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Equity Market Performance and its Effect on Economic Growth af a Country- Rwanda Stock Exchange

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ABSTRACT

Rwanda's equity market analysis was analyzed in this study that covered a period of six months from November 2012 to April 2013. The study findings revealed only four firms have securities issued on the Rwanda. These firms are bank of Kigali, Bralirwa, Kenya commercial bank and Nation media group. It is only the local firms that have generated equity from the market amounting to $29,446,506.52 and the foreign firms only $310.92. The equity market is segmented and needs to be boosted with integration with regional partners. Rwanda's economic growth rate is 8.2 percent average and can improve with development of its capital market.

Keywords: *Equity market, securities, liquidity, equity market liberalization and economic growth*

1. INTRODUCTION

Equity markets do provide liquidity needed by firms for short-to- medium term financial needs and these are instrument in the development of an economy as investors are able to access funds (Lagoarde-Segot and Lucey, 2008). Rwanda equity market has only four firms with listed securities and these are; Bank of Kigali (BOK), Bralirwa (BLR), Kenya commercial bank (KCB) and Nation Media group (NMG) (RSE, 2012). The first two are locally owned and the rest are foreign firms from Kenya. The study analyzed the status and performance of this market considering a six months period from November 2012-April 2013. From the study, there was a need to ascertain the relationship between a country's equity market performance and its economic development as equity markets performance are instrumental in a country's economic growth (Agyei-Ampomah, 2011). The country's economic growth rate is 8.2 percent GDP of $644 and the issue would be whether or not these rates can be improved if the country for instance liberalizes its equity market (NISR, 2013 and Naceur and Labidi, 2010).

2. LITERATURE REVIEW

Economic development of a country depends on the robustness of its stock markets as they act as a source of finance for business set ups according to (Naceur and Labidi, 2010). This finding was based on their study conducted on the MENA countries in 2007 and as a result of stock market operation the MENA countries were able to realize 5.7 percent growth in GDP. The composition of MENA countries is mostly developing economies and can therefore compare well with Rwanda whose equity markets are not fully liberalized (ZLi, 2012) on equity market. The development of capital market in a country can be argued to be a good precursor to steer forward a country's economic development (Lagoarde-Segot and Lucey, 2008). Capital markets can be a good source of liquidity for firms that qualify to list their stocks on a country's stock exchange. Some evidence exists that qualifies the issue of efficient market operations being dependant on how freely information is available in the market for investors (Al Saad and Moosa, 2005). Rwanda still faces a challenge of low economic development though with great potential, and its stock market is still underdeveloped with equity market having only four companies listed with their securities listed and fewer realizations (RSE, 2013).

Countries striving to develop their economies must seek to put emphasis on the development of their equity markets as these provided short-to medium term funds required by businesses (Bekaert et al., 2003, 2005). The argument should be that when equity markets are not liberalized to allow their access without any impediments by both local and foreign investors, then, equity markets may not develop and this will affect economic development of a country as investors may opt to go and seek for funds from economies that have grown equity markets that are fully liberalized (Kaminsky and Schmukler, 2003).

ZLi (2012) argues that countries in the sub Saharan Africa that have had tremendous economic development had their equity markets liberalized sometime back and their economies have continued to develop very well, these countries include Kenya that liberalized its equity market in 1995, Nigeria in 1995, South Africa in 1996, Botswana in 1990 and others. On the centrally countries like Rwanda, Togo, Zambia, Malawi, Niger and others in the Sub Saharan Africa that still have un liberalized equity markets are still facing challenges of low economic development in their respective economies according to (Bekaert et al., 2003, 2005 and ZLi, 2012). Agreement exists among many researchers of the relationship between economic developments emanating from developed capital markets and this can be witnessed with developed economies of the world that have developed capital markets and low development for example in African economies that have no or underdeveloped capital markets (Eiling and Gerard, 2007). There is a also a concern of equity markets segmentation in African economies and such markets cannot be able to provide enough liquidity required by investors and this definitely hampers economic growth potential (Agyei-Ampomah, 2011). Rwanda as one the countries with segmented equity market may need to start thinking on the direction of integrating its equity market with the east African partner states so as to increase its potential. This research gives findings on the relationship between equity markets development and their effect on economic growth.

2.1 Importance Of The Study

Rwanda has a vision 2020 agenda and one of its aims is to be a middle income economy by the year 2020. This can be achieved if the level of economic investment increases in the country. It would also be crucial that equity market is developed to provide access to finance for investors.

The findings from this study would also act as a good reference points on policy formulation to stimulate the equity market in the country. This could lead to increased issuers and investors on the market. Issuers and investors could also use the study findings themselves get educated on the importance of having developed equity markets and how they can benefit as stakeholders.

2.2 Statement Of The Problem

Rwanda is a developing country which is hungry for investments through setting up of new businesses and expanding already existing businesses in the country. Capital markets act as a good source of business funding if they are well developed. The equity market in the country is still young having seen their first equity listing in 2010 and 2011 (RSE, 2013). There are only a four firms in the country that have sought financing from the equity market in Rwanda. Two of these organizations are foreign owned i.e. KCB, and NMG. These firms seem not to have realized or performed well on the country's equity market. This presupposes that the equity market in Rwanda is so small and unattractive for investors and this in a way could retard the economic development of the country due to poor access to equity markets. This study aims to assess the link between a country's economic growth as a result of its equity market potential or performance.

2.3 Objectives

a. Assess the performance of equity market in Rwanda against.
b. Investigate the relationship between equity market performance and economic development

2.4 Hypotheses

a. Equity market in Rwanda is small and performs poorly.
b. A country's economic growth depends on its equity markets performance.

3. RESEARCH METHODOLOGY

Research methodology looks at the style to be used in the study. This study analyzes the performance of the Rwanda capital market for a period of six months starting from November 2012 to April 2013. The period was chosen because it is long enough to provide realistic findings. The equity market performance was observed on a daily basis for half a year.

Primary and secondary data was gathered for this study. Observation and review of available literature was used for collecting primary and secondary data accordingly and these are very good methods as argued by (Kumar, 2005). The data needed for this research has been collected from the Rwanda equity market operating under the Rwanda stock exchange. This study has adopted a correlation and explanatory approaches as they are effective to attain findings on studies that involve relationship studies and explaining why such interdependences exist as supported by (Dawson, 2002). Data was continuously collected from the daily equity securities performance issued by BOK, BLR, KCB and NMG. The time considered, data and the methods that are used to collect the data, and analyzing it with tabulation and have been considered good enough to ensure that the findings are valid and reliable.

4. RESULTS AND DISCUSSION

4.1 Status of Equity Market in Rwanda

The equity market in Rwanda is young and it is conducted under the auspices of Rwanda stock exchange that is regulated by the capital markets advisory council (CMAC) of Rwanda (CMA, 2013). The stock exchange is privately owned by stakeholders with the Rwanda government owning only 20 percent, stock brokers having 60 percent and 20 percent by other stakeholders (RSE, 2013). There are only four firms that have listed on the equity market in Rwanda since the inception of the Rwanda stock exchange in 2005 and their performance has not been impressive for some firms like KCB and MNG and specifically NMG has not been able to make any sales for the last six months from November 2012 to April 2013. KCB has only been able to generate only $310.92 for the first three months of trading and the rest of the months it generated nil sales. It is only BOK and BLR that have been able to generate commendable sales $29,446,506.52 for the period under consideration. Equity markets feed organizations with business funding to help ensure economic growth (Naceur and Labidi, 2010). Rwanda's economic growth rate currently stands at 8.2

percent average (NISR, 2013). For this growth trend to continue, the equity markets must be developed and become operational without any impediments as this is how the MENA countries managed to make it and growth their economies due to development of their equity markets (ZLi, 2012). A quick comparison of the Rwanda equity market with say that of Kenya shows that whereas Rwanda has only four equity listings, Kenya has 61 companies listed on the Nairobi securities exchange and its average daily equity returns is about $2,426,301.10 (NSE, 2013). This amount compares well with equity returns for BOK and BLR that had December 2012 monthly returns of $ 2,318,817.29 and $ 2,681,784.33 respectively as per the findings in table 2 below. This explains the arguments that, the more savvy the investors are about equity markets, and so would be their appetite to invest in them provided that there prospects are good in terms of dividends and they are free to enter and exit such markets. This is a lesson Rwanda can learn and make its equity markets more and freely accessible by investors.

Table 1: Equity listing in Rwanda

Lısted Company	Date of lıstıng	Tıcker	Busıness Type	Securıty Issued	Home Country
Bank of Kigali	2011	BOK	Commercial banking	RW000A1JCYA5	Rwanda
Bralirwa	2011	BLR	Beers and soft drinks	RW000A1H63N6	Rwanda
Kenya commercial Bank	2009	KCB	Commercial banking	KE0000000315	Kenya
Nation Media Group	2010	NMG	Media business	KE0000000380	Kenya

Source: Rwanda stock exchange (2013)

Table 1 gives a general status of the Rwanda equity market. It shows that all the equity listings were done during the periods between 2009/2011. Securities code named RW000A1JCYA5 and RW000A1H63N6 are the ones listed by local firms and they are the one that have sold well generating individual returns of $ 9,046,462.74 and $ 20,400,043.78 for the six months under consideration. Equity Securities KE0000000315 and KE0000000380 issued by foreign firms from Kenya have not done well on the Rwanda equity market with Turnover of $ 310.92 and $ 0 respectively. This could suggest that investors in Rwanda are not comfortable investing their funds in foreign companies for issues like lack of assurance that their funds would be safe. The country's stock exchange and the other stakeholders have to step up education of the investors and give them assurance of the safety of their funds in case, they invest in foreign firms. This should come with government policy that stipulates heavy penalties for firms that tries not to safeguard investor's interests.

4.2 Equity Market Performance And İts Effect On Economic Development

The general trend from the Rwanda equity market shows sluggishness and non performance of some securities listed by Kenya commercial bank and Nation Media group. The only performing securities on the Rwanda equity market are that of bank of Kigali and Bralirwa. It is vital for developing countries to integrate their equity markets if they are to become liquid and attractive for investors and this is what will develop their economies (Agyei-Ampomah, 2011). Table 2 below highlights the performance of the equity markets in Rwanda for the six months period under consideration from November 2012 to April 2013.

Table 2: Rwanda Equity Turnover from November 2012-April 2013

Lısted company	Nov. 12	Dec. 12	Jan. 13	Feb. 13	Mar. 13	Apr. 13	Total turnover
BOK	$ 333,824.58	$ 2,318,817.29	$ 489,429.10	$ 5,241,358.07	$ 440,107.82	$ 222,925.89	$ 9,046,462.74
BLR	$ 762,080.68	$ 2,681,784.33	$ 1,858,208.77	$ 690,449.45	$ 12,425,922.18	$ 1,981,598.37	$ 20,400,043.78
KCB	$ 126.94	$ 25.07	$ 158.91	$ -	$ -	$ -	$ 310.92
NMG	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ 1,096,032.19	$ 5,000,626.69	$ 2,347,796.77	$ 5,931,807.53	$ 12,866,029.99	$ 2,204,524.26	$ 29,446,817.44

Source: Author

The analysis of Table 2 above gives a significant reflection of the actual equity market situation in Rwanda. The combined equity generated by all the securities listed is $ 29,446,817.44 for the half year under consideration. From the turnover generated, 69 percent of the equity was generated by BLR, 31 percent by BOK, and KCB and NMG both raised 0 percent. For the case of NMG, it could be argued that investors are probably not keen investing in their shares because they are priced highly at $1.88 dollars per share when say compared to shares of BOK that are priced each at $0.31 (RSE, 2013). However, KCB securities are cheaply priced on the Rwanda equity market at $0.26 each when compared to those of BLR that are priced at $1.28 each share. The big concern is how to stimulate this market in the country and this can be done for instance through liberalization and market participants and regulators should ensure that information is freely available about the listed firms and the securities issued and the introduction of the CDS could also help to boost the market as supported by (Al Saad and Moosa, 2005, ZLi, 2012 and Lagoarde-Segot and Lucey, 2008). Economic development of Rwanda can be catalyzed with the development of its equity market because, as it stands, the equity realization and the size of the market are very small and insufficient. This stand is supported by (Bekaert et al., 2003, 2005) who argues that equity markets are an engine to economic growth through provision of short to medium terms financing. The economic growth rate in Rwanda is 8.2 percent and this bigger than the one of MENA countries at 5.7 percent in 2007 when their equity markets were developed (Naceur and Labidi, 2010 and NISR, 2013).

5. CONCLUSION AND RECOMMENDATION

The Rwanda equity market is segmented and has very few firms listed numbering only four (RSE, 2013). This market still remains under developed and therefore cannot provide enough liquidity needed by firms for their business funding needs. There is no doubt that the equity market has potential to grow and this acts as a barometer on the economic growth of a country. For the country's equity market to grow, it must be liberalized as evidence is with countries like Kenya, and South Africa that liberalized in 1995 and 1996 respectively (ZLi, 2012). Countries in sub Saharan Africa must appreciate that economic growth has a lot to do with the development of their capital markets and one would argue that, this could be a good lesson for Rwanda (Eiling and Gerard, 2007).

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