in 2009, and the central bank of Burundi has since joined as well. Jointly managed by the capital-markets regulators of each member state, EASRA "operate[s] as a consultative institutional forum where the regulatory authorities discuss matters of mutual interest." EASRA's analysis of the EAC's strengths, weaknesses, opportunities, and threats in regard to deeper financial-market integration forms Appendix 3 of this report.

Another important institution driving regional capital-market integration is the East African Securities Exchanges Association (EASEA). Established in 2004, EASEA comprises the executive leadership of the EAC's four public securities exchanges—the Nairobi Securities Exchange, the Dar es Salaam Stock Exchange (DSE), the Uganda Securities Exchange (USE), and the RSE—as well as each country's central securities depository. The EASEA has initiated and implemented essential improvements to the regional market infrastructure, such as the regional interdepository transfer mechanism discussed below. Among other initiatives, the EASEA has recently been focused on the development of a regional order-routing system as well as EAC equity and bond indices.

Accomplishments

According to the EASRA, the "most apparent manifestation" of the progress made toward the integration of regional capital markets is the cross-listing of Kenyan equities on the DSE, USE, and RSE. Currently, eight cross-listed Kenyan companies are trading in Uganda, seven in Tanzania, and four in Rwanda. In 2012, the Ugandan power company Umeme cross-listed its USE shares on the Nairobi exchange. EAC members have also simultaneously marketed recent IPOs to investors across member states.

Despite the cross-listings, the lack of an integrated electronic transfer system meant that investors who wanted to buy cross-listed shares had to receive paper certificates. They then had to transfer them physically from one country's exchange to the other and reconvert the paper documents to electronic files. This process could take two months to complete. Rwanda played an important leadership role in correcting this problem, initially working with Kenya to pilot an interdepository transfer mechanism as a means of increasing the liquidity of cross-listed stocks. By the summer of 2013, this mechanism linked all East African stock exchanges.

Instead of weeks, trading cross-listed securities now takes no more than four days. The cross-listed Ugandan power company Umeme represents one example of the benefits of this upgrade. Its cross-listed shares had sat on the NSE in Kenya for seven months without being traded once. But within one week of the activation of the interdepository transfer mechanism, investors began buying Umeme stock on the NSE.

In 2014, the EAC further integrated regional market infrastructure with the introduction of the East African Payment System (EAPS) to facilitate intraregional payments and settlements. EAPS uses the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging system and links Real Time Gross Settlement (RTGS) of partner states' central bank so that any financial institution with an account at any of the EAC central banks can participate in the system.

Finally, regional institutions have also taken steps to build capacity among financial-market participants and regulators across the EAC. One recent example is the establishment of the Securities Industry Training Institute (SITI). Created by the EASEA, the institute offers a variety of courses, such as capital-market investments, corporate finance, asset management, and corporate governance. Although SITI is based in Kampala, Uganda, its training programs have been undertaken in Kenya, Rwanda, and Tanzania as well. Recently, SITI began developing regionally accredited certifications for securities market professionals, though this project is a work in progress.

Challenges

The 2010 Common Market Protocol stipulated that EAC members comply with standards by the end of 2015. While much progress has been made, the free flow of capital is still inhibited by a variety of restrictions. According to the East African Common Market Scorecard 2014, member states had completely liberalized only two of the 20 capital-market operations included in the protocol. Furthermore, no country had put in place regulations to govern derivatives markets. The full scorecard of EAC openness/restrictiveness on the 20 operations is included in Appendix 2, along with the key findings and recommendations from Scorecard 2014.

As mentioned above, Rwanda, Kenya, and Uganda have accelerated reform efforts to remove barriers to capital flows, while Tanzania has held back out of concern that liquidity and investment will concentrate in the Kenyan market. This dynamic has created a two-tiered regional integration process. While Rwanda, Kenya, and Uganda have decided to proceed on a number of issues despite Tanzanian reluctance, the lack of unity often increases costs as partner states develop their markets in parallel instead of in tandem. Even the three countries that generally work in unison have fallen into this pattern. Each invested heavily, for instance, in its own electronic clearing and settlement system instead of developing a regional platform.

This splintering of efforts and resources is a symptom of both national pride and concerns about sovereignty over domestic markets. For its part, Rwanda has typically resisted the tendency to work independently from its EAC partner states. In Rwanda, where the market faces clear ceilings in potential size and liquidity, policymakers are fully aware that regional integration is essential to financial market development.

VI: Aspirations for the Next 10 Years

The Rwandan government believes that the country's nascent capital markets can make great strides over the next decade. The Capital Market Authority of Rwanda envisions a high percentage of the economy's funding mobilized through capital-market securities. If high growth rates are to be sustained in the coming years, the market will need to develop to a level at which it can efficiently direct investment to both the public and private sectors. Furthermore, the CMA is committed to the principle that Rwandan economic actors should be able to access long-term capital efficiently, whether investors are based domestically, regionally or in the international markets.

The CMA's core aspiration for the next decade is that Rwandan capital markets will transform themselves into a significant component of the domestic financial sector and materially contribute to the economic growth and sustainable development of the country. To get there, the CMA has identified seven strategic pillars of capital-market development.

1. ***Creating a robust legal and regulatory framework***

   The Rwandan market will thrive only when the legal and regulatory framework is responsive to the demands of the economy. The foundational stage of the next 10 years of capital-market development is for the Rwandan government to continue to develop a legal and regulatory framework that will attract and nurture entrepreneurs and investors. In particular, the CMA will ensure that the formal market is fully compliant with International Organization of Securities Commissions (IOSCO) principles as a strategy for building investor confidence and promoting regional integration.

2. ***Transforming the capital markets into a genuine alternative to traditional financing sources***

   Over the next decade, the CMA wants to promote the capital markets as an alternative source of financing on two fronts. First, the capital markets should increasingly replace international donors as a source of funding for the public sector. Second, the capital markets should increasingly replace bank loans as a source of funding for the private sector.

3. ***Product and market development***

   To meet the financing demands of diverse actors in the public and private sectors, the Rwandan capital markets must expand the number of products and services. This work begins, however, by deepening the securities markets that already exist, particularly further extending the sovereign yield curve, attracting more companies to list equity shares on the RSE, and increasing the number of businesses issuing corporate bonds. To develop secondary liquidity for government debt securities, Rwanda is also reconsidering the need for a primary dealership program.

   In parallel to strengthening existing markets, the CMA is preparing for the introduction of municipal and project bonds, the expansion of private markets, and the promotion of investment vehicles such as real estate investment trusts and collective investment schemes (mutual funds) to allow household savers to tap into the capital markets. All these efforts will demand investments in market infrastructure, such as the full automation of RSE trading, as well as the development of a full range of intermediaries across the market's subsectors. Furthermore, the market will need a stronger corporate governance framework and better investor protection oversight.

4. ***Making Rwanda a financial hub for eastern and central Africa***
   By developing a robust legal and regulatory framework, a diverse array of financial products, and a strong financial intermediary industry, Rwanda wants to become an international investment destination and a financial hub for regional investments. The Rwandan markets will both complement financial services available in Kenya and other EAC neighbors and serve as a financial center for investments into the Democratic Republic of the Congo and other financially underserved countries nearby.

5. ***Development of the commodities exchange market***
   Building on the advantages of hosting the East African Exchange, Rwanda wants to develop and strengthen the ecosystem for commodities spot and derivatives markets in agricultural, petroleum, and mining products, both for the domestic and regional economy.

6. ***Capacity building***
   The government of Rwanda—and in particular, the CMA—is committed to human capital development as an essential aspect of deepening and strengthening the capital markets. Capacity building will include developing a labor force of qualified and knowledgeable professionals in law, accounting, auditing, financial analysis, and financial advising in the private sector. At the same time, government agencies and regulators will need to hire, train, and retain qualified and knowledgeable financial services professionals to effectively and independently regulate the expanding financial markets.

7. ***Consumer education and enhancing financial literacy***
   Finally, the CMA is committed to extensive issuer and investor education and public outreach over the next 10 years. Enhancing financial literacy will be crucial to expanding participation in Rwanda's capital markets.

These pillars are guiding the CMA as it develops its 10-year master plan, which will guide capital-markets policy through 2025. This plan will map out how Rwanda—in partnership with its EAC neighbors—can most effectively transition from a bank-dominated financial sector toward greater use of capital markets, which will require the development of a full ecosystem of products and market intermediaries to serve large businesses as well as SMEs. This is important work as Rwanda pursues the goal, defined in "Vision 2020," of "attaining per capita income of a middle-income country in an equitable way, and the aspiration to become a modern, strong and united nation."

Appendix 1: Status Update on FSDP II Policy Actions for Capital Market Development

The following tables present the capital-market policy actions included in the government of Rwanda's Financial Sector Development Programme II, the national financial sector policy agenda for the 2013-2018 period.

A. Capital Markets

Policy Action	Status
Complete the legal framework and regulation consistent with IOSCO principles	CMA became an Associate Member of IOSCO in 2015. All gaps have been identified and drafting of the legal amendments, in order to become IOSCO MMOU signatories, will begin during the Oct. – Dec. 2015 quarter
Disseminate guidelines for shelf registration of commercial paper and MTN programs	Guideline on issuance of CPs published in October 2012
Draft and issue guidelines for exemption of private placements from public issuance requirements	CMA regulations do not cover private placements
Proceed with connectivity between the BNR securities depository and other EAC depositories	Work in progress. BNR's CSD connected to the Kenyan CDSC and has embarked on working with the Uganda CSD
Support IT automation in capital markets and promote the development of business contingency plans for market intermediaries	Installation of the ETP at advanced stage. CSD system operational since 2012
Coordinate establishment of an investor compensation fund	Investor compensation fund in place and operational
Compile list of approved credit rating agencies	Three credit rating agencies have been licensed so far

B. Stock Exchange

Policy Action	Status
Disseminate member licensing criteria	Licensing criteria available on CMA website
Undertake and continue public awareness campaigns on the procedures, rewards, and risks of investment in securities	Being done under public education program (TV, radio, workshops, etc.)
Build market supervision skills through training and staff interchange with other more mature exchanges	CMA has a Market Supervision and Inspection department. CMA has received consent to send staff to EAC capital markets. Joint regional inspections have commenced under EASRA. Rwanda will be in the next round of regional joint inspections
Disseminate RSE price and trade volume data on website	Daily market report published on website
Develop a business information exchange for venture capital, SMEs, and investors, with access to financial and legal resources	Incomplete
When a deal pipeline has been established, engage the business exchange participants above to constitute a venture capital fund as a CIS	Incomplete
Complete and publish “second tier” listing requirements to attract smaller firms	Capital market disclosure guidelines for SMEs published in 2013 and available on CMA’S website
Develop a five-year plan for financial sustainability and financial independence for the RSE	RSE has developed a strategic plan yet to be adopted by its board and filed with CMA
Examine alternatives for the RSE’s future in the context of East African capital-markets integration	Business plan was developed to look at the future of RSE and participation in regional initiatives. RSE is active in regional initiatives and currently holds the chairmanship of the EASEA

C. Bond Market Development: Building the Yield Curve

Policy Action	Status
Develop modest three-, five-, and seven-year regular bond issuance program consistent with fiscal needs	T-bond issuance program published in February 2014 (regular quarterly issuance)
Revisit withholding tax to remove distortions caused by different treatment of maturities	To encourage long-term investments, fiscal incentives provided for bonds of maturities of three years and above
Introduce longer-tenor government bonds as market develops	A 10-year T-bond has been issued, and a 15-year bond planned for May 2016
Publish indicative quarterly bond auction dates for the coming year for the 3-, 5-, and 7-three-, five, and seven-year auctions	The BNR has published quarterly issuance program, available on BNR website
Reopen outstanding bonds where possible to promote liquidity	Incomplete
Prepare proposal to designate a Rwanda dealer group in government securities (bills and bonds), discuss with industry	Completed
Seek agreement on privileges and obligations for the dealer group: auction performance, market making, market reporting, and intelligence	Draft form
Develop performance indicators for dealer group	Incomplete
Based on market making and trading prices, publish daily government yield curve	Incomplete
Form a bond pricing unit that will calculate and publish closing bond prices for use in fund and portfolio market valuation	Incomplete
Look for opportunities to refund non-marketable debt in marketable form	Incomplete
Allow the best-performing non-bank dealers access to the automated auction platform	Incomplete

D. Bond Market Development: Broadening the Investor Base

Policy Action	Status
Consider elimination of withholding tax on RSE-listed bonds	Incomplete
Prepare investor presentation, plan industry visits with Ministry of Finance and Economic Planning (Kigali, Nairobi, Kampala, Johannesburg, London)	Visits to Nairobi and Kampala completed
Resolve technical issues to facilitate RWF electronic bond delivery and custody in EAC	Incomplete
Pursue longer-term electronic link with global clearing and settlement platform	Incomplete
Promote quotation on Bloomberg, Reuters and other market data platforms	Incomplete
Assess market and technical details (sales and settlement) for a diaspora bond issue	Incomplete
For dealer group, make bill and bond sales to non-banks a performance criterion	Incomplete
Continue informal daily market consultation and formal periodic dealer exchanges with BNR on market conditions and auction recommendations	Incomplete
Explore development of a retail targeted savings bond program	Complete. Current treasury bond issues have pre-allotment reserved for retail investors, although take-up is low so allotment typically falls to institutional investors
Reserve a modest proportion of auction amount ("over-allotment") for primary dealer retail distribution after auction date at noncompetitive rate	Incomplete

E. Bond Market Development: Promoting Private Issuance

Policy Action	Status
Educate potential issuers on bonds, equities, and securitization	Complete/ongoing, with CMA conducting workshops for issuers
Complete the legal requirements for securitization (Trust Law, SPVs) and review tax treatment	The Trust Law was published in June 2013 while the regulation on asset-backed securities was published in September 2013; the CMA is still interacting with Ministry of Finance to gain clarity on tax policy for securitization transactions
Explore potential domestic financing component for medium-sized public private partnership projects	Legal framework in place supporting the issuance of different types of capital-market products suitable for the issuer
Educate and canvass investors to confirm interest in new issues	Complete, as countrywide road shows are conducted during every new issue

Source: Capital Market Authority, Republic of Rwanda.

Appendix 2: Assessment of the Free Flow of Capital in the East African Community as Reported in the 2014 EAC Common Market Scorecard

In 2010, the member states of the East African Community established the Common Market Protocol, which committed them to eliminate restrictions on the free movement of goods, services, capital, and people. Most targets were scheduled to be met in 2015, but in a 2014 audit, titled the East African Common Market Scorecard, the EAC Secretariat noted numerous shortcomings. The tables below present their findings on the barriers that still inhibit the free flow of capital across the region as well as the EAC Secretariat's recommendations for achieving greater integration.

Key Findings

- **All EAC partner states have restrictions that affect investment from other EAC economies.**
- **Only two of the 20 capital operations are free of restrictions in all partner states. These are external borrowing by residents and repatriation of proceeds from the sale of assets. All of the -18 other operations have at least one partner state imposing a restriction.**
- **Kenya's laws and regulations make it easiest to move capital across the EAC. Tanzania and Burundi make it hardest.**
- **Combined, EAC partner states need to repeal provisions in at least 25 laws and regulations to fully comply with the protocol. Rwanda has the most (eight), while Burundi has the fewest (two) laws and regulations in need of revision.**
- **Capital controls are the most severe restriction on the movement of capital across the EAC, affecting the majority of transactions covered under the protocol. Burundi's controls restrict seven operations and Tanzania's restrict 12.**
- **No EAC state has developed regulations for derivative securities.**
- **4 EAC partner states—Burundi being the only exception—have introduced exemptions to the protocol without following the requirements for notification of the other partner states or the EAC Secretariat. At least nine such exemptions are in place, guided by concerns about prudential supervision, public policy, money laundering, financial sanctions agreed to by the partner states, and financial disturbances.**
- **Despite the protocol coming into force in 2010, and contrary to the requirements of Article 24, new restrictions on the movement of capital have been introduced in some partner states' laws.**
- **Restrictions on the movement of capital affect more than just moving capital across the EAC. Some restrictions remain during the life of the investment, favoring domestic investors. Uganda, for example, makes certain incentives available only to domestic investors.**

Recommendations

- **Regulators should move away from merit-based decision-making (that is, using the perceived likelihood of an investment's success as a basis for authorizing it) toward a disclosure approach (to ensure that sufficient information about an opportunity is disclosed so that potential investors can make informed judgments about its attractiveness).**
- **The EAC Secretariat and partner states need to enforce the notification mechanism, which will create a transparent and credible system for monitoring the free movement of capital in the EAC.**
- **When partner states impose restrictions on the movement of capital, they should always be temporary. Exemptions allowed under Article 25 (1) of the protocol should be applied only when essential.**
- **To unleash regional capital for private sector growth, the EAC should prioritize the rollback of laws, regulations, and investment codes that impede investment.**
- **Capacity building is required for effective financial integration, including the development of market intermediaries, stronger coordination of securities markets, and more investment in public awareness.**

Source: East African Common Market Scorecard 2014, East African Community Secretariat.

Compliance with Capital Openness Mandated by the Common Market Protocol

✓ = open/compliant | **X** = restricted/not compliant

	Rwanda	Burundi	Kenya	Tanzania	Uganda
Purchase by residents of foreign shares or other securities of a participating nature	✓	X	✓	X	✓
Local purchase by non-residents of shares or other securities of a participating nature	✓	X	✓	X	X
Participation of residents in IPOs in foreign capital markets	✓	X	✓	X	✓
Local sale by non-residents of foreign shares or other securities of a participating nature	✓	No framework	✓	X	✓
Foreign sale by residents of shares or other securities of a participating nature	✓	X	✓	X	✓
Local purchase of bonds and other debt instruments by non-residents	✓	X	✓	X	X
Local sale of bonds and other debt instruments by non-residents	✓	X	✓	X	✓
Sale of bonds and other debt instruments abroad by residents	✓	X	✓	X	✓
Local purchase or sale of money market instruments by non-residents	X	✓	✓	X	✓
Foreign purchase or sale of money market instruments by residents	X	X	✓	✓	✓
Local purchase by non-residents of collective investment schemes	✓	No framework	✓	✓	✓
Local sale or issue by non-residents of collective investment schemes	✓	No framework	✓	✓	✓
Sale or issue of derivative products locally by non-residents	No framework	No framework	No framework	No framework	No framework
Sale or issue of derivative products abroad by residents	No framework	No framework	No framework	No framework	No framework
External borrowing by residents	✓	✓	✓	✓	✓
Lending abroad by residents	✓	X	✓	X	✓
Inward direct investments	X	X	X	X	X
Outward direct investments	✓	X	✓	X	✓
Repatriation of proceeds from the sale of assets	✓	✓	✓	✓	✓
Personal capital transactions	✓	✓	✓	X	✓
Total number of open capital operations	**15**	**4**	**17**	**5**	**15**

Source: East African Common Market Scorecard 2014, East African Community Secretariat.

Appendix 3: "SWOT" Analysis of EAC Capital-Market Integration from the East African Securities Regulatory Authorities

Strengths	Weaknesses
▪ High degree of harmonization of the capital markets laws in Kenya, Tanzania, Rwanda, and Uganda ▪ Small number of partner states in the EAC, making the process of integration manageable ▪ There is a clear mandate for capital markets integration in the EAC treaty ▪ Membership in the International Organization of Securities Commissions ▪ Burundi's aspiration of Burundi to set up capital markets	▪ Inadequate funding for regional institutions ▪ Shallow capital markets with limited financial products and investor base ▪ Inadequate infrastructure ▪ Lack of a fully fledged EASRA Secretariat ▪ Lack of full-time professionals dedicated to regional issues
Opportunities	**Threats**
▪ Funding opportunities in the World Bank Financial Sector Development and Regionalization Project ▪ Common legal and regulatory systems in Kenya, Tanzania, Rwanda, and Uganda (common law) ▪ Common legal regulatory systems in Rwanda and Burundi (civil law) ▪ The signing of the Common Market Protocol and the East African Monetary Union Protocol ▪ Goodwill and active interest in regional integration initiatives by development partners like the World Bank, IMF, DFID, SIDA, ESMID, etc. ▪ On-going technology and communications development in East Africa (e.g., mobile communications and financial services, undersea fiber cables, etc.) ▪ Increased interest in financial literacy by both the EAC partner states and development partners ▪ Increased interest by international financial institutions in the East African financial markets ▪ Global focus on emerging markets and frontier markets as the engines of current and future economic growth ▪ Historical ties among the EAC partner states	▪ Political instability ▪ High level of donor dependency, which may sometimes be unreliable and inconsistent with the goals and aspirations of the EASRA ▪ Competition from other regional blocs like SADC and COMESA to which some EASRA members belong ▪ The different levels of development of the EAC partner states ▪ Economic instability in the developed world that could affect the level of market activity ▪ Slow compliance with anti-money laundering laws in the region, which may affect investor confidence in the EAC regional capital markets

Source: Strategic Plan 2014-2018, East African Securities Regulatory Authorities, December 2013.

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About the Center for Financial Markets

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About the Capital Market Authority of Rwanda

The Capital Market Authority (CMA) is the regulator of the Rwandan capital markets. The CMA replaced the Capital Market Advisory Council (CMAC) that had been established by order of the prime minister in 2007 to initially guide capital-market development in Rwanda. In 2011, after the passage of Law N°11/2011 of 18/05/2011, the CMA took over this responsibility. The mission of the CMA is to nurture wealth by facilitating the development of an orderly, fair, transparent, and efficient capital market system.

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