



*COLLEGE OF BUSINESS AND ECONOMICS*  
**SCHOOL OF BUSINESS**  
**DEPARTMENT OF MANAGEMENT**  
**MBA**

**STRATEGIES FOR RWANDAN COMMERCIAL  
COMPANIES TO BE ELIGIBLE TO THE RWANDAN  
CAPITAL MARKET.**

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**Huye, June 2016.**

## **DECLARATION**

This research study is my original work and has not been presented to any other Institution. No part of this research should be reproduced without the authors' consent or that of the University of Rwanda.

Student name: Sabine MUTEZINKINDI IYAKAREMYE

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## **CERTIFICATE**

This is to certify that the work entitled “**Strategies for Rwandan Commercial Companies to be Eligible to the Rwandan Capital Market**” has been submitted with our approval as The University of Rwanda Supervisor.

Name: **Dr. SHAIK NAGOOR MEERA**

Date: .....

Signature:.....

## **DEDICATION**

This dissertation is dedicated to my Almighty God Jehovah, to my love husband, Nzeli RUDASIGWA, my beloved parent Anastasie MPFABAKUZE, our children Rachel, Esther, Linda, Danny, and Valentin. It is dedicated to my brothers and sisters. All my teachers and lecturers find a special place in this modest work.

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## **ABSTRACT**

This dissertation aims to contribute the debate on how to boost the funding of Rwandan commercial companies and those with high growth potential through the capital market and other external sources of finance than bank credit. In this regard, the Rwandan commercial companies have to fulfill the eligible conditions of the stock exchange, this require sustainable efforts for incorporation, for professionalism, for good governance and for performant management. The Rwandan government, CMA and RSE have a big role to create a well environment. The reflections on use of tax incentives play a significant role on these issues. The design of markets for small and medium capitalisation securities and the role of regulation are also substantial. The debate focused on how to overcome barriers which hinder the companies to access to the market for small and medium capitalisation securities. An exclusively national framework is not sufficient to guarantee the growth in these markets, because commercial companies have to deploy efforts to fulfil the requirements of the security merket. This research has developed a strategic plan for the Rwandan commercial companies to be eligible to the capital market.

In Methodology of this study, the descriptive research design was used. A self administered questionnaire well as follow up interview were held with CMA and RSE staff in order collect primary data. The purposive sampling was used to select the target of the population to obtain information. The Managers of company or their representatives have been selected on a simple random sampling, and snowball sampling to get data. The primary and secondary data were used to get information from the respondents through a structured questionnaire in interview schedule. The researcher analysed the eligible conditions of the stock exchange to highlight the constraints faced by Rwandan companies and the possibilities of commercial companies to integrate onto the capital market.

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## **LIST OF ACCRONYMS AND ABBREVIATIONS**

ACCA: Accountants of Chartered Certified Association

Altex: Alternative Stock Exchange Segment Market

BK: Bank of Kigali (BOK)

BNR: National Bank of Rwanda

BRALIRWA: Brasserie et Limonaderie du Rwanda (BRL)

BRVM: Bourse Régionale des Valeurs Mobilières

CIS: Collective Investment Schemes

CMA: Capital Market Authority

EAC: East African Community

EASDAQ: European Association of Securities Dealers Automated Quotation

EASEA: East Africa Stock Exchange Association

EASRA: East Africa Securities Regulatory Authority

EMC: Emerging Markets Committee

EQTY: Equity Bank Group

EU: European Union

FDI: Foreign Direct Investments

GISA: Go Incubation Board for Startup and Acceleration Firms.

GoR: Rwandan Government

GVA: Gross Value Added

IFC: International Finance Cooperation

IOSCO: International Organization of Securities Commissions

IPO: Initial Public Offer

IPO:Initial Public Offer

KCB: Kenya Commercial Bank

MINECOFIN:Ministry of Economics, Finance and Planing

MOU: Memorandum of Understanding.

NMG: Nation Media Group

OPEC: Organization of Petroleum Exporting Countries

OTC: Over-The-Counter market

RDB: Rwanda Development Board.

RSE: Rwanda Stock Exchange.

SMEX: Small and Medium Enterprises Exchange

UCHU: Uchumi Super Markets

UR: University of Rwanda.

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# **CHAPTER ONE: GENERAL INTRODUCTION**

## **1.1. INTRODUCTION**

The capital market is a market for financial investments that are direct or indirect claims to capital. The capital market comprises the complex of institutions and mechanism through which intermediate term funds and long term funds are pooled and made available to business, government and individuals. The Capital market facilitates mobilization of savings of individuals and pools them into reservoir of capital which can be used for the economic development of a country. An efficient capital market is essential for raising capital by the corporate sector of the economy and for the protection of the interest of investors in corporate securities. There arises a need to strike a balance between raising of capital for economic development on one side and protection of investors on the other. Unless the interests of investors are protected, raising capital, by corporate is not possible. An efficient capital market can provide a mechanism for raising capital and also by protecting investors in corporate securities. The capital market has two interdependent and inseparable segments, the primary market and the secondary market.

The theories on capital market have evolved continuously. The Capital asset pricing model (CAPM), one of the two leading capital market theories of 1960s and 1970s, is based on the idea of risk aversion. The efficient market hypothesis, early 1990's capital market theory setting that it is impossible to earn abnormal capital gains or profit on the basis of the market information only. If the price is rumored to increase in the near future, investors or traders will buy the instrument now thus driving its price up and negating the anticipated increase. Modern portfolio theory set of concepts aimed at building a most efficient collection (portfolio) of different types of assets, based on the observation that although investors want high returns they dislike high risk. Actually there is an emergence of the private equity. The private equity market is a market that is quite young; which emerged as the US, in the 80s. that was much influenced by the arrival of American private equity fund in France; and has experienced strong emergence in the 90s until 2007 because of the credit flow was fairly liquid during those years. The venture capital and pooling securities together for small and medium-sized enterprises (SMEs) are key contributors to economic growth and job creation.

(Iota Kaousar Nassr and Gert Wehinger, OECD Directorate of Financial and Enterprise Affairs. *Unlocking SME finance through market-based debt: Securitization, private placements and bonds*, October 2014).

The contribution of this study is to highlight the constraints of commercial companies in Rwanda, to assess eligible conditions of the stock exchange, and identify strategies that can be applied by Rwandan companies toward accessing finance in the capital market.

### **Role of Capital Markets in the Economy**

The development of a vibrant capital market remains as a fundamental component of the country's socio-economic development goals. The key role of capital market is to contribute in the provision of long-term resources for productive investment to accelerate the economic growth and alleviate poverty. The capital market is a source of funding for infrastructural development such as roads, water, sewer systems, housing, energy, telecommunications and public transport. It creates a great socio-economic benefit and supports the government in its efforts to finance the essential socio-economic development projects.

The capital market serves as an important gateway in Rwanda to encourage the global investors and foreign direct investments (FDI). The capital market provides the investment opportunities for an increase of domestic savings and essential investment ratios. The capital market encourages the broader ownership of productive assets and small savers to enable them to benefit from economic growth and wealth distribution in Rwanda. (Annual Report CMA 2012-2013).

The Rwandan economy has now a capital market since 2011. It is an important tool in the enhancement of the private sector. The private sector is one of the main pillars of economic development in Rwanda. The company needs to fulfill a number of conditions of the capital market to be eligible. The law of capital market in Rwanda has been published. The question is to know how many national companies would access to the capital market in Rwanda and what are the strategies that can help a big number of national companies to get the financial level of capital market. This study focused on this question.

As an emerging market, stock market investment is not a deeply entrenched culture in Rwanda. Investment and trading shares are still seen more as speculative venture rather than long term investment and savings of financial assets.

The challenge of Authority is to raise the level of the general public awareness, as well as among the potential issuers of securities in order to promote the use of capital markets. The CMA has developed a public education and awareness program to sensitize the public on the opportunities and risks involved in capital markets investments. It is expected that a high level of public education on capital markets leads to an increase level of participation by a larger section of the community. (Annual Report CMA 2012-2013).

## **1.2. BACKGROUND OF THE STUDY.**

### **Evolution of World Capital Markets**

According to Per Jacobsson foundation 1978, the international market played the growing part in transmitting capital across the world which represents an important change of recent years. For a considerable time after 1945, a far larger proportion of international capital consisted of official flows, initially for the reconstruction of Europe and Japan and for development of the world's poorer countries. During that period, the private capital tended to bypass the international market. Private capital exports from the United States were mainly in the form of foreign direct investment, whose cost advantages to corporations over exports from the United States persisted until relatively recently (Per Jacobson Foundation, *The international Capital Market and the International Monetary System*, 1978).

But until controls imposed on the export of capital from the United States in the early 1960s, such foreign direct investment was financed mainly in the domestic capital market. Western Europe was in no position to export capital for some years after 1945 and when able to do so again, the preference in many places was to import labor. When Japan once again began to export capital, it concentrated on foreign direct investment, initially for assured. Access to raw materials and like industry in the United States financed this expansion mainly units domestic capital market (Per Jacobson Foundation, *The international Capital Market and the International Monetary System*, 1978).



For about 20 years to 1965, international capital market sector functions, even on a small scale. It involved in the sale of traditional foreign bonds but this provided only a residual channel for international flows. Because the most lead to financial centers which were either closed to foreign borrowers or severely restricted in their access. The beginnings of contemporary international financial market did not hastily emerge out of the oil neither crisis nor dismantlement follows as that particular strain eases.

Indeed, this year's estimated aggregate current surplus of Japan, the Federal Republic of Germany, Switzerland and The Netherlands is running at about one of the member countries of the Organization of Petroleum Exporting Countries (OPEC). Whose members are the only least populous remain in chronic surplus. The premonitory strains in the world's economic environment of Eurocurrency market in which the foreign currencies are lent and borrowed, mainly among the banks and multinational corporations for short term. It has been grafted onto the foreign exchange market, in which currencies are sold and bought. This first became an active market in the latter 1950s, but was given new impetus in the 1960s by restrictions on U.S. banks, bidding for interest-bearing deposits in their domestic market. According to Gabriel Hauge 1978, the bulk of liquidity needed to finance the growth of world trade which provided instead, and without fanfare, by the Eurocurrency market. Whose net size has grown about eightfold to some \$400 billion in the past dozen years, in the context of an estimated \$700 billion gross size in mid-1978.

Market lending to official borrowers made a major contribution to the quarter of a trillion dollar to increase the world reserves. It helped to keep the level of world reserves close to four months of the world. The imports was in 1970 Moreover, new money centers are emerging and some initiated because of time differences or national considerations. Hong Kong, Singapore, Tokyo, Bahrain, and Kuwait are rapidly giving the added substance to an offshore money market.

Patrick Asea (2003), many of African stock exchanges are small, underdeveloped and illiquid. They tend to operate in the isolation from other markets, have low trading volumes, and sheltered from competition by national regulations. They face the barriers of capital

mobility because of high travel costs and communications (Patrick Asea, Lending Cycles, 2003).

The stock market securities are usually listed and traded on the stock exchanges-corporations or mutual organizations which provide the trading facilities for stock brokers and traders. The government of Rwanda ushered the capital market in order to diversify the economy as one of the strategies to achieve the vision 2020. It aims at transforming the country into a high competitive service in economy. The Rwanda stock exchange (RSE) market created in in January of 2008 in the country to put financial markets at a center stage of the financial sector. And to ensure proper regulation of the RSE, the Capital Market Advisory Council (CMAC) established to oversee its activities. The Rwandan government further supports the liberalization and privatization. It puts in place the policies and regulations to enhance the competitive market practices.

Africa is likely to offer sanctuary when the investors finally begin to focus on the fundamental performance of companies and economies. African growth has never been predicated on the exports and remained robust despite the global slowdown. Corporate earnings remain strong with average earnings per share growth of 32 % in 2008; 8 % in 2009; and forecast 22 %, 2010; 18%, 2015. The differential valuation between Africa and other emerging markets is not a reflection of any fundamental difference in economic outlook. (CMA Annual Report 2011).

The principal activity of Capital Market Authority is to guide the development of the capital market in Rwanda. Stock exchanges impose stringent trading rules, listing requirements, and enforce statutory requirements that are binding on all listed companies and trading members. The objective of capital market authority to the growth of capital market in Rwanda is to develop capital markets in the country through, among other things, public education, market research, product development and capacity building. The picture may not necessary be the same across the country, though the economic development status may be in listed company. The capital market in Rwanda is a new component of investment and savings. It is operating only since June 9<sup>th</sup> 2011, when the Capital Market Authority (CMA) was established by the Prime Minister's Order of 28<sup>th</sup> March 2007 to initially guide the development of a capital

Market in Rwanda (Outpost Rwanda's beacon, March 2012). CMAC operated as the Capital Market Regulator, pending the creation of the CMA as provided in the law N° 11/2011 of 18<sup>th</sup> May 2011 published on 9<sup>th</sup> June, 2011. CMAC facilitated the creation of the RSE as a stock Exchange and admitted 10 members of the RSE awaiting licensing powers provided in the newly published CMA law. Before the establishment of the CMAC, there was no capital market operating in Rwanda. All the financing capitals had to be given from bank loans. There are so many advantages of Capital from the capital market than the funds from Banks. With that market, investors have at their disposal enough capital for a long term at a lower interest rate (CMA Annual Report 2012).

The capital market is a very good source of financing. Because it collects amount of money from the public. The collection of small contributions from each person becomes big amounts of capital which is not expensive and for a long time. This facilitates the investors to have the finance they need to develop their business. The private sector is a big pillar of the economic development. If the capital market contributes to its development, this will be a good solution, and will accelerate the economic growth. This means that the investment in Rwanda will take another air and will develop quickly.

The study focused on the fact that many national companies would afford listing requirements. What are the strategies applied in Rwandan companies which are eligible for the capital market?

### **1.3. PROBLEM STATEMENT**

Many problems slow down the economic growth in Rwanda; as a small country, it doesn't have enough agriculture production. The overpopulation, unemployment, lack of skilled labor, lack of needed capital, insufficient natural resources and a landlocked country.

This research focuses on how the private sector lacks capital. The Rwandan commercial companies lack enough capital to develop technology and improve the output and benefit. The CMA is a solution of this problem, because the private sector is a main pillar of the Rwandan

economic development. In this regards, the private sector would be better and long-lasting if national companies were financed too, not only international companies.

Rwanda's Vision 2020 identifies six priority pillars and three cross-cutting areas. The development is crucial to make the necessary long-term transformations in the Rwandan society. One of pillars is development of an efficient private sector which spearheaded the competitiveness and entrepreneurship. The Census establishment reports of 2014 in Rwanda indicates over 154,236 enterprises compared to an estimated of 73,000 in 2008, a growth of nearly 102% over six-year period. As table four shows, among 154,236 companies; 99.8% are small and medium companies, only 11,137 (7.2%) companies are registered in RDB. (Ministry of Trade and Industry, 2014; Establishment Census, 2014). The SMEs comprise 98.3% of all formal registered companies; 44.1% of micro-sized establishments employ between 1 and 3 people. This indicates that the growth of SME sector can be of a strategic importance in addressing the challenge of access to finance (Ministry of Trade and Industry, Establishment Census, 2014; African Development Bank & African Development Fund; Leveraging Capital Markets for SME Financing in Rwanda, Final Report, 28th September 2012).

Now the question is; Rwandan commercial companies which can afford the eligibility conditions are they enough? This depends on the eligibility conditions of the CMA. It depend also on the streingth and the targets of rwandan commercial companies.

This research shows if many Rwandan companies can be eligible to the capital market. What are the conditions that limit many national companies? What are the strategies that can be applied by Rwandan commercial companies to fulfill the conditions of capital market? SMEs contribute 49% of global private sector output and 63% of employment world-wide, giving a substantial economic and social contribution. SMEs account for nine out of ten businesses globally. They provide more than 60% of over all employment world-wide and roughly 80% of jobs in the developed world. SMEs contribute approximately 50% of global Gross Value Added (GVA), and an even larger percentage indeveloped countries. It iscritical to the economic prospects of many nations that SMEs are provided with the financial support they need. (Establishment Census, 2014)

Government bodies and other interested parties must create the right environment for the provision of private capital to SMEs. Increasing SMEs' contribution to GDP by up to 0.1-0.2% per annum and creating hundreds of thousands of jobs globally. However, this requires multiple parties beyond the traditional SME bank relationship. It is imperative that the private and public sectors work together to improve SMEs' access to financing and realize the wider economic and social benefits of lending to SME (Olivier Wyman, Towards Better Capital Markets Solutions for SME Financing 2014).

The most important is that managers of commercial companies must have a strength business plan and a good strategic plan to access the equity capital. To achieve this, they need enough knowledge about the capital market. The governments can improve the flow of capital to SMEs but it ensures that the institutional environment is conducive to SME lending. Specifically, the use of capital market based on solutions to bring the private and public sectors and realize broader economic and social benefits of SME lending. The commercial companies have a bigger percentage of efforts to afford the capital market. NASDAQ Private Market is an example of a new type of platform that allows the trading shares in companies. This enables SMEs to obtain an early stage of investment alongside the building relationships with investors that support the IPO issuance. The platform targeted primarily at the institutional investors that access through brokers. (Olivier Wyman, Towards Better Capital Markets Solutions for SME Financing, 2014).

#### **1.4. RESEARCH QUESTIONS**

- i. Are there enough Rwandan commercial companies that can be eligible to the capital market?
- ii. How do capital market framework and regulations facilitate the commercial companies to access to capital market?
- iii. Which eligible conditions seem to be difficult for many companies in Rwanda?
- iv. What are different commercial companies are doing to access to the capital market?

- v. What strategies and changes can be applied by different Rwandan commercial companies?

## **1.5. PURPOSE OF THE STUDY**

This study focuses on an assessment on how different commercial companies develop, and accomplish all required eligible conditions of the capital market. The entrepreneurship spirit and professionalism increase efficiency and good financial management of companies to promote the private sector. The capital market can play a key role in the economic phenomenon of the private sector promotion. The private sector has been seen like an important catalysor of economic development of the country. The introduction of the capital market in Rwanda is like an opportunity and strength to develop the private sector. This may solve many economic problems such as the low production, youth unemployment, lack of new technologies in different industries, the quality of production, the competitiveness of Rwandan products and may develop the Rwandan economy.

## **1.6. OBJECTIVES OF THE STUDY**

The objectives of this study are general objective and specific objectives.

### **General objectives**

The general objective of this research is essentially to assess the possibility of Rwandan commercial companies to access to the capital market. The strategies that can be drawn by the different commercial companies to fulfill the requirements of the capital market. For the companies to use the new capital market as a solution of the financial problem in the private sector, and enhance the entrepreneurship. It has been shown that lack of capital is the main limit of the private sector, the CMA as a source of funds can be the solution.

### **Specific objectives.**

- (i) To identify different constraints faced by enterprises and commercial companies in Rwanda to access long term finance and capital market.
- (ii) To examine the listing requirements and identify difficult eligibility listing conditions to Rwandan commercial companies.

- (iii) To examine if what CMA and RSE have done to facilitate SMEs is enough to enable their access to the capital market.
- (iv) To assess if the registration requirements to be eligible to the capital market are well known by the commercial companies managers.
- (v) To suggest the strategies that can be drawn by commercial companies to access the capital market.

## **1.7. SIGNIFICANCE OF THE STUDY.**

I hope that the result of the research encourages the businessmen, investors, managers, and government authorities to appreciate the importance of the capital market and enhance the economic development and growth of commercial companies. This study is both of academic and economic significance.

### **To students**

The finding of this study provides the literature added to the existing one for students. The existing literature related to Rwandan capital market which is not exhaustive since 2011. The findings compiled in a report can be a reference document particularly to the students of the University of Rwanda and any other researcher in the domain of capital market.

### **To the Managers of companies**

The study shows mainly the Managers of national companies how the strategies used in order to promote their companies to the capital market level. The findings of this study show the constraints which the Managers of companies faced to access the capital market. The importance of equity financing compared to financial bank which fulfills the requirements of listing.

### **To the Government**

The government takes into consideration the constraints of commercial companies toward financing and in particular toward the capital market. They may be willing to use the capital market like a malleable material for the resolution of economic problems and the development

of the private sector, the SMEs and job creation. Once the Rwandan government is aware of the constraints faced by company's managers, it can make a more affordable market framework and a flexible legal, institutional environment.

### **To the RSE**

The RSE deals with the eligible conditions which complicate the SMEs constraints and arrangements. It proposes the changes that can be made in the registration framework and propose amendment which may suit the Rwandan commercial companies especialy SMEs.

### **To the youth**

This study can be beneficial to the youth and students, to see how they can afford entrepreneurship, hard working, professionalism ... in order to promote their life conditions. It shows to Rwandan people, students the importance of savings and investment through the capital market. It shows how the strategies to use in order to benefit from the advantages of the capital market. They rely on the importance of working together for more strength those developping individual or family companies.

## **1.8. SCOPE OF THE STUDY**

Akpakpan (2005:7); the scope of the study is having some limitations or boundary lines of the study. It is the areas where the research was conducted. It is the time and space limit. The research carried out in CMA and RSE offices where researcherr socialized with the management and other staff selected. The research was also conducted in the field of commercial companies. This study is limited to the data covering the period between 2011 and 2016. The research is expected to take 26 months from February, 2014 to January, 2016.

## **1.9. THE LIMITATIONS**

Put aside the problem of insufficient financial means, the problems of the commercial companies of African countries which are not easily obtained and they are not perfect and reliable once obtained.



The CMA in Rwanda is a new institution in the country. This explains why the collection of sufficient data is difficult. The reports on CMA in Rwanda are so many today, but the research studies and papers on subject are still few. That is a reason why, I had a hard work to obtain primary data through interview and questionnaires.

The information on the private sector is available, but some relates to the financial reports on commercial company may not be available. African private sector has the complex problems of the availability of reliable data. It is so confused, because of the informal commerce, informal farmers and small business. Another problem is a lack of accounting practices knowledge.

This study was not easy to conduct and carry out it properly, due to the obstacles. These are merely because there are number of obstacles encountered in data gathering and ranging the limitations of skepticism, response delay, not to tell the truth and poor documentation bureaucracy doubtfulness of available data. Limitations of the study are hindrances or obstacles witnessed by the researcher in the course of the study. But these limitations didn't affect the truth of the results because so much documentation has been done.

## **1.10. ORGANIZATION OF THE STUDY**

This study is subdivided into the following Chapters. The first chapter is about introduction composed of historical background, problem statement, research questions, scope of the study, Significance of the study. The second chapter focuses on the theoretical framework and literature review. The chapter three is about methodology. Chapter four is composed of the data analysis and presentation of the findings. The last chapter is the conclusion and recommendations.

## **CHAPTER II: THEORETICAL FRAMEWORK AND LITTERATURE REVIEW**

### **2.1. INTRODUCTION**

This chapter represents the relevant literature review on exploiting a Capital Market Authority and capital market. In this chapter, the researcher looked at concepts of capital market, terms used in stock market or capital market, definition of capital market in Rwanda, capital market authority, roles of capital market authority, integration of Rwanda capital market in the east African capital market, policies and institutional arrangements put in place to promote investment and capital market growth in Rwanda. The constraints faced by financial institutions to finance rwandan companies, the constraints of CMA to finance Rwandan companies. The Rwandan companies ability to access capital market are of a great importance because it contributes to the economic growth of the country.

### **2.2. THEORETICAL FRAMEWORK**

#### **KEY CONCEPTS**

**Commercial Companies:** A Commercial Company is a contract by which two or more persons undertake to participate in an enterprise for profit, each contributing a share of the Capital in the form of tangible or intangible property or services, with a view to sharing any profit or loss resulting form the enterprise. (According to the Oxford dictionary of business, 1996)

**SMEs:** are businesses whose personnel numbers fall below certain limits. The abbreviation "SMEs" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). SMEs are also said to be responsible for driving innovation and competition in many economic sectors. SMEs vary widely from start-ups to medium sized companies. Several different terms and terminology are used to classify SMEs such as: SME issuer; small issuer; venture issuer; junior issuer; mid to small cap entity and medium sized company. (According to the Oxford dictionary of business, 1996). SMEs are any enterprise in which there is concentration of

ownership/management in a small number of people, and one or more of the following conditions are also found; few sources of income and uncomplicated activities; unsophisticated record-keeping; limited internal controls and potential for management override of internal controls and few personnel, many having a wide range of duties. (ACCA, Paper F8: Audit and Assurance, 2015).

**A Share or Equity:** is a unit of ownership in a company. A share holder is one of the owners of the company. They enjoy all the rights including voting at the general meetings. A share is simply a divided-up unit of the value of a company. As the overall value of the company fluctuates so does the share price. The total value minus company borrowings would be divided by the number of shares in issue and there would be the value of each individual share (Joel G. Siegel, Jae K. Shim, *Dictionary of Accounting Terms, Third Edition*, Queens College of the City University of New York, Long Beach, 2000).

**Bond:** A Bond is simply an I Owe You (IOU) in which an investor agrees to loan money to a company or government in exchange for a predetermined interest rate for a specified period of time. A bond is a debt. When you buy a bond you become a lender. When you buy a treasury bond, you become a lender to the government and the government becomes a borrower. Bonds promise to pay interest or coupon at specific intervals of time during until maturity when they pay back the original plus the last interest payment. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Treasury Bonds:** Treasury Bonds are medium to long-term debt securities that carry an annual rate of interest fixed over the life of the security, payable six monthly. All Treasury Bonds **are exempt** from non-resident interest withholding tax (Austrian Office of Financial Management, Annual Report, 2015).

**Treasury bills (T-bills):** Are short term debt securities (one year or less) issued as a primary instrument for regulating money supply or raising funds via open market operations to finance the budget gap. T-bills are always issued through the country's central bank, and commonly pay no explicit interest but are sold at a discount, their yield being the difference between price and the par-value also called redemption value (Joel G. Siegel, Jae K. Shim, *Dictionary*

*of Accounting Terms, Third Edition, Queens College of the City University of New York, Long Beach, 2000).*

**Dividend:** a dividend is a portion of a company's earnings that is paid out to shareholders on a quarterly or annual basis. Most dividend policies are set by the current management. A dividend is a distribution or payment of profits to the shareholders, an appropriation of profit after tax. Shareholders are entitled to receive a share of the profits made by the company. A dividend is a percentage of the par value of the shares in issue. Many companies pay dividends in **two stages** during the course of their accounting year; In mid year, after the half-year financial results are known, the company might pay an interim dividend. At the end of the year, the company might propose a further final dividend. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Interest:** interest is income earned on debt or securities for a given period of time. Interest rate normally depends maturity period and the degree of the risk of the securities. It is referred to as a coupon traditionally. (Encyclopædia Britannica, *Stock exchange :Encyclopædia Britannica 2009. Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**Share capital:** The capital of limited liabilities companies: The proprietors capital in a limited liability company consists of share capital. When a company is set up for the first time, it issues shares, which are paid for by investors, who then become shareholders of the company. The face value of the shares is called their par value or legal value (sometimes the nominal value). The amount at which the shares are issued may exceed their par value. The excess is described as share premium or capital paid-up in excess of par value. (Joel G. Siegel, Jae K. Shim, *Dictionary of Accounting Terms, Third Edition, Queens College of the City University of New York, Long Beach, 2000).*

**Ordinary shares:** are the most common type of share. They carry no right to a fixed dividend but are entitled to all profits left after payment of any preference dividend. Generally, however, only a part of such remaining profits is distributed, the rest being kept in reserve.

The amount of ordinary dividends normally fluctuates although it is often expected that it will increase from year to year. Ordinary shares normally carry **voting rights**. Ordinary shareholders are thus the effective **owners** of a company. They own the equity of the

business, and any reserves of the business belong to them. Ordinary shareholders are sometimes referred to as equity shareholders. Preference shareholders are in many ways more like payables of the company, although legally they are members, not payables. It should be emphasized, however, that the precise rights attached to preference and ordinary shares may vary. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, Ultimate Reference Suite*, Chicago, 2009).

**Preference shares;** are shares which confer certain preferential rights on their holder. They carry the right to a final dividend which is expressed as a percentage of their par value. Preference dividends have priority over ordinary dividends. In other words, if the managers of a company wish to pay a dividend (which they are not obliged to do) they must pay any preference dividend first. Otherwise, no ordinary dividend may be paid. Preference shares are classified in two ways; Redeemable preference shares and Irredeemable preference shares. (Encyclopædia Britannica, *Stock exchange :Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**The market value of shares:** The par value of shares will be different from their market value, which is the price at which someone is prepared to purchase shares in the company from an existing shareholder. This transfer of existing shares does not affect the company's own financial position in any way, apart from changing the register of members, there are certainly no accounting entries to be made for the share sale. Shares in private companies do not change hands very often; hence their market value is often hard to estimate. Companies listed on a stock exchange are quoted, ie it is the market value of the shares which is quoted. (Joel G. Siegel, Jae K. Shim, *Dictionary of Accounting Terms, Third Edition*, Queens College of the City University of New York, Long Beach, 2000).

**Loan stock or bonds:** Limited liability companies may issue loan stock or bonds. These are long-term liabilities. In some countries they are described as **loan capital** because they are means of raising finance, in the same way as issuing share capital raises finance. They are different from share capital in the following ways;

**The share premium;** premium means the difference between the issue price of the share and its par value. When a company is first incorporated (set up) the issue price of its shares will

probably be the same as their par value and so there would be no share premium. If the company does well, the market value of its shares will increase, but not the par value. The price of any new shares issued will be approximately their market value. The difference between cash received by the company and the par value of the new shares issued is transferred to the share premium account. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Bonus issues (capitalization):** A company may wish to increase its share capital without wishing to raise additional finance by issuing new shares. For example, a profitable company might expand from modest beginnings over a number of years. Its profitability would be reflected in large balances on its reserves, while its original share capital might look like that of a smaller business. It is open to such a company to re-classify some of its reserves as share capital. This is purely a paper exercise which raises no funds. Any reserve may be re-classified in this way, including a share premium account or other reserve. Such a re-classification increases the capital base of the company and gives creditors greater protection. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Rights issues:** A rights issue is an issue of shares for cash. The “rights” are offered to existing shareholders, who can sell them if they wish. This is beneficial for existing shareholders in that the shares are usually issued at a discount to the current market price. (ACCA, Financial Accounting, approved study text F3, 2015).

**Stock exchange:** According to Bonello, Frank J. 2008; Stock Exchange is an organized market for buying and selling financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded *over the counter*—that is, by telephone, ... (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Stock broker:** A stock broker is a regulated professional broker who buys and sells shares and other securities through market makers or agency only Firms on behalf of investors members of the stock market. They act on behalf of investors as well as on their own; they are referred to as dealers. They earn their income by charging a fee called a commission. A stockbroker is an agent of investors in the stock market. They are authorized individuals who can buy or sell securities on behalf of investors. Stock brokers are usually representatives of companies that are Stockbrokers also sometimes or exclusively trade on their own behalf, as a principal, speculating that a share or other financial instrument will increase or decline in price. In such cases the term broker makes little sense and the individuals or firms trading in principal capacity sometimes call themselves dealers, stock traders or simply traders.(Encyclopædia Britannica, *Stock exchange* :*Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**Commission:** commission is the fees charged by stockbrokers for their services. Whenever they buy or sell securities for a client they charge a fee called a commission. Normally the commission charged depends on the agreement between the stockbroker and their clients which is some time influenced by the rate of inflation.

**Initial Public Offer (IPO):** This term is used during the trading of new securities or equities issued or when a company sells shares to the public for the first time. IPO prices are usually fixed and offered. This term is normally in primary market where investors apply for the shares directly from the company or vender but through available intermediaries. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, UltimateReference Suite*, Chicago, 2009).

**Public Education:** One of the key mandates of the Authority. One of the ways of protecting the investors is to empower them through information and awareness programs. Consequently the Authority has identified investor education as a crucial area when dealing with investor protection and sensitization. Indeed the importance of educated and well informed investors in forging a stable capital market is now a globally acceptable international standard under IOSCO. The Authority is committed to ensuring that the investing public is an informed

community as a first step of investor protection while expanding the level of participation by the general public in Capital Market Investments. (CMA, Annual Report 2012-2013).

**Primary market:** The capital market is divided into primary and secondary market. The primary market is the market for new issuers or where new capital is raised. It is the market where securities are sold for the first time. At the primary market sale proceeds of the securities offered flow directly from the buyers or investors to the issuers of the securities. According to the Oxford dictionary of business (1996), Primary securities market is the financial market where securities are offered and purchased for the first time. According to Microsoft Encarta (2009), primary market is the first buying opportunity for new security: the first opportunity that investors have to buy a newly issued security. After the first purchases, subsequent trading is in the secondary market (Encyclopædia Britannica, *Stock exchange: Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**Secondary Market :** A secondary market is a market where investors purchase securities or assets from other investors, rather than from issuing companies themselves. The national exchanges - such as the New York Stock Exchange and the NASDAQ are secondary markets. These are markets where securities already sold in the primary market can be sold and bought. According to Pandey, I. 2008; the secondary market is the market for trading securities that have been sold or issued in the primary market and already in the hands of the public. Once securities have been successfully issued in the primary market, they are subsequently traded in the secondary market. This is where stock markets, stock exchanges or OTC markets by whichever name the market may be referred to, provide the facilities for secondary trading. According to Bonello 2008; there are two broad segments of the secondary markets namely: The organized exchanges and the over the counter (OTC) market.

**The Over-The-Counter market (OTC):** Thousands of companies do not list their stock on any exchange. These stocks make up the over-the-counter (OTC) market. The major over-the-counter market in the United States is the Nasdaq Stock Market (formerly, the National Association of Securities Dealers Automated Quotation [NASDAQ] system). The European Association of Securities Dealers Automated Quotation system (EASDAQ) is the major over-



the-counter market for the European Union (EU). The price of a stock depends on the market forces of supply and demand. (Egmont Kakarot-Handtke, Working Paper No. 741 Primary and Secondary Markets, Institute of Economics and Law, University of Stuttgart, December 2012). (Hahn, F. H., “*General Equilibrium Theory, Interest Special Issue: The Crisis in Economic Theory.*” Public interest 2014).

**Key players/practitioners in Capital Market:** Stockbrokers, dealers, sponsors and advisors; Investment banks and advisors; Custodians; Credit Rating agencies; Venture Capital companies; Investment clubs; Financial analysts and journalists; Fund/asset managers, ... (Hahn, F. H., “*General Equilibrium Theory, Interest Special Issue: The Crisis in Economic Theory.*” Public interest 2014).

**Asset backed securities:** Represent an ownership interest in mortgage loans made by financial institutions (savings and loans, commercial banks, mortgage companies) to finance the borrower’s purchase of a home or other real estate. When these loans are pooled by issuers for sale to investors, mortgage securities are created. As the underlying mortgage loans are paid off by the homeowners, investors receive payments of interest and principal. (Dictionary, Encyclopædia Britannica, *Encyclopædia Britannica 2009, Ultimate Reference Suite*, Chicago, 2009).

**Asset Securitization:** Asset securitization is the issuance of a debt instrument backed by a revenue-producing asset of the issuing company. Asset securitization involves producing bearer asset-backed securities, which can be freely traded and which are secured by a portfolio of receivables. In order to ensure marketability, the instrument must have general acceptability as a store of value, hence, the security is generally either rated by credit rating agencies, or is guaranteed by an independent guarantor. Further, to ensure liquidity, the instrument is generally prepared in homogenous lots. (Encyclopædia Britannica, *Stock exchange :Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**Venture capital:** Venture capital is money provided by an outside investor to finance a new, growing, or troubled business. The venture capitalist provides the funding knowing that there’s a significant risk associated with the company’s future profits and cash flow. Capital is

invested in exchange for an equity stake in the business rather than given as a loan, and the investor hopes the investment will yield a better-than-average return. Venture capital is an important source of funding for start-up and other companies that have a limited operating history and don't have access to capital markets. A venture capital firm (VC) typically looks for new and small businesses with a perceived long-term growth potential that will result in a large payout for investors. A venture capitalist is not necessarily just one wealthy financier. Most VCs are limited partnerships that have a fund of pooled investment capital with which to invest in a number of companies. (Encyclopædia Britannica, *Stock exchange :Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

**The Capital Market:** Stock Market Since 1800 According to Sullivan, Arthur; Steven M. Sheffrin 2003, 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, as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt). A capital Market is a component of the financial sector and securities traded in the capital market are usually long dated financial instruments like; Treasury Bonds, Municipal Bonds, Corporate Bonds and debentures, Shares or stocks issued by companies. According to Sheehan and Zavala, the growth in market capitalization in Africa has been described as remarkable as more countries outside of the more advanced economies of the Maghreb region (Northern Africa) and South Africa venture into the development of their capital markets.(Encyclopædia Britannica, *Stock exchange: Encyclopædia Britannica 2009 Ultimate Reference Suite*. Chicago: Encyclopædia Britannica, 2009).

### **2.3. EMPIRICAL LITERATURE**

The theories on capital market have evolved continuously. The Capital asset pricing model (CAPM), one of the two leading capital market theories of 1960s and 1970s, is based on the idea of risk aversion. It states that whatever the rate of return on an investment, it should be achieved with the lowest possible level of risk; a high-level of risk should be accompanied by a correspondingly high-level of return. CAPM, like its contemporary theory, arbitrage pricing

theory (APT) works only in a market in equilibrium. (Iota Kaousar Nassr and Gert Wehinger, OECD Directorate of Financial and Enterprise Affairs. *Unlocking SME finance through market-based debt: Securitization, private placements and bonds*, October 2014).

Efficient market hypothesis, early 1990's capital market theory that it is impossible to earn abnormal capital gains or profit on the basis of the market information. It states that the price of a financial instrument (bond, share, etc.) reflects all the information currently available and, if the price is rumored to increase in the near future, investors or traders will buy the instrument now thus driving its price up and negating the anticipated increase. And that it is impossible to predict movement of prices with any degree of certainty because prices follow a random walk and therefore, on average, no one is likely to beat the market. (Iota Kaousar Nassr and Gert Wehinger, OECD Directorate of Financial and Enterprise Affairs. *Unlocking SME finance through market-based debt: Securitization, private placements and bonds*. October 2014).

Modern portfolio theory set of concepts aimed at building a most efficient collection (portfolio) of different types of assets, based on the observation that although investors want high returns they dislike high risk (likelihood of the deviation of an actual return from the anticipated return). It suggests that the risk of a particular investment comprising a portfolio should be assessed on the basis of how its value varies in comparison with the market value of the entire portfolio, and not in isolation. And that a diversified portfolio of investments is efficient if it yields highest possible return for a given level of risk or incurs the lowest level of risk for a given amount of return. (Iota Kaousar Nassr and Gert Wehinger, OECD Directorate of Financial and Enterprise Affairs. *Unlocking SME finance through market-based debt: Securitization, private placements and bonds*. October 2014).

Actually there is an emergence of the private equity. The private equity market is a market that is quite young; which emerged as the US, in the 80s; that was much influenced by the arrival of American private equity fund in France; and has experienced strong emergence in the 90s until 2007 because of the credit flow was fairly liquid during those years. The venture capital and pooling securities together for Small and medium-sized enterprises (SMEs) are key contributors to economic growth and job creation. The economic and financial crises have

reduced bank lending and have affected SMEs in particular. Capital markets will have to play a bigger role in financing SMEs in order to make them more resilient to financial shocks. The modern capital market focuses on alternative market-based debt instruments for SME financing. It focuses on securitization and covered bonds and also addresses issues regarding small/mid-cap bonds and private placements.

Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda* (2013) wrote on the Rwandan Capital Market about initiatives to be undertaken within the region and beyond to enable SMEs to access financing from various sources including through the capital markets. These initiatives include private equity (PE) and venture capital (VC); fund of funds; and establishment of alternative investment market segments in the capital markets for SMEs. SMEs play a significant role in economic development, including in Rwanda.

In spite of several initiatives undertaken by the Government of Rwanda to address constraints facing SMEs, some bottlenecks persist. That is why there is a need to explore options for using capital markets to finance SMEs due to various benefits including the possibility of access to more affordable funds for business growth and expansion, risk sharing and diversification via a public offering; and increased publicity and scrutiny of SMEs' operations which comes with equity investments. Drawing on regional and international experiences. Their recommendations with the potential to catalyze SME financing through capital markets and other sources include: Enact supporting regulatory and legal reforms; improve information collection and sharing; encourage and promote the establishment of private equity and venture capital (PE/VC); establish a Rwanda Fund of Funds (RFF); Setting-up asset-Backed securities; review the current approach to providing business development services and maintaining the current fiscal incentive structure. (Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda*, 2013)

Jacqueline Irving, John Schellhase and Jim Woodsome, February 2016 wrote about a list of recommended implementing actions and timelines for Rwanda's 10-year Capital Market Master Plan. In discussing capital-market reforms, roundtable participants underscored the

importance of sequencing and developing capital markets to complement rather than compete with the banking sector. A key cross-cutting issue is the role of a regional approach in developing well-functioning capital markets that more effectively intermediate long-term capital. Reforms and measures that encourage more crossborder listings and cross-border investment across EAC securities exchanges could help overcome local capital markets' impediments such as illiquidity, low market capitalization, and small number of listings. Moreover, greater cooperation across EAC capital markets in developing and sharing market infrastructure and intermediation services would bring benefits, including economies-of-scale benefits of reduced fixed costs and greater efficiency. Well-functioning, appropriately regulated local and intraregional institutional investors are keystones in developing the “buy side”—as long-term money that can help catalyze investment from other sources to deepen capital markets. The role of foreign investors was more heavily debated, however, particularly the degree to which bond issues should rely on this capital. Several participants flagged other buy-side priorities as the need to scale up small savers, including in the informal economy, which also would advance financial inclusion. There was much less consensus on whether and how SMEs should be targeted for listings. The merits of SME boards is one particular issue that would benefit from further evidence-based research across developing regions. There was stronger agreement that cultivating a high-growth-potential, strategic sector “corporate base” could provide an “incubator” for future stock market listings. Developing the venture capital and private equity markets, as well as other nonbank sources of SME finance such as invoice discounting and even crowdfunding, will be key steps in “incubating” firms for future listings. (Jacqueline Irving, John Schellhase and Jim Woodsome, *Framing the Issues: Developing Capital Markets in Rwanda*, By February 2016).

Peter SINDAMBIWE, Lecturer in the University of Rwanda recommended to the Government of Rwanda and CMA the development program for public education and training concerning the Stock market participation. His research found that despite the high knowledge of Directors, the organizations' current level of participation in Rwandan stock market is low. The level of using brokerage services is also low. So, he recommended including and emphasizing on the subject legal requirements and Stock market condition in the public education program in order to booster stock market participation. The content of education

program should include stock market knowledge (location) and Financial literacy regarding interest rate calculation, exchange rate determination, effect of inflation on business and knowledge about the portfolio management on business or other related financial literacy, the advantages of capital market, and available incentives, legal and requirements and functioning of capital market (Equity market and Bond market) in Rwanda. Concerning the relationship between the directors' awareness of the stock market functioning and the level of organizations' participation in the Rwandan stock market Pearson's, he recommended that the Public education program should target these directors in order to increase their companies' participation in the stock market. (Peter SINDAMBIWE, *Financial Literacy, Stock Market Awareness and Capital Market Participation of an Emerging Stock Market*, International Journal of Multidisciplinary Approach and Studies, 2014).

The East African Journal of Science and Technology recommended to the CMA Rwanda to finance an intensive education and promotion campaign; to provide fiscal incentives, to integrate the Rwanda Stock Exchange with the regional and international financial system; to review regularly primary and secondary market regulations on new issues including disclosure, accounting and listing standards; to encourage the development of investment trusts and funds; to encourage additional cross-listing; to improve the communication infrastructure and to nurture a progressive and sound banking system. (East African Journal of Science and Technology, Vol.5, Issue 1, 2015)

Dr. Kerosijosephat Bosire and Mr. Rwangarinde Evode wrote that hidden potential and experience from elsewhere regulatory intervention as part of financial inclusion, is required to foster inclusive growth. 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. 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, they 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.

## **CAPITAL MARKET IN RWANDA**

### ***Background***

According to report of CMA 2008, the establishment of a capital market in Rwanda was a culmination of the overall financial sector reforms under the Financial Sector Development Program. The set up of the capital market was aimed at deepening the financial sector by making available a market mechanism and facilities that will access the private and public sectors to long term capital for economic development.

In May 2007, the Government appointed eleven members of the board (Council) to assist in the establishment of the capital market in Rwanda. The Board undertook tremendous amount of work right from their appointment and set up the CMA. During the inaugural year of operations, the Council provided strategic direction to the management of the CMA secretariat and the emerging industry. In addition, CMA provided policy recommendations ranging from the legal framework, fiscal incentives and privatization policy that would stimulate the emergence and development of a capital market in Rwanda.

The 2008 was challenging year for the global economy as it marked the tipping-off point in the beginning of the financial crisis that has eventually resulted in the on-going global recession in 2009 that started with the developed world. In 2008, the Rwandan economy sustained good performance as the Gross Domestic Product (GDP) grew by 11.2% in spite of inflationary pressures, compared to 7.9% in 2007. The growth was driven by stable macroeconomic environment that supported increase in productivity from the agriculture sector favored by good weather and climatic conditions, the services sector especially

tourism, and mining. External trade performance reported exports growth of 38% and imports by 52% thereby stretching the current account deficit.

During the first year of its existence, the capital market was able to mobilize Rwf 15.25 billion which was raised during the first quarter of 2008 through the issue of three treasury bonds and one corporate bond. At the close of the year, the number of listed securities remained the same as those issued at the inauguration of the market. The slow-down of new issues in the primary market was mainly attributed to uncertainty over investor appetite for new investments following the global financial crisis (CMA, annual report, 2010).

### ***The role of capital market and their importance in an economy***

According to Sullivan, Arthur; Steven M. Sheffrin, 2003; the role of capital markets is to help raise funds that are needed by various institutions to finance their various activities such as improving infrastructure, increasing assets, conducting research etc. These markets are also a source of valuable income to investors.

They derive income when financial assets increase in value. They increase results in additional income for the investors who then spend some of this income thus boosting sales and contributes to the economic growth. Since investors deal with the market on a daily basis and purchase only shares of those companies which they believe are doing well, this market provides companies with valuable insight as to whether their enterprise is perceived by these investors as performing well. Stock markets, due to their liquidity, enable firms to acquire much needed capital quickly, hence facilitating capital allocation, investment and growth.

Stock markets also help to reduce investment risk due to the ease with which equities are traded. Capital markets make financial assets/securities tradable and thus reducing the liquidity risks. Economic development depends on specialization, market exchange and the stock of human and physical capital. When economic activity-investment, production, and exchange-is primarily in the hands of private individuals, these individuals must believe that they have reasonable control over their assets before they will risk them in exchange across time and space. Economic development requires reasonably secure private and communal property rights.



For an economy to develop and grow, money needs to shift from less to more productive services. The capital market is one of the most sources for companies to raise money. Experience has shown that the price of shares and other assets is important of the dynamics of economics of economic growth. Capital markets encourage investments by enabling unused money and savings to become productive by bringing the borrowers and lenders of money together at a low cost. More than a forum for trading in stocks, bonds and shares and aside from the prospect of dividends and long-term capital growth, a stock market stands tall as the engine-room of the national economy.

The benefits of the capital market finance;

- Better access to capital for growth with opportunities to raise funds both at the time of listing and at later stages.
  - Higher profile and visibility in the market resulting in increased business, greater assurance among the company's customers and suppliers and an improved corporate image.
  - Increased corporate transparency to gain recognition from institutional funds and the investing public.
  - Improved corporate governance as a result of listing requirements to help improve management efficiency and information flow.
  - Fostering employee motivation and loyalty through stock option programs.
  - Raising funds from capital markets after listing by issuing new securities, since investors are often prepared to provide follow-up funding as the business grows.
  - Present incentive for greater venture capital participation by providing them an exit route.
- (Olivier Wyman, *Towards Better Capital Markets Solutions for SME Financing*2014).

### ***The function of capital market authority in Rwanda***

#### **- The Rwanda Over The Counter – ROTC**

The Capital Market Authority has established an Over the Counter (OTC) trading operations. Rwanda OTC secondary trading is conducted through a dual process. Members trade through an Over the Counter market where a member is allowed to buy or sell directly to clients in

their offices. Equally members are allowed to transact with other members either face to face or through the telephone throughout the working hours of the normal working days. In addition, an open outcry trading session is conducted at the trading floor.

- **Primary Market Transaction Process**

The capital market is divided into primary and secondary market. The primary market is the market for new issuers or where new capital is raised. It is the market where securities are sold for the first time. At the primary market sale proceeds of the securities offered flow directly from the buyers or investors to the issuers of the securities. According to the CMAC handbook (2008), the following is the Primary Market Transaction Process in Rwanda:

**Table 3.1: Primary Market Transaction Process in Rwanda**

<b>Stock Exchanges</b>	<b>OTC Markets</b>
Prices are determined daily when sessions are held (order driven)	Prices are negotiated and vary from one firm to another (quote driven)
There is a fixed market where parties transacting gather	There is no fixed market place
Trading is limited to members with specific qualifications	Trading is conducted through negotiations between a buyer and a seller
Trading is limited to listed stocks that meet certain requirements	Equity issues tradable over the counter are registered with a security dealers association
There is a centralized market where bids and offers converge	Transactions are executed over the counter
The stock exchange supervises trading	An association of dealers regulates trading activity

Source: CMAC handbook (2008),

## - **Secondary Market Transaction Process**

The secondary market is the market for trading securities that have been sold or issued in the primary market and already in the hands of the public. Once securities have been successfully issued in the primary market, they are subsequently traded in the secondary market. This is where stock markets, stock exchanges or OTC markets by whichever name the market may be referred to, provide the facilities for secondary trading.

The secondary market, provide a very important complement to the primary market. An active secondary market makes it easier for corporate entities and Governments to raise fresh capital through the primary market. (CMA and RSE, *Capital Market Authority*, Kigali, 2014)

### **Rwanda securities exchange (RSE)**

The Rwanda Stock Exchange Limited was incorporated in 2005 but launched in 2008 with the objective of carrying out stock market operations. The Stock Exchange was demutualized (separation of ownership from trading rights) at the time of registration and is a company limited by shares. Its key roles include providing a platform for raising capital for business expansion, mobilization of savings for investment, and improving management standards of the listed companies.

Rwanda's capital market has both the primary and secondary markets. Over-the-Counter (OTC) trading market has also been established and it is a dual trading process. First, members of the OTC trade securities directly with investors and among themselves. Second, open outcry trading sessions are conducted at the trading floor of the OTC market at the CMAC Secretariat every day from 9:00 a.m. to 12:00 p.m. During the designated trading floor sessions at the CMAC, all members must report their transactions conducted from the closure of the previous official trading session up to the time of the next trading session.

The Central Bank of Rwanda has implemented a payment and settlement system referred to as the Rwanda Integrated Payment and Processing System. This system has various components aimed at improving efficiency including the Real Time Gross Settlement, the Automated Clearing House, the Automated Transfer System and the Central Securities Depository. The implementation of the payment and settlement system has resulted into adoption of a new

settlement cycle referred to as the T+2 for all securities traded. This implies that for all securities traded payment is effected after two days of the transaction on the RSE. At the Nairobi Securities Exchange, the equity and debt securities settlement cycle moved from the previous T+4 settlement cycle as in July, 2011 to the current T+3 settlement cycle. For both Uganda and Tanzania, the settlement cycle is currently T+5. A shorter settlement cycle has the benefit of improving liquidity in the market for listed securities thus making the market more attractive to domestic and foreign investors. (CMA and RSE, *Capital Market Authority*, Kigali, 2014)

### ***Integration of Rwandan Capital Market in the East African Capital Market***

On March 20th 2008, CMA in Rwanda signed an MOU to join the East African Securities and Regulatory Authorities (EASRA), a forum for the capital market regulators. EASRA is mandated by the EAC charter to make policy recommendations with the aim of harmonizing capital market rules for all the EAC partner states.

For the first time CMA in Rwanda hosted the 10th quarterly meeting of East Africa Stock Exchange Association (EASEA) in April 2008. At the meeting, CMA in Rwanda signed an MOU to formally join the regional body. EASEA is a body formed by the stock exchanges (market operators) with the aim of integrating cross border trading and cross listing through integration of the trading platforms. In addition, for the first time CMA in Rwanda has been able to attend the International Organization of Securities Commissions (IOSCO) Emerging Markets Committee (EMC) annual meeting. It is imperative to note that one of the requirements in the drafting of the legal framework is to adopt IOSCO principles. (CMA and RSE, *Capital Market Authority*, Kigali, 2014)

On 6th August 2008 CMA in Rwanda signed a cooperation agreement with IFC, the investment arm of the World Bank Group, to help strengthen the country's capital markets. Under the agreement, IFC will support the Capital Markets Authority in Rwanda in strengthening the market. IFC will help the council develop an appropriate legal and regulatory environment for issuing and trading bonds, implement a training and certification program for securities market participants, and establish a framework for integrating

Rwanda's capital markets with other markets in East Africa. All the other East African (CMA and RSE, *Capital Market Authority*, Kigali, 2014).

#### **2.4. CONDITIONS FOR A COMMERCIAL COMPANY TO BE ELIGIBLE TO THE CAPITAL MARKET**

The RSE listing rules and regulations 2008, provide a framework for facilitating trade in a fair and efficient securities market. The listing rules and requirements for equity securities are provided in the Table two. Some other conditions that have to be fulfilled include:

- (i) accounts have to be drawn up and audited in accordance with standards regarded as “appropriate for companies of international standing and repute”; and
- (ii) or the minimum number of shareholders by CMA.

While these rules comply with international standards used by other stock exchanges, they are also tailored to suit large companies that are well established and tend to exclude SMEs which can hardly meet such stringent conditions.

**Table 3.2: Listing rules and requirements.**

<b>N°</b>	<b>Requirements</b>	<b>Criteria</b>
<b>1</b>	Official list	Listed securities
<b>2</b>	Sponsorship	Every new applicant for listing must be sponsored by a participant who is on the approved list of sponsors.
<b>3</b>	Nominated advisors	Every issuer must appoint a nominated advisor
<b>4</b>	Incorporation	Duly incorporated in accordance with laws of Rwanda, registered under companies Act to carry out business in Rwanda.
<b>5</b>	Minimum number of Shareholders	50 for equity at time of listing
<b>6</b>	Minimum spread shares to the public	25%
<b>7</b>	Minimum paid-up capital	Rwfr 500 million (US\$ 813,008)
<b>8</b>	Minimum funds to be raised	New applicant; Rwfr 500 million (US\$ 813,008)
<b>9</b>	Minimum net assets	Rwfr One billion (US\$ 1.6 million)
<b>10</b>	Track record	3 financial years but less if issue is underwritten
<b>11</b>	Application procedures	Letter of application to list and application fees
<b>12</b>	Disclosure documents	Must be lodged with CMA

Source: RSE Rules and Regulations, 2008.

**Listing Requirements.**

- The issuer must be a corporation, duly incorporated or otherwise established in accordance with the laws of Rwanda; or registered under the Company's Act to carry on business in Rwanda.
- A new applicant must have an adequate track record under substantially the same management which must be of known character and integrity,

- The securities for which listing is sought: must be freely transferable in the Capital Market.
- There must be an open market in the securities for which listing is sought. This means that the minimum percentage of securities in public hands, must at all times be more than 25% in non directors hands, and more than 50 shareholders.
- A new applicant must have an expected initial market capitalization for all the securities to be listed of at least Frw500, 000,000. Further issues of securities of a class already listed are not subject to this limit.
- Accounts have to be drawn up and audited in accordance with standards regarded as “appropriate for companies of international standing and repute”. Submission of track records of financial statements of three financial years.
- Every new applicant for listing must be sponsored by a participant who is in the approved list of sponsors.
- Every issuer must appoint a nominated advisor
- Every issuer must have 50 as a minimum number of shareholders for equities at time of listing.
- A minimum of paid up capital of 500 million is required.
- The net asset must be a minimum of 1 billion.
- An evaluation of profit forecasts by CMA.
- Submission of a letter of application to list and payment of application fees. (see Appendix). (RSE Rules and Regulations, 2008).

### **2.4.1. The Changes in Regulations Made by the CMA TO Facilitate the SMES Access to Capital Markets**

The Government of Rwanda has put in place CMA to organize the capital market development. It also pushes its parastatal organizations to privatization in order to allow them to list on the capital market. The CMA has recently created an alternative capital market segment for SMEs, even if there is now one year since its creation that no SME has tried to be listed on it. The Government has also adopted a tax incentive policy for the listed companies and attracting companies selling more of their equities to the public (Rwanda Stock Exchange, Small & Medium Enterprise Market Segment Rules, 2013).

**The tax incentive policy mention the follow:** Income accruing to registered CIS's (Collective Investment Schemes) and Employee's share schemes are exempted from income tax. Capital gain on secondary market transactions on listed securities shall be exempted from capital gains tax. Newly listed companies on capital market are taxed for a period of the first 5 years on the following rates:

- 20% tax rate if they sell 40% of shares to the public
- 25% tax rate if they sell 30% of shares to the public
- 28% tax rate if they sell 20% of shares to the public.

Venture capital companies registered with the capital markets Authority in Rwanda benefit from a corporate income tax of zero percent (0%) for a period of five the first (5) years from the date the decision has been taken. The withholding tax on dividends and interest income on securities listed on capital markets and interest arising from investments in listed bonds with a maturity of 3 years and above shall be reduced to 5% when the person who withhold is a resident taxpayer of Rwanda or of the East African Community.

Transfer of shares is exempted from VAT. Secondary market transactions for listed securities are exempted from VAT. (Rwanda Stock Exchange, Small & Medium Enterprise Market Segment Rules, 2013).



### **Registration Exemption and the creation of an alternative market for SMEs.**

The CMA has adopted reform measure that can be taken to facilitate capital raising by SMEs. The registration provisions were too costly, too time consuming, and contain too many technicalities for smaller companies. What was needed was some forms of exemption from registration that permit capital raising without going through the entire registration formalities. The CMA has considered whether and to what extent the registration of securities rules can be altered for SMEs to make it possible for Small and Medium Enterprises (SMEs) to raise capital through the capital market, that is why it created an alternative capital market for SMEs.

The CMA and the financial institutions have so many constraints in financing commercial companies. These constraints are; most of the SMEs are informal, not incorporated, financial reporting not compliant with IFRS, no reliable financial records, higher per-unit transaction costs of handling SMEs financing, lack of bankable projects and lack of collaterals for bank loans. There is also an inadequate institutional investor demand for SMEs securities, caused primarily by the lack of liquidity and the higher rate of failure. One way of overcoming this hurdle is to pool SMEs securities, either equity or debt, into one product in order to minimize risk, to attract investors and to tailor listing requirements to SMEs because they make more than 97% of all Rwandan commercial companies.

#### ***The some main changes made for SMEs concerns the;***

**Board of Directors;** the issuer must have a minimum of three (3) directors, with at least a third of the Board as non-executive directors. Directors shall be required to undertake a Directors' Course recognized by the Authority before the issuer is approved to issue its securities. Competence and suitability of directors and management; directors and senior management of an applicant must collectively have appropriate expertise and experience of at least 1 year for the governance and management of the applicant's business. Such expertise and experience must be disclosed in any issuing particulars prepared by the applicant. The issuer shall ensure continued retention of qualified management during listing and no change of management for a period of 12 months following the listing for a period of at least 2 years prior to the date of the application, the issuer shall ensure that, there has not been:

Any petition under bankruptcy or insolvency laws in any jurisdiction pending against any director (for individuals any winding-up petition pending or threatened against it (for corporate bodies). Auditor; the issuer must appoint an independent auditor to carry out the audit of its financial statements. Approval fees; Approval fees shall be 0.025 % of the total offer subject to a minimum of Rfw 500,000.

All issuers shall be required to comply with the Rwanda Stock Exchange Rules on SME listing.

The capital market has a competitive edge as income/dividends through the RSE attract a lower withholding tax of five percent, while interest incomes on deposits in banks are subject to a 15 percent withholding tax. (Rwanda Stock Exchange, Small & Medium Enterprise Market Segment Rules, 2013)

#### **2.4.2. Actions done by other Capital Market Jurisdictions to facilitate SMEs access to finance.**

**Table 3.3: Actions done by other jurisdictions; lessons for Rwanda CMA.**

<b>N°</b>	<b>Capital Market Jurisdiction</b>	<b>Action done to facilitate SMEs</b>	<b>Effects</b>
<b>1</b>	Athens Exchange, ATHEX	<ul style="list-style-type: none"> <li>- Creation of an alternative market segment to accommodate the needs of SMEs</li> <li>- Creation of a market price index.</li> </ul>	Successful
<b>2</b>	Deutsche Börse	<ul style="list-style-type: none"> <li>- Tailored segment for SMEs</li> <li>- To offer indices suited to support SMEs (SDAX, GEX).</li> <li>- Support workshops and capital market conferences for liaisons of investors and SMEs Managers.</li> </ul>	Successful
<b>3</b>	NYSE Euronex	<ul style="list-style-type: none"> <li>- Creation of Alternative vibrant MTF (2005) with simplified admission conditions.</li> </ul>	Successful

4	Israël	- Creation of YOZMA Fund of Funds	Successful
5	Kenya NSE	- Creation of SMEX; Small and Medium Enterprises Exchange. - Corporate Governance course for Directors of SMEs.	Successful
6	Uganda USE	- Creation of an alternative investment market segment (AIMS) with simplified and listing framework with less stringent requirements than MIMS.	Too early to determine the successfulness
7	Tanzania	- Creation of Enterprise Growth Market (EGM) targeting the SMEs participation in capital market segment for SMEs.	Too early to determine the successfulness
8	China, Bresil, Colombia, Canada, USA.	- Pooling investment & crowd funding; program to pool or bundle SMEs securities into a package that would attract institutional investors.	Successful
9	UK, Austria	- Asset backed securitization - Alternative market segment for SMEs.	Successful
10	South Africa (JSE)	- Alternative Exchange Altx. Where there are 60 SMEs among 380 listed companies.	Successful

Source: African Development Bank & African Development Fund; Leveraging Capital Markets for SME Financing in Rwanda, 2013.

## 2.5. KNOWLEDGE GAP

Since the rwandan capital market is institutionalized, there are not so many research about it. But in these last two years, researchers begin to publish on the rwandan capital market. The publications I have read, treat many subjects, but none has written about the strategies that can

be made by rwandan commercial companies for listing. Many researchers concentrate on the strategies to be drawn by the offer side; by the CMA, by the government, by the Ministry of finance, by BNR, ...

This study concentrates on the demand side, to see what Managers of rwandan commercial companies can do for listing. The CMA, the government, the Ministry of finance have so much to do, and commercial companies cannot success without the assistance of these institutions, but still we agree that company have so much to do also.

The offer side is trying so many changes to facilitate all the categories of companies to access capital market, but the companies are doing nearly nothing. They must plan and make enough efforts to be listed and take advantages from the CMA to develop their capacity for the economic growth of the country.

## **CHAPTER III: RESEARCH METHODOLOGY**

The chapter focuses on how the research conducted. It discusses on the approaches used while carrying out the study. It also includes the area of study, the study population, sample size and sample selection techniques used to choose respondents, data collection techniques, data processing, analysis as well as the limitations which the researcher encountered during the study.

### **3.1. RESEARCH DESIGN**

The research design refers to the overall strategy chosen to integrate the different components of the study in a coherent and logical way. It articulates what data is required, what methods are going to be used to collect, analyze data and how all of this is going to answer the research question. The section presents the research methodology that was used in this study , research population and selection of participants for the research, methods and techniques for data collection and analysis, validity and reliability of the instruments, data gathering procedures, ethical considerations and the limitations of the study.

Throughout this research, both methods of data analysis, interpretation as well as presentation such as quantitative method, qualitative method as well comparative method were used. In addition, this method used to collect data through the closed questions administered to respondents. Furthermore, Quantitative methods help to analyze data collected from statistical approaches, it analyses a questionnaire survey. It helps to draw the tables in order to see the frequencies and percentages of respondents to each question.

It is notably about the opinions, positions, intentions, and testimonies as well as experience of respondents on the commercial markets promote to the economic growth. Moreover, in order to collect reliable data, different techniques of data collection will be used including: interview guide, questionnaire as well as documentation on this domain.

In this case, this chapter presents the methodology used to analyze the problems faced by National commercial companies, and limitations that they have to fulfill the requirements of

the CMA to access to the capital market in Rwanda; from this the strategies to be applied will come out. The research was both qualitative and quantitative.

In this respect, it is worth the time quoting Mugenda, O. M. & Mugenda, A. G. (2003) who define descriptive research design as a process of collecting data to answer the questions concern the current status of the subjects in the study adding that a descriptive research determines and reports the way things are, describing such things as possible behaviors, attitudes, values and characteristics. To answer the questions about the subject, the researcher collected primary data from opinions of people in commercial companies.

## **3.2. SAMPLING**

### **3.2.1. The study population**

The population implies a totality of the objects, in which the study concerned. According to Kakooza (1992 :10), before ascertaining the population and its size, a researcher must ask him or herself, what he/she needs to find out . For any study to succeed information need to be representative of the population covered in the research question. According to RICHARD M., GRINNEL Jr and MARGARET WILLIAMS (1990:18), a population can be defined as the totality of persons or objects with which a study is concerned. The target study population includes all the commercial enterprises registered under RDB according to the Rwandan company law (2009). That study population was constituted by all the registered enterprises and companies; 11,137 Commercial company Managers, 11 administrative staff of CMA, 3 management staff of RSE and 41 registered brockers.

**Table 3.4 : Number and Percent of establishments registered at different organizations**

REGISTRATION LEVEL	Total	Registered	
		No.	Percent
Sector (Local GoR)	154 236	122 202	79,2
District (Local GoR)	154 236	85 105	55,2
Rwanda Cooperative Agency (RCA)	2 071	1 505	72,7
Private Sector Federation (PSF)	148 298	9 497	6,4
Rwanda Governance Board (RGB)	1 924	868	45,1
Social Security Fund (RSSB)	154 236	9 153	5,9
Rwanda Development Board (RDB)	154 236	<b><u>11 137</u></b>	7,2
Rwanda Revenue Authority (RRA)	154 236	36 538	23,7

Source: Establishment Census 2014

Therefore, owing to the limiting factors, the researcher cannot carry out this research in whole the country. The registration of Rwandan commercial companies are complicated. About 23.7 percent of SMEs are registered with Rwanda Revenue Authority (RRA) and 7.2 percent with Rwanda Development Board (RDB). However, 79.2 percent are registered at the local government level. Some enterprises are also registered with the Rwanda Social Security Board (RSSB) and Private Sector Federation (PSF). The majority of the SMEs are not incorporated. According to the laws governing capital markets in Rwanda, one of the basic requirements for an enterprise to list in capital markets is incorporation. (See Table 3.4). The study target population is all the commercial companies registered according to the Rwandan company law (2009). The population is 11,137 enterprise managers, and 11 CMA administrative staff, 3 RSE administrative staff and 41 registered brokers.

### **3.2.2. Sample Design**

SCOT K, et al. (1998:307) refers to the total number of elements covered by research question. The same author further states that getting views from everyone in the entire population is neither nor important, therefore there is a need to question a smaller heterogeneous but representative part of the population. A sample is a portion of the population selected to achieve the objectives of the researcher. The sampling techniques used are the purposive sampling, the simple random sampling and the snowball sampling. The CMA and RSE staff, some were interviewed one by one and others filled the research

questionnaires. The research worked with brokers institutions staff. Managers have filled the questionnaires. The total number of the sample is one hundred (100).

The simple random sampling technique brings the equal chance of selection. It minimizes bias and simplifies the analysis of result. Ochieng (2009), sampling ought to be done in such a way that the sample represents the target population if the findings are to be generalized to the rest of population. Thus, a sample selected from the study population. The snowball sampling helped to reach various Managers, one sending the researcher to his fellow homologue. This is how the 100 respondents are got, for sample. The simple random and purposive sampling techniques were used. 83 Managers+6 CMA Staff+3 RSE Staff+8 Brokers=100 respondents were selected, based on their knowledge and experience of the phenomena under study from each company.

### **3.2.3. Sample Size**

The sample size is determined by the statistical methods. According to the number of commercial companies, and dispersion in the country, the sample is easily obtained.

The **Slovin' formula**: This formula used to calculate sample size. For example, you may choose a confidence level of 90 percent (giving a margin error of 0.1), or you may require the higher accuracy result of a 95 percent of confidence level (a margin of error of 0.05). Plug your population size and required margin of error into the formula.

Slovin's formula is written as:  $n = N / (1 + Ne^2)$

n = Number of samples N = Total population e = Error tolerance

In fact, our population target is 11,158 registered commercial companies and RSE, CMA administrative staff registered brokers. By application of the above formula, we calculated our sample as follow:  $n = 11,192 / (1 + 11,192 \times 0.1^2) = 99.21$ .

The sample must have at last 99.21 or 100 respondents. The researcher used 100 respondents in total for more accuracy of information. The sampling method is purposive, that is why it used; 83 managers+6 CMA Staff+3 RSE Staff+8 Brokers=100 respondents



**Table 3.5: Respondants.**

<b>Nº</b>	<b>Respondants</b>	<b>Population</b>	<b>Sample</b>
1	RSE Management Staff	3	3
2	CMA Administrative Staff	11	6
3	Registered Brockers	41	8
4	Construction Company Managers	125	4
5	Accommodation and food service activity Mgrs	1 222	18
6	Whole sale and retail trade Managers	4197	32
7	Transport Company Managers	150	4
8	Education Managers	303	14
9	Financial and insurance activity Managers	783	4
10	Information and communication Managers	61	7
11	Mining and quarrying	127	0
12	Manufacturing	680	0
13	Professional, scientific and technical activities	316	0
14	Electricity, gas, steam and air conditioning supply	16	0
15	Arts, entertainment and recreation	24	0
16	Human health and social work activities	199	0
17	Mining and quarrying	127	0
18	Administrative and support services activities	210	0
19	Other services activities	2563	0
20	<b>TOTAL</b>	<b>11192</b>	<b>100</b>

**Source: Primary data from the researcher**

### **3.3. DATA COLLECTION TECHNIQUES**

The collection of data techniques used were the questionnaires, the individual in-dept interviews for the **primary data**, the documentary techniques, the editing and observation techniques for **secondary data**.

#### **3.3.1. The documentary techniques**

The documentary techniques involves the collection of data that already exists. These are the books of libraries, journals, internet, and reports from RDB, from MINICOM, from the Establishment Census and from World Bank. Many documents related to the research study extensively consulted and analyzed. The libraries used, including UR main library and Library's Faculty and textbooks, pamphlets and reports consulted, websites, journals and

magazines. The reports of CMA and RDB were considered. Robert Rose (1974:128) noted that one of the basic advantages of documentary sources is to explore the sources more fully in order to obtain the additional information on aspects of the research.

### **3.3.2. The observation method**

This technique was used to cross check information from other research procedures.

### **3.3.3. The interview method**

The RSE Staff, CMA Staff and some Managers of commercial companies were interviewed. The individual in-dept interviews is a conversation between the interviewer and the interviewee. It consists of the structured and unstructured questions prepared for the purpose to get information on the research. This technique was used for the collection of the primary data.

### **3.3.4. The questionnaire method**

A questionnaire means a set of questions that are used to elicit information used to obtain the primary data. What quite noticeable in this technique is to allow a respondent time and space to answer the questions to get data. The research used two sets of different questionnaires; one set of questionnaire was prepared for Managers of enterprises and commercial companies. Another set of questionnaire was prepared for the administrative staff of the CMA and RSE and to some brokers and investors. The primary data were obtained through the closed questions and open questions, and one hundred questionnaires were distributed and all were filled by the respondents and collected back.

## **3.4. THE METHODS USED FOR DATA ANALYSIS AND INTERPRETATION.**

The tabulation, the editing method, the spreadsheet data analysis method, the descriptive method, the historical and comparative method were all used.

### **3.4.1. The tabulation and the editing method**

The tabulation method involves in entering data in statistical tables such that the qualitative and quantitative values are calculated. This is also done to facilitate the comparison and

highlight of the big differences. It is the act of entering data in the tables. The researcher transferred data from the questionnaires to the tables after examining and classifying the questionnaires according to the study objectives. The researcher revealed the percentage of different items and their changes. **The editing method** was used to remove irrelevant data. The editing is made to guarantee the accurate data.

### **3.4.2. The spreadsheet data analysis technique**

were used to organize data; taking advantage of formulae and functions to calculate the statistical values like average, standard deviation, standard error means,... Microsoft Excel is well-known spreadsheet software that provides powerful tools one can use to systematize, analyze, visualize, share, and manage information to make more informed decisions or conclusions that are better grounded by data. MS Excel is quite widely used for quantitative data analysis as it is both readily available and familiar from school or a basic computer course. However, Excel has lots of features that make the handling and integration of different types of data very flexible, giving it potential to be used within a mixed approach more beneficially than as just a poor substitute for a statistical package.

### **3.4.3. The descriptive method**

Cook et al, (1956) asserted that, as data is collected, it should be examined for completeness, comprehensibility, consistency and reliability in descriptive studies. Historical and comparative method; it was revealed through reading various documents like text books, monographs, survey reports, statistical records, and others that would facilitate literature review. This method therefore, was used to explore the change in the development of financed companies, in comparison with the past or the possibility in the future to increase their revenue. This method used to analyze the Ministry order of the Capital Market, the status and the principles of the capital market in Rwanda. In the data analysis, the methodology comprises of the review of the current legal and regulatory framework to establish the extent to which it facilitates the private sector access to capital markets in Rwanda to compare it to the simplified one for SMEs. The review of the available literature and data on private sector access to capital markets in Rwanda. And the examination and comparison of available evidence on what has worked in other countries in Africa and globally.

**The interpretation of the responses given:**

<u>Range Response</u>	<u>made Interpretation</u>
81%-100%	High
31% - 80%	Moderate
1% - 30%	Low

**3.5. THE LIMITATIONS OF THE STUDY**

Put aside the problem of insufficient financial means, the problems of financial records of the commercial companies of African countries which are not easily obtained and they are not perfect and reliable once obtained.

The CMA in Rwanda is a new institution in the country. This explains why the collection of sufficient data is difficult. The reports on CMA in Rwanda are so many today, but the research studies and papers on subject are still few. For example; the Establishment Census recent reports available are 2011 and 2014. The one of 2015 is not yet published. That is a reason why the researcher had a difficult work for obtaining many primary data through interview and questionnaires.

The information on the private sector is available, but some relates to the financial reports on commercial company may not be available. African private sector has the complex problems of the availability of reliable data. It is so confused, because of the informal commerce, informal farmers and small business. Another problem is a lack of accounting practices knowledge.

## CHAPTER IV: THE DATA ANALYSIS AND PRESENTATION THE RESULTS

### 4.1. INTRODUCTION

This chapter deals with the data presentation, analysis and interpretation on the research topic entitled “Strategies for Rwandan Commercial Companies to be Eligible to the Capital Market”. The data was collected using questionnaires, interviews and documentation. The information given by the respondents of the sample were analysed and interpreted using the tabulation method, the editing, the spreadsheet Excel and the comparison. The results were presented in accordance with the objectives of the study.

### 4.2. PRESENTATION OF THE RESULTS

#### 4.2.1. The Constraints of SMEs.

**Table 4.1: Constraints of commercial companies to access long term finance**

N <sup>o</sup>	Constraints of commercial companies to access LT finance	Respondents who agree	%	Disagree	%	Don't know	%	Total number of Respondents
1	No information sharing system	70	70.0%	28	28.0%	2	6.7	100
2	High credit risks	90	90.0%	10	10.0%	0	0	100
3	High per unit transaction cost	95	95.0%	4	4.0%	1	0.8	100
4	Lack of forward planning, business plan, strategic planning	37	37.0%	21	21.0%	42	42.5	100
5	Inadequate market research	21	21.0%	38	38.0%	41	40.8	100
6	No mean for market research, not customer focused	36	36.0%	26	26.0%	38	37.5	100
7	No innovation,	40	40.0%	23	23.0%	37	34.2	100
8	Lack of collaterals or value of net assets	88	88.0%	9	9.0%	3	5	100
9	Time consuming	69	69.0%	22	22.0%	9	13.3	100

**Source: Primary data from the questionnaires.**

This table 4.1 shows the results of the research; the main constraints of commercial companies. These are; the high per-unit transaction cost (95%); time consuming (69%); the high credit risk (90%); the lack of collaterals or low value of net assets (88%); less information sharing system (70%); no relevant planning (37%); no innovation for better quality of goods and services (40%); and no means for market research (36%).

**Table 4.7: Constraints of commercial companies to access capital market**

Nº	Constraints of commercial companies to access Capital Market	Agree	%	Disagree	%	Don't know	%	Total nbr of respondents
1	To comply with registration process set in legal framework	85	85.00%	6	6.00%	9	9.00%	100
2	Financial reporting complying with IFRS.	85	85.00%	15	15.00%	0	0.00%	100
3	Limited capital market instruments	45	45.00%	36	36.00%	19	19.00%	100
4	Lack of investors in SMEs	57	57.00%	19	19.00%	24	24.00%	100
5	Not planning to collaborate with CMA	67	67.00%	19	19.00%	14	14.00%	100
6	IPO cost	88	88.00%	6	6.00%	6	6.00%	100
7	Limited companies with 25% shares in the public.	80	80.00%	14	14.00%	6	6.00%	100
8	Corporate governance	69	69.00%	17	17.00%	14	14.00%	100
9	Loss of control of the company.	76	76.00%	19	19.00%	6	6.00%	101

**Source: Primary data from the questionnaires.**

The table 4.2 shows that it is so difficult for Rwandan commercial companies especially SMEs to comply with the full registration process set in the legal framework for listing on the stock exchange. Even if there is now an alternative market segment for SMEs, till the requirements are not yet at the SMEs level. The proof is that the managing Director of RSE stated that they are surprised that one year after the creation of the Altex, there is not even one SMEs registered requesting to be listed. The table 4.1 shows that commercial companies face many barriers on their way to the capital market; standardised financial reporting (85%); lack of investors in SMEs (57%); no enough knowledge of managers and no collaboration with the RSE (67%); limited capital market instruments (45%) (no enough debt securities, no asset backed securities, no pooling investments together, ...). And especially there is the loss of the control of the company.

A move away from bank intermediation towards funding in the capital markets has long been considered a long-term objective of many countries. When companies are in the growth phase, they tend to get leveraged. Beyond a certain point, banks are reluctant to provide further credit. Equity capital is required to bring strength to the leveraged balance sheet. At this point, either the promoter will have to self provide for injecting in the requisite levels of equity or would have to do without the capital, which in turn would kill the possibility of growth. Having the option of equity financing through the equity market, allows the firm not only to raise long-term capital but also to get further credit due to additional equity now being available.

If successful, this approach would address the chronic lack of long-term credit available to SMEs. This promising move, however, has many hurdles until its full implementation. The first hurdle to overcome is having an adequately developed capital market in terms of depth and liquidity and there exists severe information asymmetry in this segment of enterprises. Here are the constraints of the commercial companies in Rwanda.

**i. Rwandan commercial companies, especially SMEs have relatively high credit risk (90% table 4.1);** while SMEs have high growth potential, they are also more vulnerable to sudden changes in the economic and competitive environment. SMEs have relatively high credit risk. Every small change in economic environment creates problems to SMEs because of their vulnerability; increasing cost of production arising mainly from rising wages, changes in legal framework, political changes, economic slow down, ... This retains investors' interest in SMEs.

**ii. Lack of collateals and low value of net assets (88%, table 4.1);**

Many people claim that the SMEs cannot invest to develop themselves because they are credit constrained, and they are credit constrained because they lack of collateral. The truth is that most of the SMEs have limited wealth but also limited skills. The lack of collaterals should not be a problem itself, but when associated with the limited knowledge and limited skills it become a big problem. SMEs lack of management skills, technical skills and professionalism, it becomes so difficult for them to receive loans from banks.

**iii. SME financing is associated with a higher per-unit cost (95%, table 4.1);** the relatively smaller size of funding, as well as higher information and monitoring costs, leads to

higher implementation costs per deal when processing finance in capital markets when compared with that of large corporations. Given the low value of SME loan transactions, the per unit transaction costs of processing and tracking the performance of such loans are high

**iv. Absence of Relevant and Robust SME information and Information Sharing System:**

(70% table 4.1). There exists severe information asymmetry in this segment of enterprises. For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be accessible. This information could range from management to financials of the company. Absence of information sharing system causes so many difficulties to SMEs in finding customers and limited access to finance. Currently, information about SMEs in Rwanda is scattered between the companies themselves and banks which finance their operations. The credibility of the information especially on SME financial activities is also questionable based on the interviews with the banks. This would therefore call for a concerted effort between the government, the Capital Markets Authority, financial institutions and SMEs to come up with an information gathering and sharing system. To help any of these forms, the main focus of attention must be to mobilize demand for investing in SMEs. This must be done by getting the incentives right, promoting information, and providing trigger funds for investors. Absence of a robust SME information collection and sharing system also compounds the information asymmetry associated with the SME sub-sector and thus contributes to the limited access to financing. For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be readily accessible. SMEs' corporate information is nonexistent, or comes with very high access costs in many economies. (Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda*, 2013)

- v. **Some other mentioned SMEs constraints:** Many other authors mentioned other constraints for SMEs financing; lack of forward planning; poor leadership, leaders should have followers, but they often lack the people skills for successful leadership; lack of investment at the right time, cash flow problems; inability to capture and manage innovation; inability to change, culture too deep-rooted, lack of business experience;



inadequate market research; not customer focused; wrong product (or service), wrong price, wrong time; little encouragement for people to work together as a team (SME Financing Through Capital Markets, Final Report. The Growth and Emerging Markets Committee of the International Organization of Securities Commissions FR11/2015 JULY 2015).

#### 4.2.2. The Problematic eligibility conditions to Rwandan commercial companies

**Table 4.3: Difficult listing requirements according to capital market professionals (17 respondents).**

N°	Rules and listing requirements		Very Difficult	Difficult	Moderate	Easy	Total respondents/%
1	Incorporation	respondents	0	3	4	10	17
		%	0.0%	17.6%	23.5%	58.8%	100.0%
2	Public company limited	respondents	0	4	8	5	17
		%	0.0%	23.5%	47.1%	29.4%	100.0%
3	Application letter	respondents	0	0	5	12	17
		%	0.0%	0.0%	29.4%	70.6%	100.0%
4	Disclosure documents	respondents	0	4	6	7	17
		%	0.0%	23.5%	35.3%	41.2%	100.0%
5	Track record of financial statements, Integrity	respondents	1	3	11	2	17
		%	5.9%	17.6%	64.7%	11.8%	100.0%
6	Audites financial statements for 3 years	respondents	3	6	8	0	17
		%	17.6%	35.3%	47.1%	0.0%	100.0%
7	Sponsorship	respondents	0	6	7	4	17
		%	0.0%	35.3%	41.2%	23.5%	100.0%
8	Nominated advisor	respondents	0	8	7	2	17
		%	0.0%	47.1%	41.2%	11.8%	100.0%
9	Minimum number of shareholders	respondents	0	1	9	7	17
		%	0.0%	5.9%	52.9%	41.2%	100.0%
10	Minimum spread shares to the public	respondents	2	6	9	0	17
		%	11.8%	35.3%	52.9%	0.0%	100.0%
11	Minimum paid-up capital	respondents	0	7	10	0	17
		%	0.0%	41.2%	58.8%	0.0%	100.0%

12	Minimum funds to be raised	respondents	1	7	9	0	17
		%	5.9%	41.2%	52.9%	0.0%	100.0%
13	Minimum net asset required	respondents	1	11	5	0	17
		%	5.9%	64.7%	29.4%	0.0%	100.0%
14	An evaluation of profit forecast	respondents	0	8	6	3	17
		%	0.0%	47.1%	35.3%	17.6%	100.0%
15	A relevant planning and cash-flow forecast.	respondents	0	5	6	6	17
		%	0.0%	29.4%	35.3%	35.3%	100.0%
16	The IPO fees, time	respondents	0	3	8	6	17
		%	0.0%	17.6%	47.1%	35.3%	100.0%
<b>Average of percentages</b>			<b>2.9%</b>	<b>30.1%</b>	<b>43.4%</b>	<b>23.5%</b>	<b>100.0%</b>

Source: Primary data from the research

According to the professionals of the capital market; CMA administrative staff, RSE management staff and brokers, many listing requirements are moderate (43.4%), and others are difficult for Rwandan commercial companies (30.1%). (Table 8)

**Table 4.4: Difficult listing requirements according to company managers (83 company and enterprises managers).**

N°	Rules and listing requirements	Specification	Very Difficult	Difficult	Moderate	Easy	Total respondents/%
1	Incorporation	respondents	8	18	35	22	83
		%	9.6%	21.7%	42.2%	26.5%	100.0%
2	Public company limited	respondents	17	35	28	3	83
		%	20.5%	42.2%	33.7%	3.6%	100.0%
3	Application letter	respondents	9	12	42	20	83
		%	10.8%	14.5%	50.6%	24.1%	100.0%
4	Disclosure documents	respondents	22	38	21	2	83
		%	26.5%	45.8%	25.3%	2.4%	100.0%
5	Track record of financial statements, Integrity	respondents	32	39	10	2	83
		%	38.6%	47.0%	12.0%	2.4%	100.0%
6	Audites financial statements for 3 years	respondents	38	42	3	0	83
		%	45.8%	50.6%	3.6%	0.0%	100.0%
7	Sponsorship	respondents	33	38	9	3	83

		%	39.8%	45.8%	10.8%	3.6%	100.0%
8	Nominated advisor	respondents	32	39	9	3	83
		%	38.6%	47.0%	10.8%	3.6%	100.0%
9	Minimum number of shareholders	respondents	24	42	9	8	83
		%	28.9%	50.6%	10.8%	9.6%	100.0%
10	Minimum spread shares to the public	respondents	29	34	9	11	83
		%	34.9%	41.0%	10.8%	13.3%	100.0%
11	Minimum paid-up capital	respondents	23	36	10	14	83
		%	27.7%	43.4%	12.0%	16.9%	100.0%
12	Minimum funds to be raised	respondents	29	35	9	10	83
		%	34.9%	42.2%	10.8%	12.0%	100.0%
13	Minimum net asset required	respondents	38	41	4	0	83
		%	45.8%	49.4%	4.8%	0.0%	100.0%
14	An evaluation of profit forecast	respondents	23	35	17	8	83
		%	27.7%	42.2%	20.5%	9.6%	100.0%
15	A relevant planning and cash-flow forecast.	respondents	19	36	18	10	83
		%	22.9%	43.4%	21.7%	12.0%	100.0%
16	The IPO fees, time	respondents	27	40	8	8	83
		%	32.5%	48.2%	9.6%	9.6%	100.0%
	<b>Average of percentages</b>		<b>30.3%</b>	<b>42.2%</b>	<b>18.1%</b>	<b>9.3%</b>	<b>100.0%</b>

Source: Primary data from the research

According to the commercial companies managers, many listing requirements are very difficult (30.3%), many are difficult (42.2%) and others are moderate (18.1%). (Table 4.4). The percentages of “**very difficult**” and those of “**difficult**” are not low, the percentages are moderate because they are above 30%. This confirms that some registration requirements are very difficult and others are difficult to Rwandan companies and enterprises.

The Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda* (2013) stated that even if the listing requirements have been simplified for SMEs on the Altex segment, other listing requirements are still challenging. The tables 4.3 and 4.4 show some of them. The first challenge is the IPO cost and the time taken to go through the whole process to access capital. The second one is the lack of means to hire qualified staff; accountants, financial advisors, auditors, sponsors, ... The lack of audited financial reports for 3 years, the minimum value of net assets, the minimum number of shareholders, the minimum

number of directors, the capability of managing effectively and efficiently the minimum raised capital. From the tables 4.1, 4.2, 4.3 and 4.4 it is clear how the companies met difficulties and barriers in accessing long term finance and capital market especially. The following difficult eligibility conditions have been highlighted by the primary data collected;

- i. **To comply with full registration process set forth in the legal framework (85.7%; table 4.2);** In general, any offering of securities, regardless of size or number of purchasers, must comply with the full registration process set forth in the Legal Framework. SME's desiring to raise a relatively small amount of capital must go through the same costly, time-consuming process of registration as if it were a multimillion offering. SME capital requirements are often too low. Many SME's, even after the sale of shares in a public offering, will be too small to meet exchange listing standards. The Stock exchanges listing requirements are quite stringent with regard to company assets and the minimum number of shareholders. CMA Rwanda has made some changes to allow smaller companies to register and access capital market, but it still too difficult for them to afford a such step.
- ii. **CMA** does not fix a **minimum capital** for small enterprises to be listed, but some other listing requirements are still difficult for them. These include a well-formulated business plan; audited financial records for 3 years; and a generally accepted corporate governance structure. Most SMEs do not meet these requirements, and this limits their chances to list on the stock markets and raise relatively more affordable and longer-term capital. Key requirements for accessing other sources of finance include preparing a **business plan, monthly cash-flow projections, audited books of accounts**, and a track record of the firm's banking transactions. Only 30 percent of the SMEs have a business plan and less than 30 percent project cash-flows. About 40 percent of SMEs use retained earnings to finance their operations. Thirty percent of SMEs use trade credit and 25 percent indicated that they use bank loans. A negligible percent of SMEs reported use of debt securities or equity financing. Most **micro and small enterprises** employ up to four people and 93 percent of private sector establishments are SMEs with the average capital employed by an establishment at Rwf 16.3 million (US\$26,080). About 60 percent of the SMEs have a turnover of less than Rwf 50 million (US\$ 80,000). A significant number of SMEs are

engaged in wholesale and retail trade, and accommodation and food processing services business. (Establishment Census 2014).

**Table 4.5: Distribution of formal/informal Private and Public enterprises according to their size**

Size	Formal/Informal for Private or Public (Excluding Cooperatives&NGOs)					
	Total		Formal		Informal	
	Number	Percentage	Number	Percentage	Number	Percentage
<b>Total</b>	<b>147 717</b>	<b>100</b>	<b>11 137</b>	<b>100</b>	<b>137 699</b>	<b>100</b>
Micro(1-3)	137 147	92,8	4 414	44,1	132 733	96,4
Small(4-30)	9 554	6,5	4 680	46,7	4 874	3,5
Medium(31-100)	834	0,6	754	7,5	80	0,1
Large(100+)	182	0,1	170	1,7	12	0

Source: Establishment Census 2014.

This table 4.5 highlights the predominance of SMEs in Rwanda. Among 11 137 formal private or public companies (excluding cooperatives and NGOs), only 1.7% are large companies, 98.3% are SMEs. This is a main characteristic of commercial companies in Rwanda. This suggest also that the growth in the SMEs sector could be of strategic importance, especially in addressing the challenge of economic development and youth unemployment.

- iii. The incorporation:** The table 4.6 highlights again how the registration of companies is a challenging problem. Among 147,717 enterprises, only 11,137 (7.5%) are registered according to the Rwandan company law 2009. This is a very low percentage. Most of the SMEs are informal and not incorporated indicating that they cannot sue and cannot also be sued. This blocs access to finance particularly from the formal sources. (Establishment Census 2014).The range of products accessed is also limited. This is both an indication of limited diversification of financial products but also the fact that SMEs lack of the necessary requirements to access other financial instruments. Most micro and small enterprises employ up to four people and 93 percent of private sector establishments are SMEs with the average capital employed by an establishment at Rwf 16.3 million (US\$26,080). Among

147,717 companies in Rwanda, 137,699 are informal ie not incorporated (table 10). According to the laws governing capital markets in Rwanda, one of the basic requirements for an enterprise to list in capital markets is incorporation. Recently, the Rwandan government is trying to confront data of companies in the local government, data of RDB and data of RRA. It is still a process, the result is not yet observable, but it is a good initiative either for the purpose of registration of companies and the purpose of taxes. (Establishment Census 2014)

**Table 4.6 : Number and Percent of establishments registered at different organizations**

REGISTRATION LEVEL	Total	Registered	
		No.	Percent
Sector (Local GoR)	154 236	122 202	79,2
District (Local GoR)	154 236	85 105	55,2
Rwanda Cooperative Agency (RCA)	2 071	1 505	72,7
Private Sector Federation (PSF)	148 298	9 497	6,4
Rwanda Governance Board (RGB)	1 924	868	45,1
Social Security Fund (RSSB)	154 236	9 153	5,9
Rwanda Development Board (RDB)	154 236	11 137	7,2
Rwanda Revenue Authority (RRA)	154 236	36 538	23,7

Source: Establishment Census 2014

About 23.7 percent of SMEs are registered with Rwanda Revenue Authority (RRA) and 7.2 percent with Rwanda Development Board (RDB). However, 79.2 percent are registered at the local government level. Some enterprises are also registered with the Rwanda Social Security Board (RSSB) and Private Sector Federation (PSF). The majority of the SMEs are not incorporated. (table 4.6). According to the laws governing capital markets in Rwanda, one of the basic requirements for an enterprise to list in capital markets is incorporation. The Company law 2009 states that every company must be registered in the Registrar General'Office. (Rwandan Company Law, 2009).

- iv. **Public company, limited by shares and registred. Minimum number of shareholders; fifty shareholders minimum.**

**Table 4.7: Distribution of establishment in Private and mixed sector by Legal status**

LEGAL STATUS	Number of Establishment	Percentage
<b>Total</b>	<b>148 376</b>	<b>100</b>
Sole proprietorship	142 029	95,7
Limited by shares	4 688	3,2
Limited by guarantee	156	0,1
Limited by shares and by guarantee	94	0,1
Unlimited	150	0,1
None	1 107	0,7
NS	152	0,1

Source: Establishment Census 2014

The first challenge is that the managers and owners of commercial companies create sole-proprietorship or family companies (95.7%). Limited companies are only **3.4%** of all the commercial companies (table 4.5). Rwanda's economy largely depends on agriculture for employment and export earnings, with the majority of the agricultural population engaged in subsistence farming. The dominant size of the establishments is micro and small-scale measured both in terms of capital and employment. Governance, management and financial reporting of the SMEs are still undeveloped. The predominance of sole proprietorships and family owned business also presents challenges to the development of equity-based businesses. Thus, the current listing requirements that primarily target large companies might need to be adjusted to allow SMEs to participate in the capital markets. CMA has adopted an alternative listing segment for SMEs but still the requirements should not be considered as a panacea but rather part of the set of strategies for support SMEs to participate in the capital markets. The CMA in partnership with the government and other stakeholders should sustain reforms aimed at addressing both the demand- and supply-side constraints to accessing finance, including through the capital markets.

**v. Audited financial reports, and others accounting records of 3 years.**

Key requirements for accessing most formal sources of finance include preparing business plan, monthly cash-flow projections, financial projections; audited books of accounts, project proposal highlighting the strengths, weaknesses, opportunities and threats; monitoring costs; and a track record of the firm's banking transactions. To go staff, a company needs to be trusted by potential buyers of its financial instruments. This implies a high level of accounting and reporting system for companies to be listed on the exchange. Therefore, the adoption of internationally accepted financial reporting standards is a necessary measure to facilitate transparency and contribute to proper interpretation of financial statements. All this is very costly for Rwandan commercial companies which are mainly SMEs, family owned.

**vi. Financial reporting (85.7%, table 4.2);** Financial information for most SMEs tends to be prepared by owners, bookkeepers (relying on computerised systems in developed economies) or externally by a hired accountant. Evidence shows that while most SMEs maintain accounting records of some sort, SME owners tend to have limited financial expertise, especially in developing economies, due to low levels of literacy, limited access to accounting education and computerised accounting systems, thus affecting their ability to produce quality financial information. For the owners of SMEs, there is an issue of the cost of producing financial statements, ability to understand them and concern about confidentiality, lack of financial means to hire qualified accountants, advisors, auditors, ... (Report, 2015).

**vii. A well formulated business plan, a relevant strategic plan.**

Key requirements for accessing most formal sources of finance include preparing business plan, monthly cash-flow projections, financial projections; audited books of accounts, project proposal highlighting the strengths, weaknesses, opportunities and threats; monitoring costs; and a track record of the firm's banking transactions. A small percentage of companies has that capability of implementing a such planning and afford its high cost because it need high qualified staff.

**viii. Corporate governance;** about 71% of the total establishments commenced operations in 2012 and therefore relatively young. Most of the firms are family owned or sole



proprietorships, which raise the issue of corporate governance, a key pre-requisite for participating in capital markets. (Establishment Census 2014).

- ix. IPO cost, time consuming;** SME financing is associated with **a higher per-unit cost (95%, table 4.1)**; the relatively smaller size of funding, as well as higher information and monitoring costs, leads to higher implementation costs per deal when processing finance in capital markets when compared with that of large corporations. Given the low value of SME loan transactions, the per unit transaction costs of processing and tracking the performance of such loans are high. SMEs also tend to experience a more variable rate of return on their investments and higher rates of failure. These factors combined increase the risks associated with SME loans. Moreover, access to and affordability of Business Development Services (BDS) remains low. This suggests that measures to increase access to finance should be coupled with interventions to expand access to business development services so as to ensure a holistic approach to SME growth and development. Serious problems exist in this area for SME's, because of the limited knowledge of managers and owners of commercial companies, this limit their collaboration with the capital market. Exchanges can also help to attract investors to their platform by providing greater pipeline information on upcoming IPO's. This would help to build interest in SMEs that are planning to list and allow investors to plan ahead on investment opportunities (2014 Oliver Wyman).

To avail audited financial statements for the last three years including management accounts take enough time; more than 3 years. Processing the listing is also time consuming since the submission of the application letter to the reception of the capital.

- x. Limited Capital Market Instruments and no Fund of Funds;** Rwanda's capital market is still in its infancy and thus, instruments currently listed and traded comprise shares (equity) and bonds (debt). Venture capital which can partly address the scarcity of equity for SMEs through investment in unlisted companies, as is the case with the Private Equity and Venture Capital program in Brazil, is not widely available in Rwanda. For example, with the immaturity of an **Over-The-Counter Market**, the inability to meet exchange listing requirements would not be a serious impediment to a public offering by SMEs if those companies could assure potential investors that an over-the-counter ("OTC") market would

be created for secondary trading. An OTC market provides a liquidity function for shareholders similar to that of an exchange. The range of products accessed is limited with most of the SMEs surveyed indicating heavy reliance on term loans. This is both an indication of limited diversification of financial products but also the fact that SMEs lack of the necessary requirements to access other financial instruments. (Olivier Wyman, *Towards Better Capital Markets Solutions for SME Financing* 2014).

**xi. Lack of investors in SMEs; lack of demand**, which is the biggest problem, is mostly rooted in the lack of investable scale, especially in terms of attracting regional investors or pan European investors. Due to their size, some SMEs can be attractive to domestic investors, but not have a viable chance to attract the institutional investors that would be able to offer them a low cost of capital. Hence the most promising option for the smaller SMEs is to be bundled into groups to reach a viable scale. Institutional investors which may find individual SMEs or funds of SMEs too small might well invest in ‘funds of funds’ of SME. (Olivier Wyman, *Towards Better Capital Markets Solutions for SME Financing* 2014).

**xii. Lack of information on their benefits.**

Absence of a robust SME information collection and sharing system also compounds the information asymmetry associated with the SME sub-sector and thus contributes to the limited access to financing. For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be readily accessible.

**Loss of the control on the company and the merging which is not a common action in Africa.** To have a minimum of 50 shareholders, to offer in public 25% of the shares, all this is not familiar to rwandan managers who have developed their own companies from the beginning till the development of the company. The owners of family companies are still reticents to include others in the management and ownership of their companies (table 3.9)

**xiii. Advisory and other professional services.**

Among the requirements for listing include the appointment of a nominated advisor, to have a recognised sponsor who is on the recognised list of sponsors. All this need financial means, knowledge and time. Business Development Services (BDS) are currently provided through five centers which were privatized. The centers are based in four provinces and the city of Kigali. Despite the presence of these centers they are also faced with challenges including the limited capacity of the new operators of the BDS centers to provide the needed services to SMEs—suggesting a need for capacity development for these operators;

BDF and RDB have been making various efforts to make advisory services accessible to SMEs. The key objective of the BDF is to support increased lending to both the private sector through the provision of guarantees to individuals and SMEs. BDF also provides advisory services to SMEs with the objective of improving their managerial capacity. However, coverage, access and affordability of these advisory services remains slow. Capital markets could be utilized as a vehicle for raising equity and thus complement initiatives such as the BDF. (Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda*, 2013)

**4.2.3. Knowledge of commercial companies about the Capital Market.**

**Table 4.8: Know the listing requirements of the Rwanda stock exchange?**

N°	Respondents	Total sample	Know; Yes	% of Yes	Interpretation
1	RSE Staff	3	3	100%	High
2	CMA Staff	6	6	100%	High
3	Blockers	8	8	100%	High
4	Construction Company Managers	4	3	75%	High
5	Accommodation and food service activity Mgrs	18	5	27,70%	Low
6	Whole sale and retail trade Managers	32	4	12,50%	Low
7	Transport Company Managers	4	2	50%	Moderate
8	Education Managers	14	4	28,50%	Moderate
9	Financial and insurance activity Managers	4	4	100%	High
10	Information and communication Managers	7	3	42,80%	Moderate
	<b>TOTAL</b>	<b>100</b>	<b>42</b>	<b>42%</b>	

Source: Primary data from respondents

This table 4.8 highlights how all RSE and CMA Staff know about Capital Market and about the listing requirements. All the brockers as capital market professionals, but other respondents don't know well the Capital Market. The knowledge of managers of companies about the capital market and the listing requirements depends on the level of the learning that they have. It is in the University teaching that modules about the caital market are taught. If the RSE, CMA Staff and brockers are excluded, only 29.5% of other managers know the capital market. The percentage is low. Campains of education are needed in all the Districts of the country.

**4.2.4. What are Commercial Companies doing toward accessing Capital Market?**

In this research, the question concerning what the commercial companies managers are doing for furfilling the listing requirements, the response was “nothing” at 100%. They are all discouraged, thinking that the capital market is only for multinational companies. It is difficult to look for what foreign SMEs did, No scholars states about the activities performed by the

foreign SMEs to fulfill the security exchange requirements. Because SMEs Managers operate individually. Each manager has his own personal skills, strategies for the way of managing his company which are not well structured, defined and planned. But it is true , many SMEs in different countries accessed to the capital markets. The government, CMA, BNR, MINECOFIN and RSE facilitate the traders to access to the capital markets. But the traders must work hard to succeed the businesses strategically.

The question is; are the changes made by CMA to facilitate SMEs accesss to capital market enough? The CMA has made changes in the listing requirements in order to attract and develop SMEs. In the second chapter of this research a list of these changes has been done. These changes are; the creation of an altex segment market for SMEs which has less contringent listing requirements regarding the board of directors, the minimum capital required, the tax incentives policy and SMEs regulation policy . (Rwanda Stock Exchange, Small & Medium Enterprise Market Segment Rules, 2013). There is one year since the creation of that Altex, no SMEs has applied. This is the proof that the listing requirements are still difficult for Rwandan commercial companies.

#### **4.2.5. Strategies for Rwandan Commercial Companies to be Eligible to the Capital Market.**

This is the main finding. Our findings will be formulated in a form of **a strategic plan** necessary to target the fulfillement of the listing requirements. Managers of Rwandan commercial companies must be educated toward cooperating with the Capital Market. The strategic plan has duration of five years in total.

**Table 4.9: Schedule of the implementation of the Strategic Plan.**

Nº	Activity	Year 1	Year 2	Year 3	Year 4	Year 5
1	To get knowledge by owners of companies					
2	To plan with strategy					
3	Incorporation of the companies					
4	Corporate governance					
5	Performant management					
6	To hire high qualified staff;					
7	Prepare the security issue 3 years before					
8	Financial reporting standards					
9	Business plan and relevant strategic plans					
10	Increase of professionalism, innovation, new technology and quality.					
11	Creation of information platform and SMEs support bureau,					
12	Collaboration with the Stock Exchange & Attraction of investors.					
13	Request of pooling investments, crowd investments					
14	Merger of companies					

Primary data from the researcher. Development of a strategic plan for listing to the Capital Market

**Step 1: Follow Education Programs Provided by BDS, CMA, BNR and Financial Advisers**

Financial institutions, Members, brokers and sub-brokers having branches and franchises spread across the country can play important role in mobilizing and educating the SMEs with their market knowledge and experience. SMEs should be approached through Chambers of Commerce, Industry Department(s) under State Government(s), Industry Associations etc. to avail the opportunity of accessing Capital Markets through SME Platform. There is need for co-ordination with banks and angel investors for bringing the companies on SME platform. The CMA in partnership with the government and other stakeholders should sustain reforms aimed at addressing both the demand- and supply-side constraints to accessing finance, including through the capital markets. For instance, programs to educate SMEs on issues of ownership, registration, and financial management and reporting and other business competencies need to be emphasized. Increasing the affordability and access to business

development services with a model based on cost-sharing should also be explored. (Olivier Wyman, *Towards Better Capital Markets Solutions for SME Financing*, 2014).

## **Step 2: Incorporation of the Company**

The Rwandan company law suggest to every company that it is compulsory to be incorporated by the office of the Registrar General. (Company law 2009). The table ... show that in Rwanda some countries are registered in RDB, others in RRA, RSSB, PSF, Sector Office (or District). About 93.2% companies are informal, and the incorporation is a must to access capital market. (Establishment Census 2014).

## **Step 3: Corporate Governance and Performant Management**

The corporate governance plays a significant role for SMEs since it defines the role of shareholders as owners on the one hand, and as business managers on the other hand. This is best done through a process that spells out governance rules and guidelines. SMEs form large segment of business activities. Generally, they take the form of private companies owned by small number of shareholders. Often have less than 100 employees. Such companies are usually family owned run by family members where the authorities and powers are generally held by an individual normally the major shareholder. For that reason the owners commonly consider them as running their personal properties. Companies need to communicate with the public and to have good corporate governance in order to give a good picture on what the public should expect from these companies. The public derives the value of a company from how the future expectation is perceived. Then, companies have to give trustful opinion of them and in addition, the good image that they reflect has to be confirmed by an independent and reliable third party. In order to support the development of managerial practices to improve organizational performance, some authors have identified some key areas of intervention for SME support agencies, advisors and consultants. Planning seems to be the most crucial phase of the identified closed-loop process. SMEs show difficulties in developing effective mission, vision and values, and most of them have never formalized their strategies. (Cook and Wolverton, 1995; Hudson et al., 2001; Garengo et al., 2005; Turner et al., 2005; Hudson-Smith and Smith, 2007; Wiesner et al., 2007). For companies to be listed,

they must have a minimum of three directors and one of them must be non-executive. This must be prevailed in the planning of the company.

#### **Step 4: Collaboration with the Financial Services of Professionals**

The financial professionals are; advisors, auditors, accountants, ... high qualified staff; managers, legal advisors. Many persons responsible for finance in many commercial companies do not have relevant qualification. In SMEs, there are almost no trainings, od ad-hoc trainings rather than having a dedicated budget on trainings. SMEs are encouraged to think about qualifications for their accounting and finance staff. In SMEs, staff have to cover a number of roles, occupying many posts at a same time. Many SMEs owners are responsible of the company's finance on day-to-day basis thinking that the work of finance is not complicated enough to need qualifications, many responsables of finance inSMEs learned on the job. The solution should be to hire a person of part-time or a consultant for finance task.

To go staff, a company needs to be trusted by potential buyers of its financial instruments. This implies a high level of accounting and reporting system for companies to be listed on the exchange. Therefore, the adoption of internationally accepted financial reporting standards is a necessary measure to facilitate transparency and contribute to proper interpretation of financial statements.

#### **Step 5: Preparation of the security issue 3 years in advance.**

In order to gather the track record of three years and audied financial statements the comercial company has to prepare this and hire a qualified accountant and a qualified auditor three years before the security issue. This requires a good record of financial reports and other financial documents in order to allow to the auditor to express his opinion on them.

#### **Step 6: Financial Reporting Standards, Business Plan and Relevant Strategic Plan; Professionalism**

A study in many African countries found that SMEs are not inclined towards IFRS for SMEs and are long way in adopting them. A large number of them have never heard of them either. They were adopted in 2009 in Uganda and hindrances include complexity of IFRS, high cost



of compliance, insufficient reference material and lack of qualified accountants in the SMEs. The challenges include lack of knowledge which is difficult to address because SMEs think that training and recruitment is costly and will also lead to job mobility. Lack of practical knowledge to convert from current practices to IFRS is part of the gap as SMEs cannot afford well trained consultants. Other challenges include costs for subscription and membership fee to the regulators both for members and for the services and technology. Culture is another challenge where SMEs think that IFRS is too sophisticated for their businesses. For updates, use of technology is challenging because of limited access to broad band internet services. Weak advocacy by the local Institute of Accountants has also meant many SMEs do not what to do. With high qualified staff, the challenge of standard financial reporting could be avoided. With qualified staff, the profitability of the company will be raised. The business planning will be relevant and the strategic planning.

#### **Step 7: innovation, technology, quality**

Small firms account for a disproportionate share of new product innovation given their low R&D expenditures. Knowledge based economy requires use of innovation measures in addition to quality initiatives for achieving competitiveness. Innovation measures were the least used for performance measurement in SMEs. However there was awareness in SME managers to look for product and service improvement techniques since it was essential for their continued existence. The SME's day to day working involves most of the effort directed to solve managerial problems. SMEs can only survive in current economic crises if they innovate to create new products or services and reach a market in many ways. (Acs and Audretsch, 1990).

“The market is more competitive than ever before, which means that those who produce high-quality products at affordable prices will succeed. Therefore, we need to keep training people on how to increase the quality of their products. As we have opened doors for SMEs to compete in public procurement, the government will only take the ones who are more competitive than others.” **Minister Kanimba, 2014.**

The changes that lead to development are the introduction of a new good or a new production method, not necessarily based on a scientific discovery. For instance, they can be a new form

of marketing, access to a new source of raw or semi-finished materials or a new industrial organization. (Schumpeter, 1971).The innovation and new technologies have increased the productivity of most of the companies in the world and increase their competitiveness.

### **Step 8: Improve Information Collection and Sharing**

To improve the information collection and the information sharing, there is a need to create an information platform which may broadcast benefits of SMEs and the creation of an SMEs Support Bureau. Setting up a website for publishing periodic information and securities analysts' research reports on SME stocks to enhance investor interest. Making presentations at seminars, conferences, meetings with business clubs and business associations. Authorities should embark on improving access to information on the operations and activities of SMEs. This could for instance be achieved by facilitating disclosure of data and information by various agencies to facilitate the evaluation mechanism by private investors (for example venture capitalists) or banking institutions. Absence of a robust SME information collection and sharing system also compounds the information asymmetry associated with the SME sub-sector and thus contributes to the limited access to financing. For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be readily accessible.

Supporting legislation will be necessary for the operationalization of such an information sharing system. The information required from a company should at least cover the key financial indicators captured when companies are trading on stock exchanges. A similar database has been developed by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). Africa Development Bank Group, in *Leveraging Capital Markets for SME Financing in Rwanda* (2013) .

A centralized SME rating and information database, either on a national or pan-regional level, would increase the transparency of SME investments. Information could be collected by various government bodies and then analyzed by a third party company using standardized risk methodologies. If made available via a website, it would allow investors to quickly analyze and benchmark potential investments. In order to ensure that adequate attention,

guidance and support are provided to SMEs, a Small Business Development Bureau should be established. The agency could provide any and all of the following services: regulatory coordination; education and training; financial assistance; market evaluation as well as private fund development.

The mission of small and medium enterprises support bureau would be to contribute to further development of market economy in the country, helping to build an entrepreneurial society where the small and medium enterprises (SMEs) has been successfully developed and reach their potential by increasing the number of individuals who intends to start up the business. Also, the bureau's other goal would be to improve the SMEs general productivity and competitiveness, these becoming a key mechanism to ensure SMEs more powerful and effective representation

#### **step 9: Cooperation with the Stock Exchange to Familiarise with it and to Attract Investors.**

Most of the commercial companies are SMEs (98%). SMEs have limited access to venture capital and debt funding, particularly in the early stages of their life cycle. The SMEs do not publicly trade and appear the capital market financing. The research shows the efficiency of raising equity capital in comparison to other financing options. Two other types of barrier tend to be identified with regard to this matter: **cultural** and **economic**. The former are associated with the understandable lack of familiarity with securities markets of many entrepreneurs. Far from being a trivial matter, this circumstance tends to result in biases against the option of going to the markets. These biases may originate, for example, from an overestimation of the costs of being listed on a market, especially those directly related to the actual flotation and to reporting and conduct requirements, and an underestimation of the benefits in terms of diversification of financing sources, and reputation and image. The basic antidote to these problems is information, and the financial intermediaries working with the securities markets and the companies managing the trading systems should play a fundamental role in providing such information. (Olivier Wyman, *Towards Better Capital Markets Solutions for SME Financing*, 2014).

**Step 10: Merger of companies, request of pooling investments, crowd investments;** it is not in the culture of rwandans nor all Africans to merge companies. Thugh for more strength and for avoiding weakness against economic environment changes, merge is necessary. Mergers have many advantages; merge is necessary for reduced costs, for market penetration, for more strength against competitors, for increased market share, for economies of scale, for diversification of products, skills, knowledge, for affording the high cost of new technologies, market research,... Marketing gains arise from more effective advertising, reduced competition, tax benefits, financial resources; more working capital and increased fixed assets, growth, expansion and pooling equity. (Columbia Institute for Tele-Information, *New Approaches to Minority Media Ownership*, Columbia University, 2015)

### **Step 11: Application for Listing**

The last step comes when the commercial company is ready to apply and has many chances to succeed and to be listed to the security market. All the requirements for listing can be fulfilled by the company and the future of that company is bright because it has a performant management and relevant planning.

## **CHAPTER V: CONCLUSIONS&RECOMMENDATIONS**

### **5.1. CONCLUSIONS**

The CMA Rwanda is in its early stage of work. It is progressing well and has made such efforts since its implementation in encouraging commercial companies to work with the capital market. Financial institutions and the CMA face so many problems in financing Rwandan commercial companies especially SMEs. On the other side also, commercial companies have so many constraints to access long term finance. For the SMEs, the research showed that efforts are to be made in knowledge, accessing and acquiring the information and a strategic planning to access long term finance. That strategic plan has been here developed.

The study showed that the CMA and the financial institutions have so many constraints in financing commercial companies. These constraints are; most of the SMEs are informal, not incorporated, financial reporting not compliant with IFRS, no reliable financial records, higher per-unit transaction costs of handling SMEs financing, lack of bankable projects and lack of collaterals for bank loans. There is also an inadequate institutional investor demand for SMEs securities, caused primary by the lack of liquidity and the higher rate of failure. One way of overcoming this hurdle is to pool SMEs securities, either equity or debt, into one product in order to minimize risk, to attract investors and to tailor listing requirements to SMEs because they make more than 97% of all Rwandan commercial companies.

The CMA has put in place many facilities to ease commercial companies access to development. The GoR has made also amendments in the framework regulation of listing requirements to SMEs. The creation of an alternative security market segments for SMEs and the adoption of the Small and Medium Enterprise (SME) Policy aimed at guiding the implementation of a coherent and coordinated policy framework to create an enabling environment for the growth of the SME sector. In addition, there are training programs, more relaxed taxation and moveable asset registration. All these activities improve the overall business environment in Rwanda. Business Development Services (BDS) are currently provided through five centers. The centers are based in four provinces and the city of Kigali.

The research showed also how small entrepreneurs face constraints when borrowing from either commercial banks or by floating shares at the stock exchange because of the nature of their businesses most of which do not meet international business best practices. Some reasons mentioned for Rwandan commercial companies' constraints for listing are; to comply with full registration process set forth in the legal framework; standard financial reporting; absence of relevant and robust SME information and Information Sharing System; high credit risk; SMEs financing is associated with a higher per unit cost; limited capital market instruments. Some other reasons mentioned for SMEs constraints for listing: lack of sufficient knowledge of Managers or owners, lack of forward planning; poor leadership and lack the people skilled for successful leadership; lack of investment at the right time; cash flow problems; inability to capture and manage innovation - Inertia - inability to change; culture too deep-rooted; lack of business experience; inadequate market research; little or no external help; not customer focused; wrong product (or service), wrong price, wrong time; little encouragement for people to work together as a team; and IPO Cost.

We conclude that the commercial companies should implement a strategic plan for qualification to capital market. That strategic plan comprises many steps which are classified in three stages; the first stage is to get knowledge by owners or managers and to plan with strategy the access to finance especially to capital market; the formal incorporation of the companies; corporate governance; performant management, the growth toward public companies and to hire high qualified staff; accountants, managers, legal advisors, auditors,...

This stage make possible the second one of standardised financial reporting, elaboration of relevant planning, creation of information platform which will broadcasting benefits of SMEs, prepare of the security issue 3 years before; establishment of an SMEs support bureau; this increases transparency of commercial companies and attract investors. This second stage leads to a third one of increased professionalism, innovation, new technologies, better quality of products; merger of companies and request of pooling investments, crowd investments. At this third stage a commercial company is ready to apply for listing at the stock exchange Altex segment.

## **5.2. RECOMMENDATIONS**

Concerning the CMA which continues to deploy efforts to reach many commercial companies it is recommended to enhance education programs for SME Owners and Managers in all the Districts of the country; to organise workshops, capital market conferences to support contacts between managers and investors, to create a centralised SMEs rating institution for appraisal and information sharing; approaching SMEs with high growth potential and pooling their securities offers to reduce risks and attract investors. And diversification of products like debt capital market, fixed income platforms, asset backed securities and venture capital.

According to the findings of this research, the Rwandan commercial companies face so many constraints on the financing market. But the main problems of these commercial companies are three: the first one is the incorporation non compliant with the Rwandan company law, then the creation of single proprietorship or family companies instead of public companies limited by shares, third, the corporate governance and the performance management which still be a challenge for them. It is recommended to make sustainable efforts to register according to the company law, to grow toward public companies, with a performant management and corporate governance. Once these three problems solved, the other constraints of commercial companies to access finance should be easily solved and they should easily fulfill the capital market requirements.

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## **APPENDIX**

**APPENDIX 1: Questionnaire N°1 for administrative staff of CMA, RSE and brokers.**

**UNIVERSITY OF RWANDA  
COLLEGE OF BUSINESS AND ECONOMICS  
SCHOOL OF BUSINESS  
MBA.**

**QUESTIONNAIRE N°1**

**Topic:**

**STRATEGIES FOR RWANDAN COMMERCIAL COMPANIES TO BE ELIGIBLE TO THE RWANDAN CAPITAL MARKET.**

**INSTRUCTIONS:**

- Please don't mention your name on the questionnaire.
- Put a tick where appropriate
- Answer to all questions

**SECTION A: Identification**

- The name of the Institution that you work for: .....
- The post occupied: .....
- Gender:        Male .....                      Female .....
- Birth date: .....
- Learning level: .....
- Department of your studies: .....

**SECTION B:**

- What are the different sources of funding used by many commercial companies in Rwanda?
- .....
- .....
- .....
- .....
- .....
- What are the constraints faced by the financial institutions in financing small and medium enterprises?
- What are the constraints faced by the commercial companies to access long term finance?

N°	Constraints of commercial companies to access LT finance	Agree	Desagree	Don't know
1	No information sharing system			
2	High credit risks			
3	High per unit transaction cost			
4	Lack of forward planning, business plan, strategic planning			
5	Inadequate market research			
6	No mean for market research, not customer focused			
7	No innovation,			
8	Lack of collaterals or value of net assets			
9	Time consuming			

- Do you know other constraints faced by commercial companies that are not mentioned here above?

- .....
- .....
- .....
- .....

- What are the constraints faced by your commercial companies to access capital market?

- Tick in the right case;

Nº	Constraints of commercial companies to access Capital Market	Agree	Desagree	Don't know
1	To comply with registration process set in legal framework			
2	Financial reporting complying with IFRS.			
3	Limited capital market instruments			
4	Lack of investors in SMEs			
5	Not planning to collaborate with CMA			
6	IPO cost			
7	Limited companies with 25% shares in the public.			
8	Corporate governance			
9	Loss of control of the company.			

**SECTION C:**

- Do you know the Rwandan Capital Market? .....

- What do you know about it? .....

.....

.....

.....

.....

- Do you think that its finance suit Rwandan commercial companies? .....  
 Why? .....  
 .....  
 .....
- What are the main listing requirements?  
 .....  
 .  
 .....  
 .....  
 .....  
 .....
- Would you please rank the following listing requirements according to their affordability by Rwandan commercial companies? **Using a ✓**

N°	Rules and listing requirements	Very Difficult	Difficult	Moderate	Easy
1	Incorporation				
2	Public company limited				
3	Application letter				
4	Disclosure documents				
5	Track record of financial statements, Integrity				
6	Audited financial statements for 3 years				
7	Sponsorship				
8	Nominated advisor				
9	Minimum number of shareholders				
10	Minimum spread shares to the public				
11	Minimum paid-up capital				
12	Minimum funds to be raised				
13	Minimum net asset required				
14	An evaluation of profit forecast				
15	A relevant planning and cash-flow forecast.				
16	The IPO fees, time				



**SECTION D:**

- Do you think that Rwanda commercial companies can afford these listing requirements?
- Do you know the changes made by the CMA to facilitate SMEs access to the Capital Market?

No	Knowledge about changes made by CMA to facilitate SMEs	YES	NO
1	Tax incentive policy, exemption of tax on shares dividend		
2	Registration exemption		
3	Creation of an alternative market for SMEs		
4	Changes in Board requirements (3 members minimum)		

- Do you think that these changes are sufficient to attract Rwandan commercial companies?
- What else do you think that CMA can do to facilitate Rwandan commercial companies to access long term finance, especially the capital market?

**Thank you.**

**APPENDIX 2: Questionnaire N°1 for commercial company managers.**

**UNIVERSITY OF RWANDA  
COLLEGE OF BUSINESS AND ECONOMICS  
SCHOOL OF BUSINESS  
MBA.**

**QUESTIONNAIRE N°2**

**Topic:**

**STRATEGIES FOR RWANDAN COMMERCIAL COMPANIES TO BE ELIGIBLE  
TO THE RWANDAN CAPITAL MARKET.**

**INSTRUCTIONS:**

- Please don't mention your name on the questionnaire.
- Put a tick where appropriate
- Answer to all questions

**SECTION A: Identification**

- The name of the Company that you work for: .....
- The post occupied: .....
- Gender:        Male .....                          Female .....
- Birth date: .....
- Learning level: .....
- Department of your studies: .....

**SECTION B:**

- What are the different sources of founding used by your commercial companies in Rwanda?
- .....

- .....
- .....
- .....
- .....

- What are the constraints faced by your commercial companies to access long term finance?

N°	Constraints of commercial companies to access LT finance	Agree	Desagree	Don't know
1	No information sharing system			
2	High credit risks			
3	High per unit transaction cost			
4	Lack of forward planning, business plan, strategic planning			
5	Inadequate market research			
6	No mean for market research, not customer focused			
7	No innovation,			
8	Lack of collaterals or value of net assets			
9	Time consuming			

- Do you know other constraints faced by your commercial companies that are not mentioned here above?

- .....
- .....
- .....
- .....

- What are the constraints faced by your commercial companies to access capital market?

- Tick in the right case;

Nº	Constraints of commercial companies to access Capital Market	Agree	Desagree	Don't know
1	To comply with registration process set in legal framework			
2	Financial reporting complying with IFRS.			
3	Limited capital market instruments			
4	Lack of investors in SMEs			
5	Not planning to collaborate with CMA			
6	IPO cost			
7	Limited companies with 25% shares in the public.			
8	Corporate governance			
9	Loss of control of the company.			

**SECTION C:**

- Do you know the Rwandan Capital Market? .....
- What do you know about it? .....  
.....  
.....  
.....
- Do you know the registration requirement for listing in the stock exchange? .....
- Do you think that its finance suit Rwandan commercial companies? .....  
Why? .....  
.....  
.....
- What are the main listing requirements that you know?

.....

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- Would you please rank the following listing requirements according to their affordability by Rwandan commercial companies? **Using a ✓**

N°	Rules and listing requirements	Very Difficult	Difficult	Moderate	Easy
1	Incorporation				
2	Public company limited				
3	Application letter				
4	Disclosure documents				
5	Track record of financial statements, Integrity				
6	Audited financial statements for 3 years				
7	Sponsorship				
8	Nominated advisor				
9	Minimum number of shareholders				
10	Minimum spread shares to the public				
11	Minimum paid-up capital				
12	Minimum funds to be raised				
13	Minimum net asset required				
14	An evaluation of profit forecast				
15	A relevant planning and cash-flow forecast.				
16	The IPO fees, time				

**SECTION D:**

- Do you think that Rwanda commercial companies in general can afford these listing requirements?
- Do you think that your company can afford these listing requirements?
- Do you know the changes made by the CMA to facilitate SMEs access to the Capital Market?
- .....
- .....
- .....
- .....
- Do you think that these changes are sufficient to attract Rwandan commercial companies?
- Do you think that these changes are sufficient to attract your commercial companies?
- What else do you think that CMA can do to facilitate Rwandan commercial companies to access long term finance, especially the capital market?
- Is your company planning to collaborate with the Stock Exchange?
- What is your company or enterprise doing in order to access capital market?
- Is your company willing to be a listed company?

**SECTION E:**

- Is it possible for Rwandan commercial companies to fulfil the listing requirements?
- Is it possible for your company to fulfil the listing requirements?
- Do you think that there is something that Rwandan commercial companies can do to fulfill the listing requirements?
- If Yes, what can Rwandan commercial companies do to fulfill the listing requirements?
- How long can this target take?

**Thank you.**

**APPENDIX 3: Listing fees.**

***INITIAL LISTING FEES***

The listing fees for new issues will be computed on the value of the issue.

<b>No.</b>	<b>Security</b>	<b>Fees</b>
1.	Equities	(i) 0.15 % of the value of the securities to be listed subject to a Minimum Rwf 1,000,000  (ii) 0.25% of the value of the securities to be listed by way of introduction & subject to a Minimum of Rwf 1,000,000 and Maximum of Rwf 20,000,000
2.	Fixed income Securities	(i) 0.1% of the value of the fixed income securities to be listed (ii) Corporate bonds and other fixed income securities subject to a Minimum Rwf 1,000,000
3.	Cross listing	(i) No initial or application listing fees (ii) Annual listing fees apply

***ADDITIONAL LISTING FEES***

The computation of the value of additional listings shall be based on the first date the securities trade ex entitlement after the additional offer. This will include bonuses and rights issues.

3.	Equities	(i) 0.01% of the nominal value of the additional securities to be listed subject to:  Minimum Rwf 500,000  Maximum Rwf 5,000,000
4.	Fixed income securities	(ii) 0.05% of the value of the fixed income securities to be listed:  (iii) Corporate bonds and other fixed income securities subject to a Minimum Rwf 1,000,000

***ANNUAL LISTING FEES***

The annual listing fees for companies whose shares are listed shall be based on daily average market capitalization from January to November 30 annually. The annual listing fees for Fixed Income Securities shall be based on the total value of the listed securities outstanding as on November 30.

5.	Equities	(i) 0.06% of the market capitalization of the listed securities subject to: Minimum Rwf 1,000,000  Maximum Rwf 10,000,000
6.	Fixed income securities	(ii) 0.05% of the value of the listed fixed income securities:  (iii) Corporate bonds and other fixed income securities subject to:  Minimum Rwf 1,000,000  Maximum Rwf 10,000,000



7.	Cross listing Fees	(v)0.05% of the market capitalization of the listed securities subject to: Minimum Rwf 1,000,000 Maximum Rwf 10,000,000

### **OTHER FEES AND RULES**

The other Fees and rules apply as for the Main Investment Market Segment.

#### **APPENDIX 4: Supporting Documents**

In support of its letter of application, the applicant must lodge with the Exchange at the same time the following documents:

A certified copy of its certificate of incorporation or equivalent document, if not incorporated in Rwanda a certified copy of its certificate of registration under the Company's Act;

A certified copy of its constitution and, in all cases, all amendments made since the constitution was last filed with RSE;

The audited annual report and accounts for each of the three (3) completed financial years of the issuer or group immediately preceding the issue of the disclosure document or since incorporation, if shorter;

A certified copy of the resolution(s) authorizing the issue and allotment of such securities, the making of the application and the signing of the issuer's undertaking and approving and authorizing the issue of the disclosure document;

An issuer's undertaking in the application form set out in Appendix 2, duly signed for an on behalf of the applicant:

A declaration and undertaking signed by each director and proposed director of the issuer, in the form set out in Part B of Appendix 2;

**Asponsor's** declaration in the form set out in Appendix 2;

An undertaking from the proposed nominated **adviser** in the form required by RSE;

A certified copy of any resolution of the issuer in general meeting or of the Board of directors authorizing any mergers or amalgamation, within the period of five (5) years preceding the date of the application;

A certified copy of every letter, report, statement of adjustments, valuation, contract, resolution and other documents referred to in the disclosure document;

A letter from any auditor whose audit report is set out in the disclosure document confirming that the auditor has given its consent to the issue of the disclosure document with the audit report included in the form and context in which it is included;

Provisions of the final shareholder list;

Declaration of all associates of the applicant, the applicant's directors and the applicant's officers:

A copy of the appropriate license, should be required under the Company's Act and An Approval and Consistency Declaration as prescribed in Appendix 4, signed by the Sponsor and the Directors of the applicant affirming that the information and documents presented to the Exchange are correct. This declaration must be appended to the Sponsors report;

An undertaking by every founding shareholder that the shareholder shall not dispose or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any part of its interest in the applicant, in respect of which they are shown in the application to be the beneficial owners;

A certified copy of the Sponsor Agreement executed between the applicant and its Sponsor;

The most recent year-end audited financial statements;

The copies of the agreements with intermediary institutions, if any;

Certified copies of the applicant's Memorandum and Articles of Association and all amendments thereto;

Such other documentation as may be required by RSE.

This Part sets out the terms with which securities must comply in order to be granted listing. It also sets out continuing obligations of the issuer in relation to its equity securities once a listing has been granted (RSE Rules and Regulations, 2008).

### **Continuing Obligations.**

The continuing obligations, it is about; capital structure, voting closure of books, notice of general meetings and disclosure of annual accounts. About the capital structure ;An issuer may apply to have quoted multiple classes of equity securities.

Voting: Each holder of an equity security with a right to vote must be entitled to one vote on a show of hands and one vote for each fully paid security on a poll.

Where there are equity securities which do not carry voting rights, the words "nonvoting" must appear in the designation of such securities.

Where there are equity securities with different voting rights, the designation of each class of equity securities, other than those with the most favorable voting rights, must include the words “restricted voting” or “limited voting”.

Closure of books: The issuer shall send the RSE Secretariat electronic notice of any closure of its register of members at least ten (10) business days before the closure.

Notice of General Meetings: The issuer shall give members at least the number of days specified in the Company’s Act notice of any general meeting. The issuer must send a copy of the notice of meeting to the RSE Secretariat for dissemination to the market by the Secretariat.

Disclosure of Annual Accounts: The issuer must provide an electronic copy of its annual accounts, to the Secretariat, for dissemination by the Secretariat as soon as the annual accounts are available.

### **Information to accompany annual accounts**

The issuer shall include with its annual accounts a report by the directors on the operations of the issuer and such directors’ report must include:

A description of the principal activities of the group; A statement showing the name of every subsidiary, its principal country of operation, its country of incorporation and its main business. And A statement as at the end of the relevant financial year showing:

The total interests of all the directors and officers of the issuer in the equity or debt securities of the issuer or any subsidiary.

The details of any right to subscribe for equity or debt securities of the issuer granted to any directors or officers of the issuer, and the exercise of any such right, or if there is no such interest or no such right that has been granted or exercised, a statement of that fact.

The Half yearly reports, listing fee, basis of allotment, disciplinary actions.

The issuer shall inform the Exchange without delay, for dissemination by RSE, of any decision about *changes* made in regard to: Purchases of securities, Winding-up and liquidation, Minimum required public holdings, Dividend declarations, Annual Accounts, Reorganization of capital, Significant transactions, Dealing with assets, Directors and

meetings, Material information to be notified to the Exchange, A decision to be party to a merger, acquisition or joint venture; A decision to conduct a block split or stock dividend; A decision to issue a bonus or rights; A decision to acquire or terminate a significant contract; A decision to introduce a significant new product or service; The event of a major discovery or event; A decision to purchase or sell a significant asset; The emergence of a significant labor dispute; The emergence of a significant law suit against the issuer; Establishment of a program to make purchases of the Issuer's own shares. A tender offer for another Issuer's securities;

Any other peculiar circumstances that may prevail with respect to the Issuer other relevant industry to the extent that it affects the company.

With respect to the events above, the Exchange may require the Issuer to submit any other information and documents which may be deemed necessary by the Exchange.

## **APPENDIX 5: Eligibility criteria for listing to the SMEEMS**

The following are the most important among eligibility criteria shall be applicable for listing of securities on the SMEEMS;

That the applicant is a public company limited by shares with proof of compliance with required legislations as to its legal status and its operations in Rwanda;

That the applicant where applicable, has the most recent year-end financial statements as of the application date that have been independently audited and in the event that a period of six months has elapsed since the date of the independently audited balance sheet, the most recent quarterly financial statements also independently audited;

That with the exception of the conditions above, the applicant does NOT meet any one or all the listing requirements stipulated for the Main Investment Market Segment (MIMS) of the Rwanda Stock Exchange;

That the applicant has entered into a Sponsor Agreement with a Sponsor effective for a minimum period of two years from the application date. A copy of which shall be availed to the Exchange;

That the application concerns the admission of shares issued as a result of capital increase through partial or full restriction of the pre-emptive rights of the existing shareholders, or a capital increase through private placement;

That the company's Memorandum and Articles of Association do not prevent the transfer and circulation of the shares to be traded nor, except as may be provided under these Rules, prevent the shareholders from exercising their rights;

That the shares to be listed are freely tradable as ordinary shares, provided that the Board of Directors approval will be required in the case of an applicant with different rights attached to them. (Rwanda Stock Exchange, *Small & Medium Enterprise Market Segment Rules*, 2013).

**Additional Listing Fees**

The computation of the value of additional listings shall be based on the first date the securities trade ex entitlement after the additional offer. This will include bonuses and rights issues.

3.	Equities	(i) 0.01% of the nominal value of the additional securities to be listed subject to: Minimum Rwf 500,000 Maximum Rwf 5,000,000
4.	Fixed income securities	(ii) 0.05% of the value of the fixed income securities to be listed: (iii) Corporate bonds and other fixed income securities subject to a Minimum Rwf 1,000,000

**Annual Listing Fees**

The annual listing fees for companies whose shares are listed shall be based on daily average market capitalization from January to November 30 annually. The annual listing fees for Fixed Income Securities shall be based on the total value of the listed securities outstanding as on November 30.

5.	Equities	(i) 0.06% of the market capitalization of the listed securities subject to: Minimum Rwf 1,000,000 Maximum Rwf 10,000,000
6.	Fixed income securities	(ii) 0.05% of the value of the listed fixed income securities: (iii) Corporate bonds and other fixed income securities subject to: Minimum Rwf 1,000,000

		Maximum Rwf 10,000,000
7.	Cross listing Fees	(v)0.05% of the market capitalization of the listed securities subject to: Minimum Rwf 1,000,000 Maximum Rwf 10,000,000



**APPENDIX 6: List of Companies and Enterprises of the Managers respondents.**

	<b><u>CONSTRUCTION</u></b>
1	EMP
2	NPD COTRACO
3	GARCO
4	
	<b><u>TRANSPORT</u></b>
3	VOLCANO EXPRESS
4	HORIZON
5	OMEGA
6	STELLA
	<b><u>EDUCATION</u></b>
7	CEFOTEC
8	ULK
9	ESEGI
10	YOUTH DRIVING SCHOOL
11	CAMPUS DRIVING SCHOOL
12	ESEGI
13	EIPB
14	ECOLE SECONDAIRE SAINT JOSEPH
15	ETM
16	CBS
17	EPR
18	ECOLE INTERNATIONALE DE KIGALI
19	PIASS
20	NSPA
	<b><u>FINANCE &amp; INSURANCE</u></b>
21	IMF DUTERIMBERE
22	RADIANT
23	SORAS
24	CEB Huye
	<b><u>INFORMATION</u></b>
25	RADIO SALUS
26	RADIO 10
27	IGIHE.COM
28	IMURENGE,COM
29	AFRICAN TIME
30	CGIS

31	UMUSEKE.COM
	<b><u>ACCOMMODATION</u></b>
32	HOTEL CREDO
33	HOTEL FOUR STEPS
34	HOTEL BARTHOS
35	HOTEL FAUCON
36	PEACE HOTEL
37	ISIMBI HOTEL
38	OKAPI HOTEL
39	LA PALISSE HOTEL
40	SKY HOTEL
41	LA PALME HOTEL
42	VIRUNGA LODGE
43	BELVEDERE HOTEL
44	HOTEL URUMULI
45	NEW MOTEL GRATIA ltd
46	MOTEL IREBERO
47	MOTEL DU MONT HUYE
48	KIYOVU MOTEL
49	CASCADE RESTAURANT
	<b><u>WHOLESALEERS &amp; RETAILERS</u></b>
50	IMANZI INVESTMENT ltd
51	URWIBUTSO
52	PAPETERIE PACIS
53	PAPETERIE UBUREZI
54	ERGOPHAR
55	DYNAPHARM
56	PHARMACY LA PREFERENCE
57	APIPHARMA
58	VICTORY PHARMACY
59	VIVA PHARMACY
60	SUNRISE PHARMACY
61	EDEN PHARMACY
62	QUINCALERIE BELECOM
63	AMAZI YA HUYE
64	QUINCALERIE BELECOM
65	QUINCALERIE DU SUD
66	QUINCALERIE LIFE STAR ltd

67	QUINCALERIE BUILD COUNTRY ltd
68	ALLO PHONE
69	HUYE CITY COMPLEX
70	HUYE SUPERMARKET
71	MFF SERVICES GROUP ltd
72	BUTARE SPARE PARTS ltd
73	ATELIER DE COUTURE LE MODELE
74	LIFE VISION ltd
75	LA VEDETTE ltd
76	SPECIAL WORKERS ltd
77	HOHO PHARMACETICAL ltd
78	SAMEER HUSSEIN
79	PHARMACY LE BON SAMARITAIN
80	PAPETERIE PRAISE
81	PAPETERIE POUR TOUS
82	PAPETERI IBANZE
83	QUINCAILLERIE BORA