



Capital Market Authority

CAPITAL MARKETS MASTERPLAN FOR RWANDA

***“Making capital markets work for
Rwanda”***

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Overview

The Government of Rwanda is committed to taking all steps necessary to further the development of the economy. Many of these measures relate to investment in the real infrastructure of the economy. Equally important is the development of the financial infrastructure that underpins economic development. This infrastructure comprises both the structure of financial markets and the human capital needed to exploit the advantages which well-functioning financial markets can bring. This Capital Markets Master Plan (CMMP) sets out the steps which the Government intends to undertake in order to be able to exploit the tools of capital market finance to unleash the full potential of the economy and to enable Rwanda to play its role as a financial hub within the economy of East Africa.

This Plan has been developed through a process of engagement with international experts and consultants, as well as consultation across the wide range of government departments and agencies involved in the measures that will be taken.

Many parts of the Rwandan economy are in need of capital market finance but are not yet well prepared to access it. Greater access to capital markets should make it possible for some companies, including those focused on agriculture, to reduce their reliance on short-term bank finance and increase access to longer-term risk capital, with consequent benefits to growth and employment. A successful Public-Private Partnership (PPP) approach to infrastructure investment similarly requires access to capital market finance. Domestic savings institutions need to be able to supply such capital and, in so doing, offer those citizens who invest in them a better choice of savings products to meet their needs.

The Capital Markets Master Plan sets out the actions needed over a ten-year time horizon to achieve these goals and to broaden and expand the financing base of the economy. It sets out steps to be taken to bring to the Stock Exchange those companies close to being ready for listing and to develop a pipeline of firms which will access the different forms of capital market finance at different stages in their development. To achieve this requires multiple actions to improve corporate financial reporting, business planning and corporate governance, based on education and training for business leaders.

In parallel, the CMMP sets out actions to develop the capacity of domestic institutional investors to invest in a wider range of capital market products and to mobilize small savers to invest, with sufficient education and appropriate protections, in capital market products in innovative ways.

Rwanda's position within the East African Community (EAC) offers the potential for local businesses to access wider sources of finance, potentially at lower cost and with increased liquidity. Rwandan-based investors should be able to diversify their portfolios across asset classes, improving their ability to generate returns. Economies of scale benefits from sharing market infrastructure and intermediation services at the EAC level can include lower fixed costs and improved efficiency. However, this requires that the domestic legal framework is adequate and the necessary institutional arrangements are in place. It also requires that other key EAC markets are equally open; otherwise, capital markets in different jurisdictions may not have equal opportunity to benefit from those markets. Genuine regulatory harmonization and effective mutual recognition will be key to fostering cross-border listings and cross-border investment.

Some key elements of domestic capital markets infrastructure are in place, but are underutilized and hence expensive for present levels of business. Not all countries operating in a regional context need all the infrastructure of a comprehensive capital market. Sharing infrastructure, such as the CSD, both spreads costs and facilitates inward and outward cross-border investment. The Plan will create the flexibility for the infrastructure to evolve in line with the changing needs of the market.

It is possible for smaller markets to play a specialized role in a wider regional market. There are potential opportunities for Rwanda in relation to commodities and futures trading, and domiciling investment funds. However, this needs careful preparation, including putting in place the essential preconditions to make it possible to secure competitive advantage.

The foundations of the Plan lie in a programme to develop the expertise, knowledge and skills of business leaders, capital market professionals and government officials, so that they are equipped to take advantage of the opportunities being developed. Official leadership is needed in the initial stages in order to launch this capacity-building programme. This leadership will principally come from the NCBS, RDB, MINECOFIN and especially the CMA.

In order to play this role, the CMA will develop further its own capacity. This and other steps envisaged in the Plan will require substantial resources and external technical assistance.

Rwanda does not yet meet the usual international standards for securities regulation either in terms of the CMA's own position or the wider legal framework for capital markets. In order to meet those standards the phased implementation of a detailed action plan is necessary. This CMMP sets out such an action plan for the legal and institutional framework. In order to undertake these steps, CMA needs to have adequate capacity in terms of both personnel and financial resources.

The phasing of the CMMP envisages starting with capacity building in the CMA, putting in place the necessary legislative changes and undertaking capacity building within the private sector. It is envisaged that the most important elements can be put in place within the first three years.

This, along with action led by RDB, will enable the emergence of facilitators in the private sector to enable the creation of a pipeline of capital market issuers and the development of investors by year 6.

As capacity develops, it should be possible to bring about a much wider range of borrowers and investors as well as competitive specialisation within the EAC (Years 7-10).

1 Introduction

The Capital Markets Masterplan for Rwanda has been developed by the Capital Markets Authority with the guidance of the National Technical Committee and with support from external consultants. Preparation of the Plan started at a strategic Planning Roundtable organised by the CMA in October 2015, which brought together both local and international experts. This was followed by a market assessment exercise, which formed the basis of the final Plan. The Plan was developed through extensive consultation with official and private sector institutions in Rwanda and international experts.

The objective is to make capital markets work for Rwanda.

A National Steering Committee, supported by a National Technical Committee and a Secretariat, will oversee implementation of the Plan. The Plan sets out a 10-year framework consisting of 78 actions. In addition to regular monitoring of progress, there are checkpoints after 3, 6 and 10 years to review progress and make adjustments if necessary. All actions are assigned to specific institutions that will be responsible for their delivery and are classified according to their priority and timing as follows:

Priority

High: critical for the success of the Plan

Medium: will make an important contribution to the success of the plan

Low: worth doing but not essential

Timing:

Short-term: must be started as soon as possible and completed by the first checkpoint (end of year 3)

Medium-term: must be started as soon as possible and completed by the second checkpoint (end of year 6)

Long-term: must be completed by the end of the Plan

Much of the impact of the Plan will be achieved by educating business owners and investors and changing their attitudes to using the capital markets. This will come about through a combination of education, training and the creation of examples for others to follow. Evaluation of the impact of the plan will include both quantitative targets and surveys designed to monitor changing attitudes.

The following pages set out the Plan. The Annexes include more detail on legislative changes required and a set of case studies that provide background material for some of the Actions.

2 How capital markets can help Rwanda's socio-economic development

Capital markets have a key role to play in supporting Rwanda's economic development.

In EDPRS2 and NST1, the Government of Rwanda set out its priorities for achieving the goals of its Vision 2020/2050 programmes. These priorities are rapid economic growth to middle-income status; increased poverty reduction; more off-farm jobs and more urbanisation; reduced external dependency; and the private sector as an engine growth.

The vision in this Plan is of capital markets as an enabler of these goals – stimulating and supporting growth in the private sector, attracting foreign investment inflows, creating employment in the service sector and enabling savings across the economy to be employed productively.

For the private sector to be an engine of growth it needs well-managed entrepreneurial businesses, whether agricultural or non-agricultural, as well as the finance to support their growth. The foundation of this Plan is strengthening the financial management and governance of businesses. This will make them more effective so that they contribute to stronger economic growth and increased employment. This will benefit the banks that lend to them and will enable them to access the capital markets for funding. Without such a foundation, progress is unlikely.

The capital market offers diverse forms of funding. These include both long-term debt and equity finance, and range from various forms of venture capital and private equity investment for start-ups, such as those in the IT sector, to public listing for established companies. Publicly listed equities give companies the opportunity to enable employees to share ownership of the companies where they work. The target in the Plan is for the number of listed Rwandan companies to rise from 4 now to 35 in ten years' time.

Future economic growth depends on the infrastructure of the economy. Rwanda has large infrastructure needs. These cannot be financed in full by the Government and the country wishes to move away from donor finance.

Financing through the capital market is potentially available. It can help to support growth by financing projects that would not otherwise have happened. External investors can also bring expertise in project management that benefits the project. However, tapping the capital markets requires the development of financing techniques and instruments that meet the requirements of capital market investors. The expertise in structuring projects for capital market financing needs to be developed, but once there opens the way to financing multiple projects.

Capital markets also bring benefits to savers. As Rwandans become increasingly prosperous, capital markets will make it possible for them to invest productively for the future. Development of a range of investing vehicles through mandatory pension schemes, voluntary pension or collective schemes and individual investments enables individuals to meet different risk-reward targets and raise the economy's overall saving rate. This process is just getting under way in Rwanda. The Plan sets a target for the value of assets held in mutual funds of 1% of GDP (approximately \$180 mn) in ten years' time, compared with none at present.

As a small country, Rwanda will benefit from being open to international markets. This increases the potential sources of capital investment as well as increasing the opportunities for diversification. Rwanda has significant competitive advantages in its political stability, high standard of public administration, geographic location, business-friendly environment, commitment to the market, ability to make changes quickly and active participation in the EAC regional financial markets. To take full advantage of these benefits, Rwanda also needs to comply with established international standards for market operations, infrastructure and regulation. International standards bring benefits, as they represent the collective experience gained across many markets around the world. However, they also give confidence to international market participants and investors. As indicators of Rwanda's openness and attractiveness to international investors, the objective is that Rwanda should be classified as a Frontier Market by the end of the Plan period and that the CMA should be accepted as a full member of IOSCO, the International Organisation of Securities Commissions.

Rwanda's position as a relatively small member of a large regional grouping committed to free movement of capital creates possibilities for the users of capital markets, as they can seek to meet their needs not just locally but also throughout the region.

It also creates possibilities for the providers of capital market services to offer their services throughout the region, creating scale economies to the benefit of everyone. The Plan identifies the potential for Rwanda to establish itself as a regional centre of excellence for two services – trading of commodities and futures products, together with the associated warehousing and clearing services; and providing a domicile for the increasing number of investment funds that can be expected to develop to meet the needs of savers across the region. These are services that will benefit market users in Rwanda as well as across the region and can create high-quality service sector jobs locally.

Risks

There are, of course, risks to the Plan, which need to be monitored and controlled.

Capital markets can become subject to “bubbles” as investors all crowd into limited investment opportunities. When the bubble bursts, it undermines confidence in the market. The best protection against bubbles lies in the quality of market supervision, education of investors and vigilance by the Central Bank, but experience around the world has shown that prevention is difficult.

Openness to foreign investors brings great benefits, in the form of access to additional sources of finance and may have the benefit of adding foreign currency to the country’s reserves. However, it can also create greater volatility if foreign investors seek to withdraw at the same time and, depending on the form the investment takes, may create foreign currency exposures for local businesses.

Finally, developing a regional centre of excellence runs the risk that another centre may be more successful or that other countries erect barriers to prevent services being delivered cross-border from Rwanda. This requires careful analysis of the competitive threats before committing to the investment and vigilance to address any threats that emerge.

All of the above create potential risks to financial stability arising directly from heightened use of capital market instruments. For this reason, the plan envisages the putting in place of institutional arrangements to monitor and where necessary mitigate threats to financial stability.

Failure of the Plan to deliver the full range of advances in financial intermediation expected of it will bring a different kind of risk, namely the risk of missed opportunities, whether of reduced level of access to capital of issuers, greater risks for the banks, reduced returns to savers and investors, or lost potential for raising levels of welfare which access to the markets of the EAC provides the opportunity to achieve. For these reasons, much hangs on the success of the Plan.

Terminology

A number of terms used in the Plan are defined here.

Business angels are individual investors, usually with business or managerial experience, who invest their own personal funds in businesses at their early and risky stages.

Crowdfunding is a form of raising money from a large number of people, usually in small amounts through an internet platform. The money may be raised as equity, debt, pre-purchases of products or donations.

Initial Public Offering (IPO) is when a company for the first time lists its shares on a public stock exchange and sells them to investors based on a detailed prospectus.

Private equity (PE) is a general term for equity investments in companies that are not publicly traded on a stock exchange. Investments may be made by PE firms, business angels or venture capitalists.

A **Private Placement** is a medium or long-term financing transaction between a listed or unlisted company and a limited number of institutional investors, based on deal-specific documentation negotiated between the borrower and the investors. It is different from a public bond issue, where investors subscribe to a bond on published terms without an opportunity to negotiate.

A **Public-Private Partnership (PPP)** is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.

Venture capital (VC) describes early-stage investment in growth companies, typically in IT or scientific sectors.

➤ ***Developing the domestic market***

Capital markets are an important source of finance for businesses, infrastructure projects and government. Issues of equities and bonds in turn are the raw material of capital markets that enable investors to deploy their savings.

This section focuses on the actions needed to develop capital markets in Rwanda: to strengthen businesses and enable them to raise long-term bond and equity finance from investors; to tap capital markets for infrastructure investment and government finance; to raise and invest savings according to different time horizons and risk-reward preferences; and the market infrastructure to support this.

However, this all takes place within an international capital market. Investment funds can be attracted from outside Rwanda to invest in Rwandan businesses and projects. Investment opportunities outside Rwanda can offer returns for Rwandan savings. The actions set out in this section to strengthen businesses and develop fund management skills will also position Rwanda well to take advantage of the international opportunities and help develop it as a financial hub.

3 Capital markets as a source of finance in Rwanda: the supply of investible assets

This section looks in turn at finance for businesses, projects and the government. It identifies their needs, reviews the barriers that have held issuers back from using capital markets and proposes measures to address the barriers.

3.1 For businesses

Businesses have different needs at different stages in their development. The objective of this Master Plan is to give them access to a choice of sources of finance that are appropriate for their needs at each stage of development. As they progress through the stages of growth, some, but not all, will reach the point where capital market finance is suitable. The key objective is to create an environment where this progression is possible.

Rwandan businesses are generally small, young and informal. Many are agricultural. Over 90% have 3 or fewer employees, 70% have been in operation for 2 years or less and over 95% operate as sole proprietors.

Percentage distribution of informal enterprises by size (2015)¹

Activity	Micro 1-3	Small 4-3	Medium 31	Total
Mining and quarrying	0.00	0.01	0.04	0.05
Manufacturing	8.06	1.81	0.00	9.87
Water supply; sewerage, waste management	0.25	0.00	0.00	0.25
Construction	0.01	0.01	0.00	0.02
Wholesale and retail	51.83	0.33	0.00	52.16
Transportation and storage	0.06	0.09	0.00	0.15
Accommodation and food service activities	23.73	1.76	0.00	25.50
Information and communication	0.36	0.01	0.00	0.37
Financial and insurance	0.00	0.00	0.00	0.00
Real estate activities	0.01	0.00	0.00	0.01
Professional, scientific and technical activities	0.44	0.04	0.00	0.48
Administrative and support service activities	0.41	0.01	0.00	0.43
Arts, entertainment and recreation	0.05	0.01	0.00	0.06
Activities of household	9.70	0.96	0.00	10.66
Total	94.92	5.04	0.04	100.00

Source: NISR, IBES 2015 Survey

¹ The estimated total number of informal enterprises based on the Informal IBES-2015 is 141,543.

Distribution of informal enterprises by economic activity and years in operations (2015)

Economic activities/Years in operations	<3	3-5	6-9	10-14	15-19	>=20	Total
Mining and quarrying	96.9	3.2	0.0	0.0	0.0	0.0	100
Manufacturing	64.6	17.7	8.2	5.4	2.4	1.7	100
Water supply; sewerage, waste management	66.4	21.6	0.3	2.6	5.0	4.2	100
Construction	52.2	39.2	0.0	0.0	8.7	0.0	100
Wholesale and retail trade; repair of motor vehicles	76.0	13.8	5.1	2.9	1.7	0.5	100
Transportation and storage	68.1	29.3	0.5	0.0	2.1	0.0	100
Accommodation and food service activities	72.3	21.3	2.3	2.8	1.2	0.0	100
Information and communication	85.3	6.6	5.2	1.8	0.7	0.4	100
Real estate activities	13.3	62.5	5.2	13.7	5.3	0.0	100
Professional, scientific and technical	60.3	30.3	7.0	1.9	0.6	0.0	100
Administrative and support service activities	56.4	37.8	4.0	1.3	0.5	0.0	100
Arts, entertainment and recreation	97.1	1.4	0.0	0.0	0.0	1.4	100
Other service activities	68.0	6.7	9.1	6.5	3.4	6.3	100
Total	73.0	15.5	5.1	3.5	1.8	1.1	100

Source: NISR, IBES 2015 Survey

Apart from four listed companies, a small number of regulated financial companies and some government-owned enterprises, the great majority of Rwandan businesses are privately owned. These businesses rely overwhelmingly on short-term bank finance, which is expensive and makes them vulnerable to external shocks. Many would benefit from external equity and longer-term debt finance from the capital markets, but they do not have access to it because of the rudimentary state of their financial records, weak corporate governance structures and reluctance to disclose information publicly.

The key objectives, therefore, are to help businesses improve their financial records, strengthen corporate governance and understand the potential benefits of capital market finance and the transparency and accountability that goes with it. These are important objectives in their own right and will result in a better-managed, more robust business sector, whether or not companies choose to use capital market finance. This will improve access to finance generally as well as improving the balance sheets of the banks.

3.1.1 Strengthening the business sector

The approach to strengthening the business sector will be a combination of providing training and support to help businesses improve and strengthening enforcement to require them to do so.

A variety of training schemes is already available and they are well received by participants. The purpose of this training is to develop an understanding of the relevance of sound financial management and reporting and how it can contribute to successful management of a business, as well as understanding of the technicalities. Similarly, training in relation to corporate governance will develop an understanding of the practical business benefits of effective governance structures, as well as knowledge of best practice. The number of schemes will be expanded. RDB, through its Capacity Development and Employment Department, will act as co-ordinator to ensure that training is available to all businesses that require it.

Action	Responsibility	Priority	Timing
3.1 RDB to co-ordinate provision of training on financial records, corporate governance and capital market finance for businesses	RDB and PSF	High	Short-term

Enforcement of higher standards will be achieved through a number of channels:

- The RRA now requires all businesses with turnover greater than RWF400 mn to submit audited financial statements with their tax returns. This threshold will be reduced over time to include more businesses (see Action 9.3)
- ICPAR is raising standards in the audit profession to ensure consistent high quality of audited financial statements (see chapter 7).
- RDB, as Registrar General, will enforce the requirement for companies to file their financial statements and audit report within four months of the date when they are required to be signed (Article 91 of the Companies Law). This will be introduced progressively, in line with the RRA requirement to submit audited accounts. (See Action 7.1)
- The new Companies Law will include penalties for failure to file financial statements (Action 7.2).

3.1.2 Bank finance and alternatives

There will be a large number of businesses for which bank finance will be the only option because of their size, because their earnings are volatile, because they are unable to provide adequate information or because of their ownership and governance structure.

Shortage of collateral is a common problem for many SMEs. These businesses may benefit from nonbank loan financing techniques such as leasing and factoring, which, with appropriate regulatory frameworks in place, may open up access to finance for businesses with limited collateral and creditworthiness track records. In the case of financial leasing, the leased asset itself substitutes for collateral and factoring enables a firm raise finance by “selling” its accounts receivable to a factor. For agricultural enterprises, the ability to borrow against warehouse receipts could be another way to overcome lack of adequate collateral for a traditional bank loan, but this requires the law on warehouse receipts to be implemented (see Section 6.1). Capital markets can also help increase bank liquidity by supporting securitisation of bank loans (see Section 6.2).

Action	Responsibility	Priority	Timing
3.2 Implement the draft financial leasing and factoring laws to encourage leasing and factoring firms to operate and banks to offer leasing services.	MINECOFIN	Medium	Short-term

3.1.3 Moving on from bank finance

As businesses grow, they need additional sources of risk capital and different types of investor. Probably the most difficult phase is when businesses are just growing beyond the size where family, friends and bank support is sufficient. The next stage is normally to seek investment from business angels, venture capitalists or other forms of private equity (see Terminology section for definitions of these terms). It is vital that support is available at this stage, especially for the development of businesses such as those emerging from Kigali Innovation City. There is a cost to investors in finding, analysing, doing due diligence and investing in a business. This is not economic for very small investments. Even when private equity is focused on SMEs, as in East Africa, it still requires businesses to achieve a certain size, as the median size of investment is

\$5mn². In addition, investors will be concerned to see how they will exit their investment when and as they wish to.

The objective must be to reduce the cost of identifying, analysing and investing in businesses, so that it becomes economic to invest at earlier stages. This can be addressed in different ways.

Reduce the cost of reaching investors

It will also be easier to identify and analyse smaller businesses if the capability to do so exists locally rather than in Nairobi, Dubai or London. Developing a local investment analysis and asset management capability (see Section 4.1) is a key element of the plan. However, in the meantime, it will often be necessary to reach investors based outside Rwanda. RDB can facilitate this by arranging events to showcase companies to potential investors, but must set a high threshold for investor readiness to ensure interest from investors.

Action	Responsibility	Priority	Timing
3.3 Develop a business information exchange for venture capital, SMEs, and investors, with access to financial and legal resources	RDB	Medium	Medium-term
3.4 Organise showcasing events for carefully vetted small businesses to attract investors.	RDB	Medium	Medium-term

Crowdfunding may have a limited role as a means of raising debt or equity finance but can raise investor protection issues – see the case study.

Action	Responsibility	Priority	Timing
3.5 Undertake a study of the regulatory and other issues surrounding the development of crowdfunding platforms	MINECOFIN	Low	Medium-term

² African Private Equity and Venture Capital Association (2015), “Spotlight on East Africa Private Equity”

3.1.4 Private placements

There are also additional sources of debt finance through bonds. Private placements are a means of raising bond finance without the expense and exposure of preparing a public issue. This requires the existence of a “safe harbour” so that issues can be placed without the requirement for a public prospectus and continuing disclosure requirements. The use of standard documentation has been credited with the success of the private placement market in the USA and in the EU there have recently been significant efforts to develop the private placement market. A key part of this has been to develop standard documentation to reduce costs for issuers³.

Action	Responsibility	Priority	Timing
3.6 Develop private placement market: - prepare standard documentation, - give CMA role in regulation	CMA	Medium	Medium-term
3.7 Draft and issue guidelines for exemption of private placements from public issuance requirements	CMA	Medium	Medium-term

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3.1.5 Public issues of securities

Stock exchange listings and public bond issues should be considered the destination for larger companies needing to raise external finance. Experience in other markets suggests that few companies come for a listing on their own initiative. In Rwanda, companies may arrive at a public listing from one of five directions:

- Regulated financial companies (such as banks and insurance companies) that already have financial reporting and corporate governance structures in place that meet listing requirements;
- Government owned enterprises that similarly have financial reporting and corporate governance structure in place;

³ See <http://www.euro-privateplacement.com>. Model documentation is available in English and French

- Businesses owned or partly owned by private equity investors seeking an exit from their investment;
- Established privately-owned businesses that do not currently have financial reporting and corporate governance structures that meet listing requirements;
- New business start-ups that are now at the beginning of their development.

The time needed for different types of business to be ready for listing are different. For the first three categories, the main requirement is a decision by the business owners to seek a listing; from that point, the listing process may take around 6 months. Established, privately-owned businesses will take longer. Few are currently ready to make the decision to list and, when they do, they are likely to need up to 2 years to be ready. Finally, start-ups need to grow in maturity and may need at least 7 years before they can consider a public listing. An aim of the Plan is to seek to reduce the time it takes to go public by increasing the support available in helping prepare for listing.

Getting more listed companies requires a sustained effort by the exchange and intermediaries to develop a pipeline of companies and bring them forward to the market. It is most effective to target assistance at identified prospects.

Action	Responsibility	Priority	Timing
3.8 Identify companies ready or with the potential for public issues and deliver technical assistance to support them in preparing for market.	RSE and RDB with technical assistance	High	Immediate start for medium-term completion

3.2 For projects (agricultural, infrastructure and other)

For Rwanda to achieve its desired economic growth will require substantial investment in infrastructure. As the most recent IMF Article IV report noted, “Rwanda has significant investment plans to help overcome the infrastructure constraint, but the financing of most of these projects is yet to be finalized. There is currently a pipeline of projects in the areas of energy, transportation (air and road) and water with projected financing from development partners (including IDA and AfDB) of about US\$1.5 billion for these projects over the medium term (2014-19). Two additional priorities for the Government include the new airport at Bugesera and Rwanda’s share of the regional railway (with costs of US\$750 million and US\$1.5 billion, respectively), but financing for these two projects has not yet been identified”. It is therefore important to look at the potential for capital market finance for infrastructure projects.

Potential investors in infrastructure exist among pension funds and insurance companies both domestically in Rwanda and internationally in both developed and developing countries and sovereign wealth funds. There are particular advantages in the involvement of domestic institutions in infrastructure finance, as the long-term returns on infrastructure are a good match for these funds’ liability structure without foreign currency exposure. Private sector involvement can also bring the benefit of additional expertise. However, as a World Bank paper notes, “the structuring of infrastructure financing investment vehicles is particularly important. Institutional investors are not looking for risk-free investments but they are only willing to take on certain types of and amounts of risk. The key to the successful involvement of institutional investors in infrastructure projects in Emerging Markets and Developing Economies is isolating and packaging risks so that the players, which can best take them on, are able to. Well-designed infrastructure financing vehicles can help achieve this goal⁴”.

The foundation for enhanced capital market investment in infrastructure is the use of a Public-Private Partnership (PPP) approach to infrastructure investment. There have been successful examples of PPP investment in Rwanda for solar energy and water supply, but to realise the full potential requires establishment of a comprehensive legal and institutional framework for PPP investments.

⁴ World Bank, Policy Research Working Paper 6780, “Institutional Investment in Infrastructure in Developing Countries - Introduction to Potential Models” (2014)

The Public Private Partnership (PPP) Law is intended to provide greater clarity to investors and will need to be supported by institutional, regulatory and fiscal arrangements and development of a pipeline of suitable projects. Both the private sector and government will need to develop their skills in appraising potential projects, structuring transactions, writing contracts and procuring and managing suppliers. However, development of the entire framework for PPP projects is outside the scope of this Plan.

The focus in this Plan is on preparing the capital market to be ready to finance suitable projects when they are proposed and in particular to equip domestic institutions to participate in infrastructure investment.

The approach, therefore, is to compile a list of potential projects and from this to identify a small number of promising pilot projects. With the help of technical assistance, they can be structured as suitable investments. These pilot projects will help identify any problems, create models for other projects and develop local expertise.

Action	Responsibility	Priority	Timing
3.9 Prepare Public Investment Program (PIP) listing all major projects and their expected phasing and financing (recommendation in Article IV)	MINECOFIN, RDB	High	Short-term
3.10 Identify pilot projects and prepare them for investors	RDB with technical assistance	High	Medium-term

The ability of domestic institutions to take part in infrastructure finance also depends on many of the other Actions in this Plan being delivered:

- Capital market investment in infrastructure may be channelled through infrastructure funds or infrastructure bonds. The former take the form of collective investment schemes require a framework for CIS to be established (Issuing regulations for CIS is one of the legislative requirements included in Annex 2). The latter will be private placements and require a private placements regime (see Actions 3.6 and 3.7).
- A liquid yield curve for long-term government securities is needed as the basis for pricing infrastructure bonds (see Section 3.3).

- The investment rules for pension funds and insurance companies must allow them to invest in these assets (see Section 4.1).
- Project bonds will typically be based on a Special Purpose Vehicle (SPV), which will use the infrastructure to be established to support Rwanda as a centre for funds domicile (see Section 6.2).
- For both SPVs and CIS tax neutrality is important, to ensure that income is taxed only once, when it reaches the end-investor, so the necessary tax arrangements must be in place to support this (see Section 9).

3.3 For Government

Government securities dominate Rwanda's debt market. Treasury bonds are listed on the Rwanda Stock Exchange (RSE) and all trading is required to be on the stock exchange. In practice, however, there is very limited secondary market trading in government bonds on the RSE. This acts as a deterrent to long-term investors extending the maturity of their investments to longer-dated bonds and means there is effectively no information about the yield curve between the quarterly auctions. The objective, therefore, is to develop liquidity in the secondary market, which will encourage investors to buy longer maturities and provide continuous information on the yield curve. The BNR has a policy in place to develop liquidity through a commitment to regular issues of Government Treasury bonds to shape the yield curve. It is also looking to increase the frequency of bond issues in the medium term and is considering the options for reopening issues to increase liquidity in the market. It is working with stakeholders to boost the trading on secondary market.

The overall strategy is to move to the standard model of a Primary Dealer (PD) structure. This model is used in Nigeria and Ghana and is being implemented in Kenya and South Africa.

The key points of this model are:

- The Debt Management Office (DMO) within MINECOFIN is responsible for the issuance and secondary market liquidity of government bonds.
- The DMO will establish a structure of incentives for PDs to have an obligation to provide liquidity in the secondary market, which is balanced by privileged access to the primary market.
- As the PDs will predominantly be banks with access to repo facilities at the central bank, the secondary market will exist outside the stock exchange. PDs will meet their obligations through an electronic trading platform which enables the DMO to monitor whether they are meeting their obligations.

However, it will not be feasible to implement this structure while the RSSB remains the single dominant investor in the market. The priority therefore must be to develop a more diverse institutional investor base, as described in Section 4.1, before reforming the government bond market.

Action	Responsibility	Priority	Timing
3.11 Implement framework for repo market – legal framework and CSD functionality	BNR	Medium	Medium-term
3.12 Develop Primary Dealer system with primary market privileges and secondary market obligations	MINECOFIN	High	Long-term
3.13 Develop secondary market ETP for government bonds.	MINECOFIN	High	Long-term

4 Capital markets as a vehicle for savings: tapping intraregional assets

Rwanda's investor base is narrow and dominated by institutional investors. Insurance companies have been developing and a recent law has permitted the setting up of private, occupational pension schemes. However, the Rwanda Social Security Board (RSSB), the country's only public pension fund, still accounts for almost 50% of total institutional assets.

Retail investors are, to a large degree, only able to participate in the capital markets by directly purchasing securities on the RSE through stockbrokers. Since its inception, a national investment fund "Rwanda National Investment Trust (RNIT)" has launched an open-ended fund "RNIT ITERAMBERE FUND" in July 2016. Despite progress being made on investor education by the CMA and the RSE, the level of retail investor involvement remains low.

4.1 Investing institutions

Pension funds

RSSB is a compulsory state pension scheme for employees in the formal sector and is supervised by the National Bank of Rwanda while the Ministry of Finance and Economic Planning oversee its activities. RSSB is subject to the following investment limits; (a) it may not invest more than 30% in real estate business, (b) it may not invest more than 10% abroad and (c) it may not invest more than 50% in equities (listed or unlisted).

Voluntary pension schemes are permitted and at the end of 2014, there were 53 private schemes operating in Rwanda. Most private pension funds outsource their asset management to insurance companies but RSSB is managed in-house.

Although RSSB invests in a wide range of domestic assets, its size in the market means that finding sufficient assets of sufficient quality is a challenge. The high allocation of funds to government debt and bank deposits may reflect the difficulty of finding other investments, but the dominance of RSSB in the government bond market means that it is at risk of distorting domestic markets (see the discussion in Section 3.3).

The RSSB effectively serves two different purposes – retirement benefits and medical insurance. As these perform two very different economic functions, they are managed as separate funds with different asset managers and different investment objectives. In addition, RSSB will benefit from awarding mandates to external fund managers for specific segments of its portfolio, as is common practice elsewhere. This will give it access to asset classes, such as private equity, that might not be available to it on its own and it will benefit from external expertise to benchmark its own asset managers. Initially the external managers will probably be outside Rwanda, given the early stage of development of asset management locally, but RSSB will pre-announce a programme to require external fund managers to be based in Rwanda. This will help to stimulate growth of local fund managers and thus give RSSB access to a wider pool.

Action	Responsibility	Priority	Timing
4.1 Asset managers to be encouraged to award mandates for sub-portfolios to external managers and where possible pre-announce a programme of requiring fund managers to be based in Rwanda.	MINECOFIN and BNR	High	Medium-term

The low level of foreign holdings in pension fund assets is well below the statutory ceiling, which is itself low. Pension funds are not making the best use of capital markets to meet their investment objectives if they restrict themselves to investment in one market, especially one as underdeveloped as Rwanda. This will have an influence on costs of medical insurance and returns to pensioners. There are opportunities to improve returns and diversification through controlled access to foreign markets, as recommended in FSDP II. MINICOM will ensure that RSSB will take the lead and set an example, which other funds can follow. However, this should be seen in the context of encouraging greater intra-EAC capital flows, so that institutional investors across the region can benefit from greater diversification. To make sure that this is achieved in a balanced way, it will be necessary to work at EAC level:

- To raise the limits on investment in other EAC markets by pension funds in EAC countries; and
- To raise or abolish ceilings on shareholdings by other EAC investors in local companies (as both Rwanda and Kenya have done).

Finally, cross-border investing exposes the investor to foreign exchange risk. The development of FX futures contracts (Section 6) is important in the long run to enable investors to hedge this risk. When hedging becomes available, the measurement of foreign currency mismatch limits will be adjusted to reflect it.

Action	Responsibility	Priority	Timing
4.2 Define a mandate for investment in foreign securities and appoint an external manager	MINECOFIN and RSSB	Medium	Medium-term
4.3 Work at EAC level to liberalise inward and outward investment flows	MINAFFET and BNR	Medium	Medium-term
4.4 Amend foreign currency mismatch limits to reflect hedged positions when FX hedging becomes possible	BNR	Medium	Long-term

Insurance companies

There are currently 16 insurance companies in Rwanda, with 14 insurance brokers and 744 insurance agents. The range of products is relatively limited but several companies are intending to introduce endowment schemes and wealth-management products. The assets of insurance companies at end-2017 totalled US\$ 459.3 million. Their allocation is almost similar to that of pension funds. Insurance companies are licensed, regulated and supervised by BNR. A separate license is required for each business line.

The law provides for maximum asset allocation for particular classes of investment, expressed as a percentage of total assets, as follows:

- Up to 30% in real estate or immovable investment properties;
- Up to 30% in equity shares of other companies (listed and unlisted);
- Up to 20% in marketable securities issued by other companies (i.e. listed);
- Up to 100% in cash, deposits in banks and government securities, provided that the maximum exposure in terms of loans and investments in equity shares, debt securities, and deposit to any single person shall not be more than 10% of the insurer's total assets.

Investment in derivatives requires the prior approval of the Central Bank.

Action	Responsibility	Priority	Timing
4.5 BNR to review the prudential regulation of pension funds and life insurance companies to ensure that regulation does not inappropriately inhibit their investment in long-term capital market instruments	BNR	High	Medium-term

4.2 For individuals

Retail investors participate in the capital markets by directly purchasing securities on the RSE through stockbrokers and it is a policy aim in Rwanda that retail investors should be encouraged to have a stake in the country through ownership of shares. The numbers, however, remain low: there were fewer than 15,000 individual retail investors at end December 2017.

However, given the current underdeveloped state of the equity market, there are risks in encouraging wide retail participation with so little liquidity and opportunity for diversification. In other markets, the growth of the stock market has drawn in retail investors – especially if there have been privatisations with a policy goal of retail involvement. Often this has led to asset price bubbles, losses for retail investors and general disenchantment with capital markets. The ways to avoid this are:

- To maintain a campaign of investor education to ensure that investors are aware of the risks;
- To make advice available through competent, regulated brokers, with an investor compensation fund as backstop if things go wrong;
- To restrict access to the most risky investments to those investors able to understand and accept the risks; and
- To ensure that retail investors have access to a good range of collective investment schemes offering diversified investments which, while they do not eliminate risk, offer a more stable way of participating in the market for the majority of the population than through direct ownership of shares;

These approaches will be considered in turn.

Investor education

Investor education requires a continuing commitment and use of all available channels.

Investor education is discussed further in Section 10.4.

Availability of advice through intermediaries

Raising standards in intermediaries is discussed in chapter 10.3.

Restrict access to high-risk investments

Restricting access to risky investments can be achieved by ensuring that certain higher-risk asset classes are restricted to either institutional investors or individuals who meet certain requirements. This would apply to unlisted investments, such as private placements.

Action	Responsibility	Priority	Timing
4.6 Develop guidelines restricting offers to those backed by venture capital, angel or private equity who can afford to take the risks.	MINECOFIN and CMA	High	Medium-term

Collective Investment Schemes

There is a legal framework for Collective Investment Schemes (CIS) and the CMA has regulatory responsibility for their licensing, regulation and supervision but has yet to issue regulations. As a result, the report on IOSCO compliance concluded that none of the four Core Principles relating to CIS had been implemented. (Issuance of the regulations is part of the legislative programme in Annex 2.)

To date, only one CIS has been offered in the market. There is also legislation and regulation for Real Estate Investment Trusts (REITs), but none of these has yet been offered.

Distribution is a challenge and as collective investment products are developed innovative approaches for their distribution should be developed in parallel. In Kenya, unit trusts can be bought and sold in small amounts by mobile phone.

For example, Old Mutual offers investments starting at KES480 (approximately USD5). To the extent that there are barriers to distributing collective investments by mobile phone in Rwanda, they will be identified and removed.

The pension coverage of those employed in the informal economy is currently lower than of those in the formal economy. Encouraging informal economy workers to save for pensions is important and another form of developing collective savings. It would also benefit from innovative distribution methods.

Development of a fund management industry in Rwanda is a long-term objective. The growth of private sector pensions creates an opportunity, but RSSB, for example, can contribute by awarding mandates to external managers for parts of its portfolios, as described above. This also requires professional standards for fund managers to be established. CMA is planning to introduce a certification program that will entail introducing professional qualifications for fund managers. (See also Section 10.3)

Action	Responsibility	Priority	Timing
4.7 Identify and remove barriers to distributing investment products by mobile phone	MINECOFIN	High	Medium-term

The creation of the Rwanda National Investment Trust (RNIT) has been a valuable addition to the investment opportunities available. By raising awareness and introducing investors to the concept of a collective investment scheme, it is intended to stimulate development of further funds in the private sector.

5 Market infrastructure

5.1 CSD

The post-trade infrastructure for capital markets is essential for their success: investors will not invest if they have doubts about the safety of their investment or if the direct or indirect transaction costs are too high. For securities markets, the key roles of this infrastructure are:

- To maintain secure records of the ownership of securities;
- To enable the owners of securities to enjoy the benefits of ownership (receiving income and in the case of equities exercising their decision-making rights);
- To enable securities transactions to be settled without risk for buyers and sellers; and
- To do all this efficiently.

Rwanda has an advantage in having a modern central securities depository (CSD) that already meets these requirements. International standards for financial market infrastructure have been developed by the Committee on Payments and Market Infrastructure (CPMI) at the BIS and IOSCO, known as the “CPMI-IOSCO Principles”.

Compliance with these standards provides reassurance to international investors that they can rely on the national market infrastructure. Carrying out and publishing an assessment against these principles is good practice.

Action	Responsibility	Priority	Timing
5.1 Publish an assessment of the CSD against the CPMI-IOSCO <i>Principles for Financial Market Infrastructure</i>	BNR	Low	Short-term

A number of issues need to be addressed for the future development of the market.

Ownership and governance

Internationally, there is a continuing debate about the most appropriate ownership structure. As CSDs benefit from economies of scale, there are strong arguments for having a single CSD in each market: this minimises both the central costs of the infrastructure and the costs to market participants of connecting to it. This argument is particularly strong in small markets. However, there are also arguments that different market segments have different needs: integration with the central bank and settlement in central bank money is particularly important for government bond settlement; but close links with the stock exchange and services for issuers are more important for equities settlement. This points to having separate CSDs for different market segments. Different countries around the world have made different assessments of these arguments and have adopted different models.

The CSD in Rwanda is owned and operated by the BNR. This has been helpful in establishing the CSD and giving it a sound basis of operations. This structure makes it possible for the CSD to meet the best international standard for settlement in central bank money. To make the service fully responsive to users' requirements, the BNR will publish information on the membership requirements, services provided to participants and issuers and the fee structure of the CSD.

Action	Responsibility	Priority	Timing
5.2 Prepare and publish membership requirements, description of services, operations manual and tariff for the CSD	BNR	High	Short-term

As the capital markets develop, the CSD will need to develop services specifically to support equity markets. These may include direct transaction feeds from the RSE (and possibly other trading platforms), support for corporate actions, such as rights issues and takeovers, and provision of information to issuers for them to communicate with shareholders and manage general meetings. The membership requirements for settling equity transactions may need to be different from those for settling government bond transactions. This requires that the RSE, equity market brokers and issuers are able to contribute to developing the service.

Rwanda only needs a single CSD, as the volume of activity cannot support separate CSDs for equities and government bonds. There are benefits in BNR operating the CSD, as this brings economies of scale and operational resilience, but this needs to be combined with a greater responsiveness to the needs of capital market users.

However, to ensure that the wider group of stakeholders is involved in its governance, the BNR will establish a governing body for the CSD, giving a role to the RSE and leading banks and brokers. Subject to a formal agreement with the BNR, this governing body will be responsible for developing and promoting the CSD service, while the service continues to be operated by BNR. When market activity grows to a level where users can make a financial contribution to the costs of operating the CSD, the governing body will take responsibility for the commercial aspects of the CSD as well.

Action	Responsibility	Priority	Timing
5.3 Establish a CSD governance structure with private sector (RSE, bank and broker) stakeholders to direct the development of the CSD services.	BNR	Medium	Medium-term

Links to international markets

For a small market in a larger regional grouping, it is essential to be open to neighbouring markets for both inward and outward investment flows. The CSD provides the essential infrastructure to support this and the EAC programme to link the region's CSDs (Capital Markets Infrastructure project) is critical. BNR is participating on behalf of Rwanda and is already working on a bilateral link with the Kenyan CSD.

The example of Ireland (see case study) shows that it is not essential for a market to have a separate CSD and that there are in fact advantages from sharing a CSD with a larger market as this creates complete openness to capital flows. Consideration will therefore be given to the possibility of merging the Rwanda CSD with others in the region, as this would create a more efficient regional market infrastructure than a system based on linkages.

However, the preconditions for any merger will need to be clearly established. These will include:

- The Rwandan market (RSE, leading market participants) must have a role in governance of the combined entity;
- There must be no weakening of the high settlement standards established in Rwanda;
- Settlement of Rwandan securities in the combined entity must be governed by Rwandan law and take place in RWF central bank money.

These are not impossible requirements, as both Euroclear UK & Ireland and the ECB's T2S system demonstrate.

It would be easier to enter into discussions about possible cross-border groupings if ownership and management of the CSD is undertaken by a private sector group. This would help create an environment which would make it possible for the development of regional and potentially wider international market structures to be driven by market economics. At present, the CSD Law designates the BNR as performing the functions of CSD. This will be amended to preserve the framework for immobilisation and secure settlement of securities, but create flexibility in the provision of the service.

Action	Responsibility	Priority	Timing
5.4 Amend the CSD Law to allow entities other than BNR to act as CSD.	MINECOFIN	Low	Long-term

5.2 RSE

Rwanda's equity market, the Rwanda Stock Exchange (RSE), is the youngest market in East Africa, having begun operations in 2011. It is owned by members of the exchange (60%), the Government of Rwanda (20%) and institutional investors (20%). The RSE lists both debt and equity instruments, and currently lists government bonds, corporate bonds and eight company shares – four of which are cross-listings from Kenya and are primarily traded on the Nairobi Securities Exchange.

The four local equities are Bank of Kigali, the beverage company Bralirwa, Crystal Telecom and I&M Bank Rwanda, which listed in 2017. Secondary market activity remains low.

The RSE's trading is carried out through a combination of open-outcry and OTC ("upstairs") trading. The introduction of a cross-border automated trading facility in East Africa creates an opportunity for the RSE to introduce electronic trading locally as well. However, attracting more listings is a higher priority.

The need to increase listings

An increased supply of listed companies depends on the availability of companies that are suitable for issuing securities on public markets, understand the benefits of doing so and have a need for external finance. The steps necessary to help businesses develop to the point where they are suitable for issuing public securities are described in Section 3, together with the requirements for raising standards of financial reporting and corporate governance in Sections 7 and 8. The role of RSE is to participate in the campaign to ensure they understand the benefits of doing so. RSE will therefore participate alongside RDB in targeting companies that are eligible to list on the exchange to help them understand the benefits and guide them through the process (see Action 3.8).

RSE launched an SME segment in 2013 and has subsequently relaxed the rules further, but there has not been any listing in this segment. SME markets around the world have a mixed record. A number of conclusions can be drawn from their experience⁵:

- They can be slow to develop and require patience.
- It is essential to maintain high standards for disclosure and corporate governance: the frequency of reporting requirements may be lower than for the main board, but the content required should not be reduced as this will discourage investors.

⁵ World Bank, Policy Research Working Paper 7160, "SME Exchanges in Emerging Market Economies A Stocktaking of Development Practices" (2015)

- Admission processes need to be streamlined. Initial issues may be made as private placements to reduce costs, with shares subsequently being introduced for trading.
- Raising public awareness of the exchange and providing assistance and information to prospective issuers in preparing to go public is essential.
- Advisors for new companies play a key role in vetting issuers and preparing them for market. The reputation of advisers is important and they should face sanctions if they bring poor quality companies to market.

The SME board nevertheless remains potentially valuable as a stepping-stone for medium-sized companies, some of which may not ultimately be able or wish to meet the main board listing requirements. The RSE needs, however, to develop a body of reliable corporate advisers and work with them to promote this segment of the market.

Action	Responsibility	Priority	Timing
5.5 Work to develop a group of appropriately qualified corporate advisors and then work with them to promote the SME market as a source of capital for medium-sized companies.	RSE	Medium	Medium-term

RSE will also actively pursue other sources of listed companies. It is important to encourage private equity investors, as an alternative to the more common management buy-out or trade sale, to bring their successful investments to public markets as a form of exit, as an alternative to the more common management buy-out or trade sale. This requires the stock exchange to promote itself effectively as an exit path. In this way, private equity investment will become in part a route to the public market rather than an alternative to it. Crystal Telecom in 2015 was a good example of this in practice.

Action	Responsibility	Priority	Timing
5.6 Target PE firms to bring successful investments to market	RSE	High	Medium-term

There is a potential source of new listed companies from privatising state-owned enterprises. Rwanda has already carried out extensive privatisations. However, bringing a further number of the state-owned enterprises to market, including those new enterprises in the ICT sector, would have an important demonstration effect for other potential issuers, would increase market liquidity and would help build experience among advisers.

Action	Responsibility	Priority	Timing
5.7 Identify candidates for privatisation and bring them to market	RDB, RSE, MINECOFIN	Medium	Short-term

Raising the profile of the RSE

Cross-listings from Nairobi currently make up a half of the listed companies, but scarcely any trades take place locally, due to infrastructure challenges, which are currently being addressed by the EAC's exchange linkages project. When these linkages are operational, investors in Rwanda will have expanded opportunity to invest in any of the securities listed on the other, linked exchanges and *vice-versa*, which may assist them to diversify their asset holdings. Cross-listing in Rwanda may be attractive to companies seeking to raise their profile in the Rwandan market and cross-listing by Rwandan companies will raise their profile with investors in other EAC countries.

RSE can also raise its profile internationally through participation in the World Federation of Exchanges (WFE). Full or Affiliate Membership requires that the local supervisory authority is a full member of IOSCO, which is not met by the CMA currently. Correspondent membership is possible without this, however, and should be applied for.

Action	Responsibility	Priority	Timing
5.8 Undertake roadshows in other EAC markets to promote RSE as a location for trading and listing to promote companies listed on RSE.	RSE	Low	Medium-term
5.9 Apply for Correspondent membership of the WFE to be upgraded to Affiliate membership when possible	RSE	Low Low	Short-term Long-term

Attracting investors

RSE will contribute to the campaign to educate investors about investment opportunities (see also Section 10.4). Other exchanges require listed companies to publish key information through the exchange website to provide a single source of information for potential investors⁶.

Action	Responsibility	Priority	Timing
5.10 RSE to publish key information about listed companies on its website	RSE	Medium	Short-term

5.3 Foreign exchange market

The ability to buy and sell investments in foreign currencies is essential for the capital markets of a small, open economy in a regional grouping, such as Rwanda. Within the region, the East African Payments System already provides an efficient mechanism to make cross-border payments combined with foreign exchange movements. In addition, the currency convertibility project among EAC members makes intra-regional trade more efficient with less use of international currencies.

However, if international investors are concerned that, when they sell their investments, they will not be able to convert the proceeds to dollars, they will be discouraged from investing in the country.

⁶ See for example the Taipei Stock Exchange:
http://www.tpex.org.tw/web/regular_emerging/corporateInfo/regular/regular_stock.php?l=en-us

In Rwanda, BNR has fully liberalized the capital account to allow the international investors to enter/exit the market freely. It already has in place an intervention framework supporting the foreign exchange market through commercial banks, depending on available resources, and has also put in place a swap arrangement with commercial banks.

At present, private portfolio capital flows are relatively small in the context of Rwanda's balance of payments, but an increase in capital market activity will result in larger inward and outward portfolio investments. While some investors will wish to accept currency as risk as part of their investment, others will wish to hedge the currency part of the investment. At the moment, currency hedging is not available. Development of a full forward foreign exchange market generally requires, among other things, a benchmark yield curve, which in turn is dependent on developing greater liquidity in the government bond market (see Section 3.3). In the longer term, foreign exchange futures contracts may be developed by the futures exchange (see Section 6.1).

➤ *Rwanda in the regional capital markets*

The Annex contains three case studies of how small countries have developed a regional offering in financial services: Botswana, Ireland and Mauritius. A number of themes emerge from these case studies.

- It is difficult to develop a compelling offering when a large neighbouring country is already an established financial centre – South Africa in the case of Botswana, the UK in the case of Ireland. Rwanda faces this issue in respect of Kenya and this reduces the realistic options available.
- Ireland and Mauritius succeeded by developing specialist services that complemented rather than competed with the services offered by the established financial centre. In both cases, they focused on attracting investment funds (and holding companies in the case of Mauritius).
- Their success depended on putting in place all the elements of a supporting regime. This critically includes double tax agreements, all the legal structures needed to support the business, a trusted regulatory regime, skilled staff and high-quality ICT infrastructure.
- An important factor in the case of Ireland was its membership of the European Union, whose “passporting” regime meant that funds established in Ireland could easily be sold throughout the EU, making it possible to concentrate this activity in one centre. Rwanda has a similar opportunity to take advantage of passporting in the EAC, while Mauritius is outside.
- Ireland also demonstrates the potential to benefit from infrastructure located in other countries and economise on fixed costs.
- Low tax rates (business taxes, VAT) are important in attracting international business.
- Creating a separate off-shore regime limits the potential for benefits to spread into the local economy. While Ireland originally offered a special tax regime for offshore companies, it dropped this arrangement in order to discourage use of Ireland for

brass-plate companies that created very little employment locally. Administration of the funds domiciled in Ireland is now a substantial source of employment.

Based on this analysis, Rwanda will develop two centres of excellence to develop financial services that will be sold throughout the EAC: an exchange for trading commodities and derivatives; and a centre for domiciling investment funds and other special purpose vehicles.

Decisions to proceed with these developments and on how to put the necessary conditions for success in place will be taken at the start of the Plan.

6 Leveraging Rwanda's market strengths: an intraregional approach

The ability to provide financial services across borders in the EAC creates opportunities for services developed to meet Rwanda's needs to be sold more widely, thus benefiting from economies of scale. This chapter describes two areas where these opportunities exist and outlines the key policies that need to be adopted in order to exploit them:

- The East African Commodity Market (EAX)
- The domiciling of investment funds

6.1 *East African commodity market*

Several basic commodities are produced and consumed across the EAC region, but at present the markets are fragmented along national lines because of the distances between markets, the cost of transportation and the absence of price information between countries. There would be benefits for both producers and purchasers in having greater price transparency as well as the ability to trade with counterparties across the region. An effective commodity market operating across the EAC region could provide better access to price information as well as achieving greater economies of scale in the market infrastructure.

There are two phases in the development of a commodity market. The first is a *spot* market, where commodities are traded for immediate delivery. The second is a *futures* market, where commodities are traded at a price for future delivery, enabling parties to have certainty about future prices and protect themselves against future adverse price movements.

6.1.1 *Developing a regional spot market*

The critical components of a spot commodities market are:

- A network of warehouses that receive, grade and store commodities. They give sellers the ability to choose when to sell and in the meantime to obtain finance, through the use of warehouse receipts as collateral. They give buyers confidence that the commodity they buy exists and is of a defined standard.

- A trading system that matches buyers and sellers, determines a market-clearing price and makes this visible.

As well as creating markets for commodities produced and consumed locally, the same infrastructure can also develop markets for agricultural commodities and raw materials produced for export. A well-functioning commodity exchange may help export sectors more fully reap their potential by helping to assure foreign buyers of adequate quality and supply and to help exporters move forward to a situation where they can focus on exporting higher value-added rather than merely raw commodities. On the other hand, foreign buyers may have limited demand for a domestic commodity exchange when well-established exchanges for the export crops already exist abroad.

Development of EAC regional commodity markets

The states along the Northern Corridor (Kenya, Rwanda and Uganda) have determined that the approach to developing a regional market should be through integrating national and regional exchanges. Partner states were urged to fast track development and harmonization of the legal and regulatory framework to facilitate successful operations of the commodities exchange markets. Therefore, to address above requests of development and harmonization, the following actions have been agreed:

- To develop and harmonise legal and regulatory frameworks:
 - Law regulating the commodities exchange markets + regulatory body and
 - Law regulating the warehouse receipt system (WRS) + regulatory body.
- To plan adoption of mutual recognition of market intermediaries incorporated in any Partner State (commodities exchange);
- To ensure the legal and regulatory frameworks for a commodities exchange and recognize the warehouse receipts as trading instruments;
- To ensure systems and infrastructure integration of commodities exchanges and warehouses;

- To develop interpretation guidelines for 18 commonly traded commodities: guidelines have been developed for 5 priority commodities (maize, dry beans, soya, beans, milled rice and wheat grains) and remaining 13 commodities ongoing;
- To develop a joint quality standards enforcement mechanism in order to address a challenge of compliance and enforcement posed by any potential inadequacy of inspection, grading and certification infrastructure at the handling and bulking centres;
- To harmonise available warehouse standards;
- To map existing capacity gaps including storage infrastructure and institutional capacity gaps for commodities markets stakeholders in EAC Partner States;
- To develop inter-linked regional trading platforms in commodities, following an assessment of the current channels of intra-regional trade in commodities.

Progress is at different stages of development in different countries, as shown in the table below. (Tanzania is included, as another significant EAC member, although not on the Northern Corridor.)

Items	Rwanda	Kenya	Tanzania	Uganda
Legal framework for spot commodities	In place	Ministry of Trade and Industry	In place	Being drafted
Regulator for spot commodities	CMA	CMA	CMSA	CMA
Spot commodity exchange	EAX	Developing	Developing	UNCE
Legal framework for commodity warehouses receipt system (WRS)	In place	Draft in Parliament		In place
Regulator for commodity warehouses	CMA	WRC		UWRS
Legal framework for futures	Draft awaiting approval	In place	In place	
Regulator for futures	CMA	CMA	CMSA	

EAX in Rwanda is further advanced than in other EAC markets. It has a well-regarded network of warehouses in Rwanda and a modern electronic trading platform in operation. It has already established subsidiaries in Kenya and Uganda and is in advanced discussions about the operation of warehouses in those countries. It is potentially, therefore, in a strong position to act as consolidator for the regional markets. This could take various forms in different markets – operating through a subsidiary company, agreeing to share technology and infrastructure with another exchange or looser forms of co-operation.

What is needed in Rwanda

The essential preconditions for a regional spot market are largely in place. Common standards have been agreed for the main commodities. There are no tariffs on intra-regional trade, though there remains the possibility of Government intervention to control prices in the interest of food security, which would undermine the freedom to trade across the EAC. The next steps are primarily a matter for commercial development between EAX and the other regional markets:

- Standardize the classification of the most traded commodities across the region;
- Review warehouse infrastructure and harmonize standards to give confidence to the exchanges;
- Work on the interconnection and harmonization of the platforms;
- Involve major financial institutions in supporting the warehouse receipt system through capacity building and training;
- Organize cooperatives/farmer groups that will participate in the exchanges and build their capacities;
- Develop reliable communication and transportation systems to ensure credible delivery.

They should undertake the analysis of the potential for expanding contract coverage to include export commodities.

Rwanda Government support will be needed in the following areas:

Action	Responsibility	Priority	Timing
6.1 Enact legislation in Rwanda for commodity markets and electronic warehouse receipts to ensure that EAX operates on a firm legal basis	MINICOM	High	Short-term
6.2 Ensure that there is a legal and regulatory framework at EAC level to allow firms to trade across borders	MINAFFET	High	Medium-term
6.3 Work through diplomatic channels to address any barriers to regional consolidation that already exist or become evident	MINAFFET	High	Long-term

6.1.2 Developing an EAC futures market

Moving to a futures market is a bigger challenge and will require a number of building blocks to be put in place.

In a *futures* market, the commitments between buyers and sellers may continue for many months, so the management of these ongoing risk exposures becomes critical. There is a strong international regulatory consensus that these risks should be managed through a Central Counterparty (CCP) clearing house, conforming to international standards.

Specific Rwanda Government support will be needed in the following areas:

Action	Responsibility	Priority	Timing
6.4 Enact legislation to support the operation of a futures market	MINECOFIN with MINAFFET and CMA	High	Medium-term
6.5 Enact legislation to support the authorisation and regulation of a CCP	MINECOFIN with MINAFFET and CMA	High	Medium-term
6.6 Review other legislation to ensure the legal environment is compatible with a CCP. For example, bankruptcy law may need to be amended to protect the position of a CCP in the event of default.	MINICOM/CMA	High	Medium-term
6.7 Ensure this legislation is consistent and enforceable across EAC countries	MINAFFET	High	Medium-term
6.8 Create the regulatory framework for a futures market and CCP according to the legislation	CMA	High	Medium-term
6.9 Carry out and publish assessment of the CCP against CPMI-IOSCO PFMI	CMA	High	Long-term
6.10 Develop appropriate skills in the CCP, the regulator and market participants, since risk management for futures contracts is complex	CMA, EAX, RDB	High	Medium-term
6.11 Generally educate market participants about the opportunities and risks from futures trading	CMA, MINICOM	High	Medium-term

A CCP requires significant financial resources as a buffer against defaults. Normally, these need to come both from the owner of the CCP and from its participants, but some international assistance may be required to launch the markets.

Agricultural commodities futures markets could in due course provide the basis for developing futures markets for other commodities and eventually financial products, such as interest or exchange rates, using the same legal, regulatory, trading and clearing infrastructure.

Putting these different building blocks in place requires a multi-year programme of preparation.

6.2 *Domicile for investment funds*

Background

As the East African capital markets develop, it seems likely there will be a growing demand for investment vehicles. These arise in a number of ways:

- International investors, such as private equity, channel their investments through offshore investment vehicles for reasons of tax efficiency.
- Donors are increasingly looking to provide funds through investment vehicles that could be opened to investors in the local capital markets.
- Local institutional investors, such as pension funds and insurance companies, are looking for investment funds to help manage their assets.
- As savings grow, individual investors will increasingly look for investment vehicles such as mutual funds to reduce costs and diversify risk.
- Capital market financing techniques, such as securitisation of assets or bank loans, require the creation of investment vehicles.
- Capital market financing of infrastructure projects requires the creation of special purpose vehicles.

All these types of financing require investment vehicles of some kind, which need to be incorporated, authorised, managed and sometimes listed somewhere. At present, only offshore private equity investment is at all significant in Africa and it is dominated by Mauritius, which has a well-established base of expertise supported by a network of double taxation agreements. However, as the other categories grow in importance, an offshore location may be less suitable.

Donors in particular have expressed discomfort at channelling finance through a financial centre that has been criticised for harmful tax practices and lack of transparency. Investment funds targeted at local investors will need to be established inside the EAC to benefit from “passporting” to enable them to be sold across the EAC. Experience from the EU has shown that countries that have set themselves up to specialise as domiciles for investment vehicles (Ireland and Luxembourg) can attract very significant business.

At this stage in market development, the demand for these services is not known. However, no other country in the EAC has yet established itself. So if the demand materialises, there could be an opportunity for Rwanda to take the lead, building on its strengths.

What is needed

To be a successful domicile for investment vehicles, several elements are necessary.

- There needs to be a clear understanding by both regulators and potential service providers (see below) of the demand for the service – who is it aimed at?
- There needs to be a range of flexible legal structures – open-ended and closed-ended funds, unit trusts, ETFs, partnerships and companies, etc. It is usually necessary to be able to distinguish between funds that can only be sold to professional investors, which require less regulation, and those sold to retail investors.
- It needs a tax-neutral environment that ensures profits and income are taxed only once, in the end-investor’s country. (This is not the same as being a tax heaven.) This involves both domestic tax legislation and having a network of double taxation agreements with the domiciles of likely investors.
- It needs the regulator to be able to deliver with total reliability on whatever it promises in terms of turnaround times for authorisation, listing and so on, which should be demonstrated through regular performance benchmarking. Without this, investors will lack confidence to use that financial centre.

- It requires the presence of the necessary service providers. These critically include sound custodian banks to provide safe custody of the assets and administration companies with sufficiently qualified and specialized staff to be able to undertake the establishment and authorisation of a fund; due diligence and anti-money laundering controls; accounting, valuation and distribution of income; regulatory reporting and other corporate services.
- All of this needs to be built on a base of professional skills in banks, accountants, lawyers, administration companies, the stock exchange and the regulator.

Relative to this list of requirements, Rwanda needs to act in most areas:

- Rwanda needs to ensure that it has all the legal structures in place and that they are easier to use / establish than in the other markets in the region. For example, there is currently no partnership law in Rwanda. This analysis has already been carried out.
- The CMA needs to establish its procedures for approving new vehicles and then rigorously benchmark its processes in practice.
- Rwanda has DTAs with a small number of countries (including Belgium, Jersey and Mauritius), and the Rwanda Revenue Authority already has experience of negotiating them. It would need to be prepared to act swiftly to add new ones or modify existing ones as soon required.
- Tax neutrality requires to be coded in law to support investment funds and SPVs. This is in Action 10.4.
- A regional custodian bank (KCB from Kenya) is present in Rwanda and can act as sub-custodian for global custodian banks. They need to be joined by at least one international custodian to give the market credibility.

Action	Responsibility	Priority	Timing
6.12 Legislate for the different type of investment vehicle structures that will be required, including in particular a partnership law.	MINICOM with technical assistance	High	Medium-term

6.13 Negotiate double taxation agreements with EAC member states and other key countries	RRA, MINECOFIN	High	Medium-term
6.14 Develop training programme for key staff in CMA and market	RDB, CMA	High	Medium-term
6.15 Attract at least one international custodian bank to establish operations in Rwanda	RDB	High	Medium-term

Success in establishing a successful and competitive regime requires each of the building blocks to be in place, which will require a multi-year programme of preparation.

➤ ***Enabling actions***

Achieving these objectives depends on there being solid foundations in place. These consist of the legal and regulatory regime; the quality of financial records and the accounting and audit professions that prepare them; the governance of companies; the tax regime; and, above all, the quality and skills of the workforce.

The following chapters set out the actions to ensure that these foundations are in place. Many of these actions come at the start of the Plan, as other developments build on them.

7 Accounting and Auditing

Sound financial information is critical for the conduct of all business activities. It is indispensable for the conduct of business in the capital markets.

At its most basic, sound bookkeeping enables companies to understand fully what is happening in their own business and hence manage them better. It helps reduce the risk of fraud and makes it easier to explain convincingly to outsiders, including all those from whom a company seeks finance.

The prime user of accounts is the owner of a business and their production is the responsibility of the owner. Auditors are there to provide assurance as to the reliability of the figures both to the company itself and to third parties. These will include the Rwanda Revenue Administration, but the benefits of sound accounts are of far wider economic significance. It is likely that companies who prepare sound accounts are far more likely to anticipate potential risks to their business and to be able to take steps to avoid them or minimise their impact. Not only will the company itself benefit from the reduction of risk but so will those who lend to it.

Sound and transparent financial reporting is indispensable to both the public and private capital markets. Potential investors in companies will only proceed if they have financial information whose reliability is undoubted. For this reason, the raising of standards of financial reporting is critical to the success of the CMMP. Access to private equity or venture capital will only be available to companies whose financial reporting can be trusted, and extensive and comprehensive financial reporting according to International Financial Reporting Standards (IFRS) is required of listed companies.

The filing of audited financial statements is now required by the RRA for companies with turnover above RWF400 mn. In order to spread the culture of sound financial reporting, this limit will be lowered progressively over time. Accounts are also required to be filed with the Registrar General of companies within 4 months of the date when they are required to be signed (Article 91 of the Companies Law). The Registrar General will, as part of the CMMP, take steps to ensure that accounts are filed on time and that late filing is penalised. This will be introduced progressively, in line with the RRA requirement to submit audited accounts.

Action	Responsibility	Priority	Timing
7.1 RDB to enforce requirement for companies to file financial statements	RDB	High	Short-term
7.2 New Companies Law to include penalties for failure to file financial statements on time	MINICOM	High	Medium-term

In order to provide assurance as to the reliability of accounts they need to be audited. The reliability of the auditors themselves is critical to this. In many countries, including financial centres elsewhere in Africa, there is now independent public oversight of auditors which involves inspection of their conduct against the International Standards on Auditing. Independent public oversight is a requirement of the IOSCO Core Principles.

The Institute of Certified Public Accountants of Rwanda (ICPAR), a self-regulatory body rather than independent public authority, has commenced independent inspections outsourced to the international Association of Chartered Certified Accountants (ACCA). The results of these inspections will be used where necessary to require remedial action. Periodic inspections, funded by external aid for a number of years, will continue to take place in order to ensure that audit quality improvements are sustained. A review will be conducted by MINECOFIN within five years to determine whether and, if so, how independent public oversight should be introduced in Rwanda in order fully to meet international standards.

Action	Responsibility	Priority	Timing
7.3 Review public oversight of auditors	MINECOFIN	High	Medium-term

A suggestion has been made that it might be possible to introduce independent public oversight at the EAC level, at least for listed companies. This would significantly increase efficiency, make possible the sharing of costs, make it easier to find independent inspectors, enable adherence to international standards and increase investor confidence in capital market instruments across the EAC as a whole.

The CMA will explore with its counterparts through the East African Securities Regulatory Authority (EASRA) the viability of such a cooperative approach.

Action	Responsibility	Priority	Timing
7.4 Explore potential for EAC oversight of auditors with other regulators	CMA	High	Medium-term

The proper enforcement of accounting for Listed companies according to IFRS is essential and highly desirable for all companies. In order that investors can have total confidence in the reliability of corporate reporting, arrangements will be put in place to ensure that the accounts of Listed companies can be investigated and where necessary restated, and that penalties can be imposed on directors responsible for issuing misleading accounts.

Action	Responsibility	Priority	Timing
7.5 Devise and implement regime for enforcement of accounting standards	MINICOM, CMA	High	Medium-term

8 Corporate governance

For an economy to develop in a productive fashion, all companies need to be well run and subject to proper internal governance. For companies that seek to access outside capital, this is an essential requirement.

Some of the basic elements of good governance are set out in and required by the Companies Act. Companies need to adhere to these requirements. In order to raise standards of good governance, it will be made a requirement that all companies that are registered should file a report on their adherence to the governance requirements in the Companies Act annually with the Registrar General.

The Private Sector Federation issues a Guiding Code of Corporate Governance, adherence to which is desirable for all companies and which will be made mandatory for Listed companies. Companies which are listed will be required to include in their Annual Report an account of the extent to which they have adhered to the Code and explanations of where they have not.

Action	Responsibility	Priority	Timing
8.1 CMA will include in the listing requirements provision for companies to report on their governance arrangements	CMA	High	Medium-term

The Guiding Code was issued some years ago and before its use is made mandatory for Listed companies, a review will be conducted to assess whether the Guiding Code needs adjustment to bring it in line with international good practice.

The use of different governance codes across the EAC acts as an inhibitor to cross border investment as potential investors do not have a common standard against which to judge the quality of the governance of the EAC companies in which they consider investing. Confidence would be increased in cross-border investing if there were a common code for each of the EAC national capital markets. Work on such a common set of corporate governance requirements has already commenced at EAC level. The CMA will work closely with the regulators in the other EAC jurisdictions to seek to reach agreement on a common governance code for the EAC.

Action	Responsibility	Priority	Timing
8.2 CMA will explore the potential timing for a common EAC governance code to be adopted. In the light of those discussions, the CMA will decide on the timing of the review of the Guiding Code and of the introduction of its mandatory use by listed companies.	CMA	High	Medium-term

9 Tax

It is important that the tax regime does not impede the development of capital markets and in some areas may support them.

Rwanda has in place a range of tax incentives following a special gazette in 2010. The main features relevant to capital market financing by businesses are:

- Companies newly-listed on the capital market are taxed for a period of 5 years at between 20% and 28% depending on the proportion of shares sold to the public, between 20% and 40%.
- Venture capital companies registered with the Capital Markets Authority in Rwanda benefit from a corporate income tax of 0% for a period of 5 years from the date of registration.
- 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 investor is a resident taxpayer of Rwanda or of the East African Community.

In practice, very few countries provide tax incentives for issuers⁷. If the only reason for a company to list is to obtain a tax break, then it is unlikely to remain committed to listing when the tax break expires. At the Roundtable in October 2015⁸, attention was drawn to the experience in Botswana (see also the case study), where tax incentives for listing were eventually withdrawn on the ground that they were too expensive.

⁷ World Bank, Policy Research Working Paper 7160, “SME Exchanges in Emerging Market Economies A Stocktaking of Development Practices” (2015), p.35

⁸ Milken Institute, Centre for Financial Markets (2016), Framing the Issues – Developing Capital Markets in Rwanda

It is more common to offer tax benefits to investors in SME listings, to offset the higher risk in these investments. Tax incentives for investors have the advantage that they can benefit early-stage investors, such as business angels and venture capital investors, which are essential in the current stage of development in Rwanda. For example, a number of countries, including Turkey and Korea⁹, have introduced tax incentives for business angels.

The Rwandan package of incentives currently offers a mix of tax incentives for issuers and investors and has been in place since 2010. As it has failed to stimulate the desired new capital market issues, there will be a review of how the Rwandan tax structure affects businesses' financing decisions. As well as reviewing specific incentives for capital market finance, the review will also consider whether features of the tax system favour debt over equity or discourage businesses moving from the informal to the formal sector. It will be combined with the FSDP II recommendation to review withholding tax in a regional context.

Action	Responsibility	Priority	Timing
9.1 Review the influence of the tax structure on businesses' financing decisions	RRA with technical assistance	Medium	Medium-term
9.2 Review withholding tax in a regional context	RRA with technical assistance	Medium	Medium-term

The RRA now requires all businesses with turnover greater than RWF400mn to submit audited financial statements with their tax returns. This threshold will be reduced over time to include more businesses.

Action	Responsibility	Priority	Timing
9.3 Reduce threshold for requiring audited financial statements	RRA	Medium	Medium-term

⁹ OECD, Financing SMEs and Entrepreneurs 2016 – An OECD Scorecard (2016), p. 92

The development of unit trusts, REITs and other investment vehicles requires changes to the tax regime to ensure tax neutrality, so that profits and income are taxed only once, in the hands of the end-investors.

Action	Responsibility	Priority	Timing
9.4 Introduce tax regime for unit trusts, REITs and other investment funds	RRA with technical assistance	High	Short-term

The RRA will also have an important role in supporting the development of Rwanda as a centre for domiciling investment funds by negotiating a wide range of Double Taxation Agreements (see Section 6.2).

10 Capacity building and education

The CMMP identifies a number of areas where capacity needs to be increased and enhanced and where education is required. These efforts are interlinked and interdependent. Each in isolation will be insufficient to enable the CMMP to deliver the benefits which should accrue to participants in the capital markets, whether issuers or investors, and the economy more widely. The Rwanda Development Board (RDB) will lead and coordinate the multiple initiatives required and will add capacity building in capital market skills to its list of core priorities.

Action	Responsibility	Priority	Timing
10.1 RDB to establish a task force to plan and organise delivery of programs and include capital market capacity building in its core priorities.	RDB	High	Medium-term

10.1 Education of potential capital market issuers

A sustained effort will be undertaken to educate companies on the benefits they can derive through accessing the capital markets as well as the changes they need to make in governance and financial reporting that they need to make to qualify to access those markets at different levels.

These efforts will initially be targeted at those companies identified as being potential candidates for listing by the companies Task Force (see Section 3.1) as these may be the ones who need to make the most significant changes to be ready for listing or for bond issuance, but who are likely also to be those able to access the largest volume of funds.

Efforts will also be targeted at those companies at an earlier stage who seem likely to potentially to benefit from access to private equity or venture capital funding.

The programme will involve both the preparation of educative material and the identification of suitable coaches to assist individual firms in preparing themselves for capital market issuance.

Although not all companies approached will decide to go to market, the educational effort will bring benefits to the management of their business as well as to their ability to access bank finance, irrespective of whether they ultimately tap the capital markets.

10.2 Development of professional advisers

Companies will need access to an adequate supply of accounting and legal professionals which will need to grow over time as the capital markets expand. In part, the demand will help create its own supply, but support will be needed.

At one level, an increase is needed in the supply of basic bookkeeping skills, which can be developed through educational programmes. In terms of qualified accountants and auditors, ICPAR will sustain its own programs to ensure that there is sufficient supply of accountants and auditors over time, including of advisers able to advise companies on the financial reporting changes they need to make to be able to access the public markets.

In terms of lawyers, the law firms will need to develop sufficient capacity to be able to advise companies on capital market transactions. In part, this will be developed by increased experience in actual transactions, but it may involve, as with accounting skills, the ability to bring in external expertise on a temporary basis. The Government will ensure that there are no unnecessary obstacles to access to foreign advice, which is itself a valuable part of capital market development.

Schools and universities, including post-graduate training involving practitioners that draws on actual market experience, will provide appropriate training programs.

10.3 Market participants

There will be considerable value in terms of enhancing the prospect of a more integrated trans-EAC market if professional training and qualification for market participants was homogenous across the EAC.

The professional competencies that will be particularly needed include:

- Compliance;
- Corporate finance;
- Investment analysis;

- Fund management;
- Operations management;
- Risk management.

The CMA is already working with the other EAC securities regulators to promote the use of qualifications granted by international organisations, such as the Chartered Institute of Securities and Investment (CISI), as standard across the EAC.

The CMA will encourage take-up of the qualification by making it a requirement for all technical and professional employees in the industry to pass the exams and get a certificate within three years of the adoption of the program. It will also use this programme to train its own staff.

Action	Responsibility	Priority	Timing
10.2 CMA to reach agreement on qualifications it is going to require and arrange provision of the qualifications	CMA with technical assistance	High	Short-term

In addition to the certification and licensing programs, CMA will also engage in high-level graduate training programs for selected individuals who can be expected to take up leadership positions in the industry. Such training would include programs such as the International Finance Corporation (IFC)/Milken Institute 9 months' program at the George Washington University. In relation to its own staff, the CMA will consider participation in the Global Certificate Program for Regulators of Securities Markets provided by the International Organization of Securities Commissions (IOSCO) and the Program on International Financial Systems at Harvard Law School (PIFS-HLS).

The CMA will foster other industry training by organising, encouraging or paying for short courses for specific skills in response to industry needs. It will take responsibility for identifying gaps in the supply of training and assessing the scale of demand.

Action	Responsibility	Priority	Timing
10.3 CMA to devise a financial services industry training action plan	CMA	High	Medium-term

10.4 Education for investors

In order to foster development of the capital markets, investors need to be able to understand both the benefits and risks of capital market investment. This involves education at a number of different levels.

Institutional investors may need more training to understand how to handle the issues involved in investing in a wider range of capital market instruments, including the assessment of the risks and rewards involved in public market and private placement instruments, as well as the technical aspects of the investment process.

Action	Responsibility	Priority	Timing
10.4 CMA to consider training targeted at institutional investors	CMA	High	Medium - term

Capital market investments may be appropriate for some companies and this will be covered as part of the program of raising corporate awareness of the benefits of capital market instruments.

An important element in the development of the capital markets is retail investment in mutual funds. RNIT has already engaged in a substantial educational program across the country to develop understanding and awareness. A more widespread effort will be undertaken, as part of broader financial education, to include understanding of the benefits and risks of capital market investment in managing household and individual finances. Some of this will be in Kinyarwanda. In order to enable this, agreement will be reached on a standard glossary of technical terms and explanations.

The CMA already conducts activities designed to further public understanding of the role, benefits and risks of capital market information. These need to be intensified as the availability of capital market products increases.

Most retail clients are unlikely to access capital market products or services other than through intermediaries so that high levels of inspection of compliance will be required to ensure that intermediaries act appropriately with regard to the type of information they provide to their clients.

Investor education requires a continuing commitment and use of all available channels so that retail investors, whether actual or potential, are aware of the risks as well as rewards of investment products. The CMA should take the lead in the campaign. As well as direct campaigns led by CMA, Rwandan Bankers' Association could develop standardized, high-quality financial literacy material on the benefits of savings products that would be offered to unbanked and underbanked Rwandans receiving remittances, at point of remittance pay-out.

Action	Responsibility	Priority	Timing
10.5 CMA to develop phased programme of public education	CMA with technical assistance	High	Medium-term
10.6 RDB to coordinate an assessment of the educational needs of different sectors of society and to coordinate a program of education.	RDB	High	Medium-term

10.5 Media

The media can be a powerful tool for mass education about financial products and up-to-the-minute market developments. However, misinformation can be extremely damaging. A program will be prepared and delivered to educate media reporting on capital markets and financial services more generally.

Action	Responsibility	Priority	Timing
10.7 Develop education material and training programme for financial journalists	CMA	High	Medium-term

10.6 Coordination of capacity building activity and technical assistance

The overall volume, scope and scale of capacity building required to enable Rwanda to be a financial hub will require a concerted effort by many organisations, both public and private. Although the specific capacity building requirements mentioned above are necessary for increased capital market activity to move forward, they will be of much wider benefit for the economy as a whole.

Companies that are not yet ready to access capital market finance will need to start equipping themselves to do so, particularly in terms of financial reporting and corporate governance skills, long before there is a realistic prospect of being able to access the markets. Even if they never reach the stage of accessing capital market finance, the effort they devote to increasing their skills sets will continue to benefit them in their day-to-day business activities. Equally, for actual or potential investors to acquire the necessary skills to invest wisely will never be wasted effort. Moreover, the sooner these skills are acquired, the better it will be for both individuals and the economy as a whole.

For this reason, the RDB will coordinate the overall programme of capacity building outlined in the specific steps above. This includes working with professional organisations in law, accounting and financial services and the CMA to project the numbers of qualified professionals needed in different fields (see sections 10.2 and 10.3) and working with colleges, universities and training organisations to ensure that appropriate training is available. The RDB will be assisted in this by the CMA, as well as by the Ministry of Education, the Private Sector Federation (PSF), the Business Development Fund and the professional bodies, including ICPAR.

In many areas, there will be a need for substantial external assistance in the form of both financial support and technical expertise (see box on next page). Priority areas for external assistance are capacity building at the CMA, professional training relevant to both financial services firms and corporates, and preparing infrastructure projects for capital market financing. External assistance will also be needed for the surveys that will be carried out as part of the evaluation programme (see Section 13.2).

Action	Responsibility	Priority	Timing
10.8 An overall programme of capacity building projects relevant to the CMMP will be constructed and co-ordinated	RDB with other public and private sector bodies	High	Medium-term
10.9 RDB to work with professions and educational and training organisations to project requirements for professionals and ensure sufficient professional training is available.	RDB with CMA	High	Medium-term

Areas where technical assistance will be required

There are a number of areas where technical assistance will be required to deliver the Plan. Some of the key aspects are:

- Support for the CMA in carrying out a capacity building exercise and reviewing its sources of funding (Actions 11.6 and 11.4)
- Support for implementing the legislative action plan (Annex 2)
- Support in identifying businesses with the potential for listing and helping them prepare to go to market (Action 3.8)
- Identifying pilot infrastructure projects suitable for capital market finance and preparing them for investors (Action 3.10)
- Creating the legal framework for different types of investment vehicles (Action 6.12)
- Review of the impact of the tax regime on capital market activity (Actions 9.1 and 9.2)

Other requirements for external assistance are likely to become apparent as the Plan proceeds.

11 Institutional and legal arrangements

In order for Rwanda's capital markets to develop effectively, the regulatory framework and its institutional arrangements need to be fit for the purpose, including the relevant legislation for the markets and for their regulation, and the regulators need to be appropriately resourced to undertake what is required of them.

Although much of the necessary legislation is in place, further additions and amendments are needed, and the CMA needs to be equipped fully to perform in practice the regulatory role that is required of it.

Since both the CMA and BNR are involved in the regulation and development of capital market activity, the role of both organisations needs to be clearly defined, both organisations need to be adequately resourced and arrangements for collaboration between them need to be effective.

This section of the CMMP addresses this range of issues

11.1 Role and objectives of the CMA and the legal framework for capital markets

Implementation of the IOSCO Core Principles

Standards have been agreed at the global level setting out what is required to administer an effective capital market, both in terms of legislation and substance. These are enshrined in the IOSCO Objectives and Principles of Securities Regulation (Core Principles). They have been developed by the International Organisation of Securities Commissions over time to set, based on practical experience, firm benchmarks against which the quality of a capital market for its users can be judged. Nearly all jurisdictions aspire to meet these Core Principles and adherence to them is a condition for acceptance into the global community of securities regulators. Implementation of the Core Principles is just as important, if not more so, for the protection of domestic investors because they represent good international practice.

As Rwanda becomes increasingly active in attracting internationally mobile businesses, investors will increasingly attach importance to the extent to which arrangements in Rwanda are in line with internationally recognised good practice.

Independent assessments have already been made as to the degree to which Rwanda meets the requirements of the Core Principles and areas have been identified in which Rwanda should seek improvements.

Annex 1 sets out those findings. It would be unexpected for a market as new as the Rwandan market to display a high level of compliance with IOSCO principles. Indeed, it is unusual for such a new market to seek an assessment. The assessments, therefore, should be taken not as a judgement but as an indication of the work plan for the next development phase of the market.

An Action Plan designed to map out a path for Rwanda to meet these international standards was prepared by consultants under the auspices of IOSCO and agreed upon with the CMA. This covers both legislative amendments that are needed to provide the necessary legal basis for the various aspects of capital market activities which are envisaged under the CMMP, and the necessary steps needed to enable the CMA properly fulfil its role.

The volume of legislative measures needed is very substantial and will require considerable resource commitment both on the part of the CMA and on the part of the other players in the legislative process, including ministry officials, ministers, parliamentary drafters and Parliament itself.

Annex 2 sets out the legal actions which need to be taken. Some of these actions involve new legislation to support fresh initiatives under the CMMP, others involve extensive housekeeping to tidy up existing legislation and some are other steps to enable Rwanda to meet international standards.

A phased process is needed in order to ensure full implementation within six years. This needs to be ambitious, but realistic and needs to start with implementation of the most critical legislation and principles first. These are the steps outlined in the CMMP. Not all of the measures are strictly necessary to obtain full membership of IOSCO, but they represent the requirements that are globally accepted for a sound capital market. Rwanda aims in any case to achieve full IOSCO membership over time. The measures set out in the CMMP are consistent with that aim and will themselves help achievement of the international standards.

The Action Plan the CMA has agreed sets out the steps that need to be taken. Some of these relate to purely internal matters and are within the hands of the CMA itself, but for many actions by others is also critical and these actions are generally reflected in the actions comprised in the CMMP. The CMA Board will formally adopt the implementation programme and appoint a project team and project manager to both implement the CMA internal actions and manage the CMMP implementation process (see Section D).

Action	Responsibility	Priority	Timing
11.1 CMA Board to adopt Action Plan to comply with IOSCO standards and implementation program	CMA	High	Short-term
11.2 CMA to put in place project management	CMA	High	Short-term

Some of the measures involved in achieving adherence to the IOSCO Core Principles relate to the institutional architecture and, given their wider significance and sensitivity require particular political commitment. They relate to the independence of the CMA and the financial resources consistent with that.

Operational independence

IOSCO Core principle 2 states “The Regulator should be operationally independent and accountable in the exercise of its functions and powers”.

The CMA Act needs to be amended to establish its operational Independence from Government in implementing its statutory duties, together with appropriate accountability arrangements to Government, to Parliament and to the public

A crucial part of establishing independence is the granting through legislation of immunity from prosecution or civil suit when acting in good faith.

Role and composition of board

The governance of the CMA is critical in enabling it to perform its responsibilities in the public interest, both internally and in relation to its external stakeholders.

Adherence to the Core Principles requires the board to be independent and be wholly committed to the service of the CMA and its responsibilities. It follows that it should not be seen as a representative body, but rather a group of independent individuals qualified to bring a full range of relevant personal professional skills to the service of the CMA in the public interest.

Resources and implementation

The implementation of the measures needed to achieve adherence to the Core Principles and to implement the CMMP will require considerable staff and other resources, including fit-for-purpose ICT, over a multi-year period. Provision of the capacity to put these resources in place will need to be budgeted for and the annual budget process will need to be constructed in such a way as to provide for budgetary provision on a rolling basis in the light of the pace of progress achieved.

CMA budget

The CMA needs to have adequate financial resources in order to be able to meet its agreed objectives, administer the CMMP and to implement the extensive program of actions necessary to enable Rwanda to secure adherence over time to the Core Principles.

For the time being, the CMA will remain dependent on budgetary allocations from Government, notwithstanding the need for the CMA to be given operational independence (see above). Operational independence will include the ability to set remuneration in certain cases outside Government pay scales, in order to acquire and retain staff with the skills necessary to implement the CMMP.

The budgetary process will need to enable the CMA to explain precisely what funds it needs and what their purpose is, including how this relates to its agreed role and objectives under the CMMP. It will need to be understood how any shortfall in funding will affect progress on the master plan. It will need to be possible to reallocate funds within the overall budget in the light of requirements.

Public transparency on how the CMA uses its resources and for what purpose should help in public understanding of the reasons behind the CMA's funding needs and the CMA will report on this in detail in its Annual Report.

Sources of funding

The CMA has a number of potential sources of funding. These include:

- Government budgetary grant;
- Loans;
- Levy on industry;
- Transaction fees;
- Fines.

Over time, it is desirable that the CMA should move to be able to fund itself independent of Government, consistent with the need for operational independence. This will not be possible in the short term and the pace at which the CMA will be able to become reliant on its own resources will depend on the pace of development of the capital markets. The objective is that the CMA move over time to fund itself entirely from levies on the industry and transaction fees. Although there may be income from fines, this cannot properly be targeted for budgetary purposes as this could affect the impartiality of the CMA. The CMA will discuss with MINECOFIN how these important constitutional changes can be carried forward.

Action	Responsibility	Priority	Timing
11.3 CMA to agree and implement new independence, governance and accountability legislation and procedures	CMA, MINECOFIN	High	Short-term
11.4 CMA to undertake a review of its financial requirements and potential sources of funding, phased to take account of the different stages of the CMMP and including an assessment of remuneration policies	CMA	High	Short-term

11.5 CMA to agree new budgetary arrangements with MINECOFIN	CMA, MINECOFIN	High	Short-term
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Capacity building in the CMA

An immediate review will be undertaken of the capabilities needed in the CMA and of the extent to which current capability falls short of what is required. The review will recommend what recruitment; remuneration or training measures are needed over what timescales. This is critical to the implementation of the CMMP.

Action	Responsibility	Priority	Timing
11.6 CMA to undertake a capacity assessment and organisational review, assess the budgetary implications and implement its recommendations	CMA with technical assistance	High	Short-term

IT resources and telecommunications

In order to conduct efficient regulation of the capital markets, the CMA needs to have IT and communications systems that are fit for their purposes. The intention is that, when fully operational, there will be automated transaction reporting which will enable automated surveillance of the market as a whole. This will involve initial capital investment both for the CMA and firms, but this will be offset over time by much reduced ongoing costs as well as increased reliability and efficiency of data collection for both CMA and firms.

Action	Responsibility	Priority	Timing
11.7 CMA to review its ICT requirements, both internally and for market surveillance	CMA and technical assistance, Market participants	Medium	Medium-term

Drafting of capital markets legislation

In order for Rwanda to have an effective and efficient capital market, both legislation and secondary regulation need to be prepared and passed promptly. The assessment by IOSCO of the legislative amendments which are needed has been referred to previously.

The efficiency of the existing legislative processes, with their ease and responsiveness to requirements, will be maintained. The current process whereby the CMA makes proposals for legislation to go to the Minister of Finance and the Cabinet for approval is appropriate and the efficiency of that process will be maintained. The current process for the drafting of capital market rules whereby the CMA drafts rules which go to the Prime Minister and are then promulgated in the Gazette are appropriate and will be maintained.

11.2 Shared responsibility with BNR

For all the components in the capital markets to function efficiently, it is important to ensure adequate prudential and conduct supervision of all the institutions engaged in the different aspects of capital market/investment business.

This requires coherence in both the regulation and supervision/enforcement of all capital market business, whether under the jurisdiction of the CMA or BNR.

BNR will need to continue to have regard in its supervision to the role played by capital market intermediation, including, for example, the investment policies of banking, pension and insurance intermediaries and their dealings with clients. Given the significant current and potential role in capital markets activity of institutions under the supervision of the BNR, the approach it takes towards the development of those activities is central.

It is particularly well placed to play such a role as it already monitors all the main financial markets in the course of its range of responsibilities. It will be able to bring the skills, market intelligence and knowledge it has of the financing of the economy and the channels through which it either does or could take place to make a significant contribution to the evolution and implementation of the CMMP.

Given the shared supervisory interest in capital market intermediation of both the BNR and CMA, it is important to (a) avoid unnecessary duplication for industry, but also at the same time to (b) conduct supervision/enforcement in an effective and efficient manner. Arrangements need to be in place to ensure adequate coordination between BNR and CMA in relation to capital market matters. The CMA will discuss with BNR whether the implementation of the existing MoU needs any adjustment or whether the terms of the MoU need revision.

All fund managers/asset managers will be licenced by CMA. However, when the management of pension funds is involved, an additional licence will be required from the pension's regulator within the BNR. The CMA will review the legal framework for Collective Investment Schemes (CIS) to ensure that an effective collaborative approach will be implemented between the CMA and BNR in the regulation of asset managers.

As well as access to the BNR's general intelligence on market activities, the CMA needs to have proper access to information from the central depository, encompassing all capital market instruments hosted and transacted through the Central Securities Depository (CSD) to fulfil its market surveillance responsibilities. It also needs to be able to respond to the impact on the markets of any system failure. This is technically possible and will be facilitated by the modernisation of the CMA's technical infrastructure (Action 11.7).

Just as the CMA will need additional resources as capital market supervisor, this may also be true of the BNR as capital market activities falling within the BNR's remit increase.

The BNR will review its ability to be responsive on capital market matters as the markets develop in relation to:

- Capital market activities of banks;
- Capital market activities of insurance companies;
- Capital market activities of pension funds.

When capital market business reaches a certain size, there should be an examination of the case for the centralisation of all regulation of capital markets conduct in CMA, in line with the division of responsibilities adopted in many other jurisdictions. This could take place when the size of overall capital market activities has become of sufficient scale that the CMA has become financially independent in terms of funding its activities from the market. (See Action 11.5 above.)

Action	Responsibility	Priority	Timing
11.8 CMA to discuss with BNR the implications for BNR resources of the implementation of the CMMP	CMA, BNR	High	Medium
11.9 CMA to review cooperation and information needs with BNR and agree revised MoU if necessary	CMA, BNR	High	Urgent

11.3 Capital markets and financial stability

As already mentioned, adequate arrangements for exchange of information with BNR are essential. It is also usual to establish wider machinery to consider the implications for financial stability of developments in capital markets. This would normally comprise the Finance Ministry, Central Bank and all Regulators. This may not be critical at the current stage of development of the markets in Rwanda, but would become more important as capital market activity increased its share of the financing of the economy. A number of risks can arise as outlined in the Introduction and collective arrangements need to be put in place to monitor such risks, identify any actions which need to be taken to mitigate them and to review any trade-offs between market efficiency and stability if they arise.

Action	Responsibility	Priority	Timing
11.10 CMA to discuss with BNR and MINECOFIN the adequacy of arrangements for addressing financial stability matters	CMA, BNR, MINECOFIN	Medium	Long- term
11.11 Review of distribution of regulatory powers	MINECOFIN, CMA, BNR	Low	Long-term

11.4 The role of the CMA in influencing the private sector

In any market, there will always be tension between a regulator's supervisory and enforcement activities, and any responsibility to promote market development. In many jurisdictions, the promotion of the market is assigned to a separate agency, whether governmental, private or mixed. This is to avoid any risk that the regulator might dilute the vigilance of its regulatory activity designed to protect investors or wider financial stability in the interests of generating additional activity in the market.

In the case of Rwanda, where the development of the market is still relatively immature, a phased transition should be envisaged. For the immediate future, the CMA will need to have some role in developing the market, but only for a short transitional period until the market is sufficiently well established for promotional responsibilities to be passed to a private sector body.

For the present, the CMA will, in cooperation with other agencies notably RDB, develop its own mechanisms to engage private sector leaders in the development of the market. The key licensees, including the RSE, EAX, RNIT, and their members, will be mobilized and supported to take up the role of market development in the form of competitive business initiatives. This will be absolutely critical to the development of the market which will otherwise not expand further. The CMA will identify and then support the development of potential leaders in the market.

As part of the capacity building measures described in Section 10, the CMA will encourage all stakeholders to put in place processes whereby providers of capital market products and investors themselves identify opportunities and take them up when they feel it is appropriate to enter the market with a specific product. The CMA will itself need to be equipped to promote discussion of the opportunities, to provide regulatory guidance as proposals come forward and to take steps to remove unnecessary barriers that are identified. In due course, it should be the responsibility of market participants to undertake the promotion of the market and its various components. In the interim, the CMA will exercise great care to ensure that its work in developing and promoting the market is not to the improper detriment of investors.

Action	Responsibility	Priority	Timing
11.12 CMA to develop an action plan to set out its role in engaging and developing the private sector and the resourcing required	CMA, all other market stakeholders with technical assistance	High	Urgent

11.5 MoUs with foreign regulators

As the market develops, adequate arrangements for exchange of information with other regulators will become more critical. Within the EAC, arrangements are already in place with the other securities regulators. MoUs with EAC non-securities regulators (banking, insurance, pensions) will be needed, depending on the pace of development of intra-EAC capital market flows. MoUs with other non-EAC regulators may need to be developed. The latter will become increasingly relevant to the extent that there is cross border capital market investment by insurance and pension funds. These will be more readily negotiated when the CMA becomes an adherent to the MMOU of IOSCO for which prior implementation by Rwanda to most of IOSCO's Core Principles will be necessary

Action	Responsibility	Priority	Timing
11.13 CMA to review its MoU arrangements	CMA	High	Long-term

➤ ***Implementation, monitoring and evaluation***

The ultimate objective of the Plan is to strengthen Rwanda's economic performance. Such strengthening should be achieved by taking the actions set out in the Plan; the outcomes of these actions are expected to contribute to the ultimate objective. Many factors influence economic performance, however, which makes it nearly impossible to isolate the impact of this Plan at the macro-economic level. The approach adopted by the CMMP is therefore to focus on monitoring that the necessary actions are being taken and evaluating the immediate outcomes. Many of the actions are directed to changing attitudes that will encourage businesses and savers to make better use of the capital markets. Evaluation therefore will use a combination of surveys, to track attitudinal changes, and quantifiable indicators, to track outcomes. The review process will include a feedback loop on the effectiveness of different actions.

It is essential that implementation of the Plan is undertaken in a co-ordinated fashion, as many of the Actions are interdependent. For example, the objective of growing the number of listed companies depends on multiple Actions involving capacity building, education, promotion of the RSE, reviewing the tax regime and raising standards in financial reporting and corporate governance. Increased capital market financing of investment depends on capacity building among institutional investors, implementation of tax neutrality, development of an infrastructure for SPVs and the existence of a liquid Government bond yield curve for pricing. This latter in turn depends on developing more liquidity in the secondary market and structural changes in the government bond market.

Effective governance of the Plan as a whole is therefore critical.

12 Implementation

Achieving successful completion of the Plan requires effective project governance. There will be two levels of governance, supported by a CMMP Secretariat:

The **National Steering Committee** is comprised of high-level representatives of the key stakeholders in the public and private sectors. The Minister of Finance will chair it. Its role is to set the overall policy direction and resolve any high-level implementation issues that arise. Members will be appointed from the following institutions:

1. Ministry of Finance and Economic Planning (MINECOFIN) – Chair
2. Ministry of Trade and Industry (MINICOM)
3. Ministry of Infrastructure (MININFRA)
4. Ministry of Agriculture and Animal Resources (MINAGRI)
5. Ministry of Education (MINEDUC)
6. Ministry of Information Technology and Communications (MiTEC)
7. Central Bank of Rwanda (BNR)
8. Capital Market Authority (CMA)
9. Rwanda Development Board (RDB)
10. Rwanda Stock Exchange (RSE)
11. East African Commodities Exchange (EAX)
12. Private Sector Federation (PSF)
13. Rwanda Law Reform Commission (RLRC)

The **National Technical Committee** is comprised of senior representatives of the same organisations. Its role is to facilitate the implementation of the Plan, as they will be engaged as line people / units.

The National Technical Committee is mandated to set up special Task Forces on different aspects of the CMMP. These task forces will engage with the private sector as well as external experts. Topics on which Task Forces will be established include:

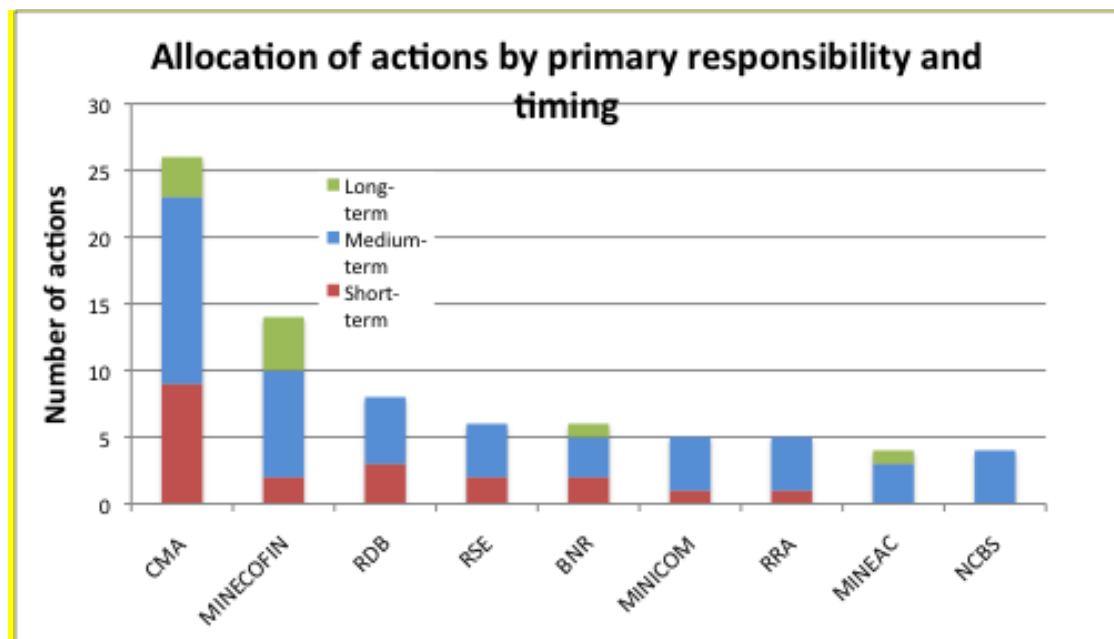
- Reform of capital markets legislation;
- Identification of companies ready for public listing and providing support;
- Review of the corporate governance code;

- Requirements for professional training.

Other Task Forces may be added, as necessary.

The CMMP Secretariat will carry out detailed monitoring of implementation. This will be housed in CMA and consist of 3 to 4 dedicated persons to coordinate all implementation activities on a daily basis.

Responsibility for delivery of the 78 actions identified in the Plan falls to the institutions identified against each action. Some of the Actions will require external assistance from development agencies or consultants to provide additional expertise. Where this is necessary, the institution responsible for the Action will also be responsible for procuring the external assistance (see Section 10.6).



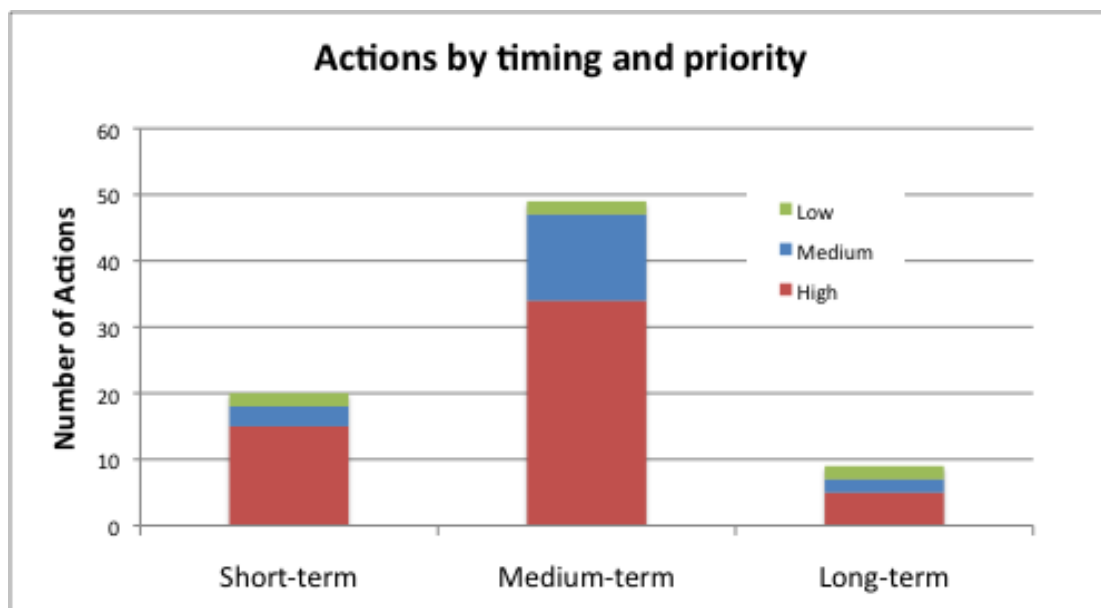
13 Monitoring and evaluation

Monitoring of the plan will take place at two levels: monitoring the Actions taken and evaluation of the outcomes.

13.1 *Monitoring actions taken*

The CMMP Secretariat will be responsible for monitoring the Actions taken and reporting progress at least monthly to the Technical Committee. It will publish an annual report of progress against plan.

The 10-year Plan is divided into three phases with substantial reviews at the end of each phase. Actions classified as Short-term must be completed by the first checkpoint after 3 years. Actions classified as Medium-term must start as soon as possible and be completed by the second checkpoint after 6 years. Actions classified as Long-term must be completed by the end of the Plan.



Years									
1	2	3	4	5	6	7	8	9	10
Foundations			Development			Maturity			
Short-term Actions to be completed			Medium-term Actions to be completed			Long-term Actions to be completed			
Capacity building, public education, legislative changes, quick wins on listing.						Investor base grows, start-ups come to market, reform of government bond market Expand competitive position in EAC.			
Make decisions on centres of excellence Develop: investor base, fund managers, intermediaries, pipeline of issuers Develop competitive position in EAC.									

13.2 Evaluating outcomes

It is essential to monitor outcomes to be able to judge whether the plan is achieving its intended effect. This is not straightforward, however, as in many cases, the Actions set out in the Plan aim to change attitudes. The desired outcome will be the result of different actors responding to the changed environment. The evaluation framework therefore consists of three key elements:

- Assessment of whether attitudes are changing in line with the Plan objectives;
- Assessment of what actions are most effective in bringing about those changes, in order to feed back into prioritisation of future actions; and
- Quantitative indicators of the targeted outcomes.

This structure is set out for the main areas of the Plan below.

Use of the capital markets by businesses

Changes in attitudes

A key objective of the Plan is for businesses to make greater use of the capital markets as a source of finance. The purpose of the evaluation is to find out whether business leaders' relevant knowledge is increasing and their attitudes towards capital market finance are changing and what factors have brought about these changes most effectively.

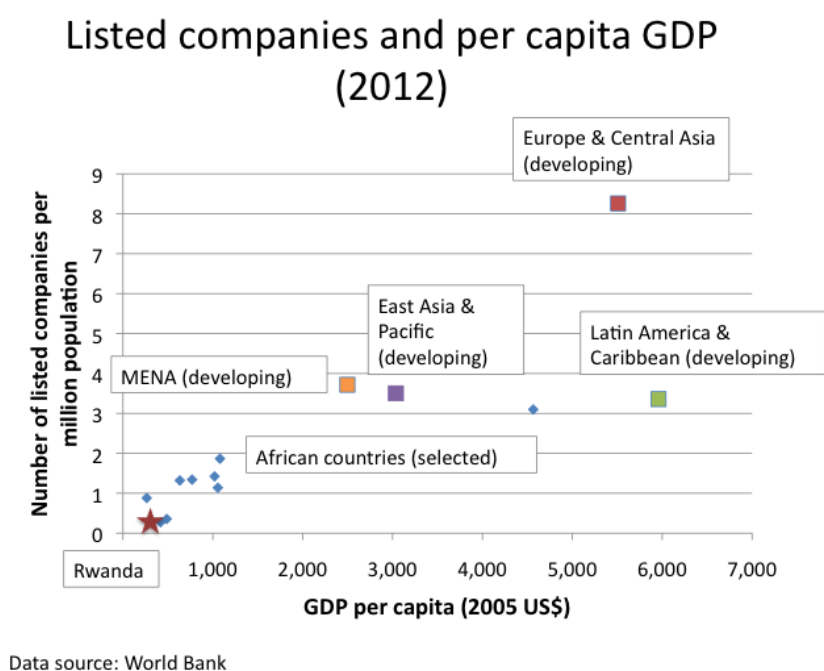
In 2015, the CMA and Milken Institute, in conjunction with the PSF, carried out a survey of companies in Rwanda to assess their priorities and attitudes to capital markets. This provides a valuable base against which to measure changes in attitudes. The survey will be repeated annually to assess whether companies' attitudes are developing towards the following targets and which interventions have been most effective.

The survey will cover the following topics (some of which were covered in 2015):

- Knowledge of the costs and benefits of capital market finance;
- Knowledge of the requirements and benefits of financial reporting;
- Knowledge of the requirements and benefits of corporate governance;
- Knowledge of the costs and benefits of the commodities exchange (for relevant businesses);
- Experience of considering or raising finance through a private placement of equity;
- Experience of considering or raising finance through a private placement of debt;
- Interest in a domestic stock exchange listing, with or without foreign listing;
- Experience buying or selling commodities through the exchange;
- Experience raising finance against warehouse receipts.
- The institutions or sources of information or training that were most helpful in developing their knowledge.

Targeted outcomes

The number of companies listed on the stock exchange in a country typically varies with the size of the country and its state of development, as shown in the chart below.



An ambitious target for Rwanda is to aim for 2 listed companies per million of population by the end of the Plan period, or some 35 listed companies.

Indicator	At start	At year 3	At year 6	At year 10
Number of domestic companies listed at RSE	4	8	18	35

Inclusion in international indices

The standard series of indices used by investors for benchmarking portfolios are those produced by MSCI. For Rwanda to be included in the MSCI category of Frontier Markets, it would be an indication that it is recognised as an international investment destination.

To be included, a market must pass tests under three headings: economic development; market size and liquidity; and market accessibility¹⁰. The critical tests for Rwanda relate to market size. This requires (at May 2016) at least 2 companies each with a total market capitalisation of \$635mn and a free float of \$47mn and a minimum level of turnover. At present each of the Rwandan listed companies has a total market capitalisation less than half the total required. The Actions in the Plan aimed at encouraging companies to list and supporting their growth work towards achievement of this target.

An ambitious target therefore is for Rwanda to join the MSCI Frontier Markets index by the end of the Plan period.

Use of the capital markets to finance projects

It is also an objective that the capital markets will make a greater contribution to financing infrastructure investment. The Secretariat will therefore monitor:

- The number of potential projects being assessed for capital market finance;
- The number of projects with capital market finance;
- The value of capital market finance for projects;
- The value of capital market finance as a percentage of the total value of infrastructure investment.

Use of the capital markets by investors

Changes in attitudes

Another objective is to develop use of the capital markets by savers. This will be evaluated through a survey of individuals covering the following topics:

- Knowledge of different long-term savings products (unit trusts, life insurance, bonds and shares) and their suitability;
- Knowledge of how to access different long-term savings products;

¹⁰ MSCI Global Investable Market Indexes Methodology, May 2016, page 90

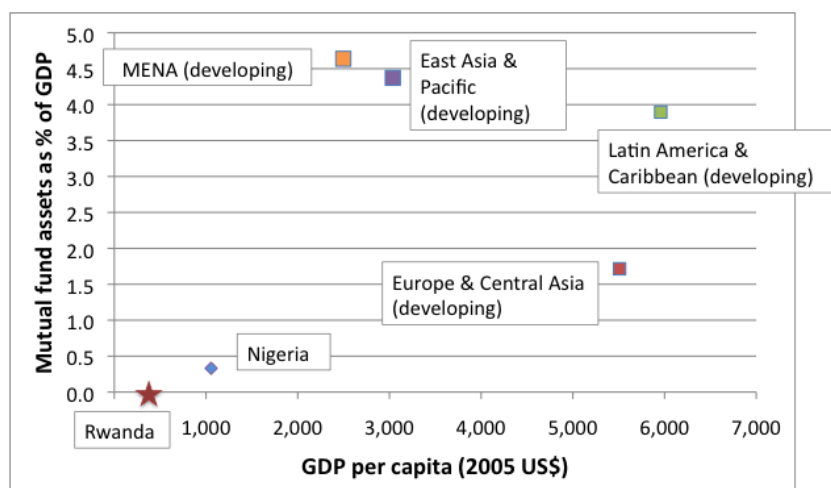
- Interest in using different long-term savings products;
- Experience investing in long-term savings products;
- The institutions or sources of information or training that were most helpful in developing their knowledge.

It may be possible for these questions to be included in future FinScope surveys in Rwanda in order to avoid the costs of running two separate surveys.

Targeted outcomes

An indicator of the availability of investment products for retail investors is the ratio of mutual funds to GDP. Although results are quite scattered, the ratio increases as an economy develops (see chart).

Mutual funds and per capita GDP (2013)



Data source: World Bank

An ambitious target is to aim for mutual fund assets equivalent to 1% of GDP at the end of the Plan period. This will amount to some \$180 million if projected rates of economic growth are achieved.

Indicator	At start	At year 3	At year 6	At year 10
Mutual fund assets as % of GDP (estimated dollar value based on 7% pa GDP growth)	0 (0)	0.2% (\$20mn)	0.6% (\$80mn)	1.0% (\$180mn)

Capacity building

The objective is to ensure that sufficient numbers of qualified professionals are available to meet the needs of businesses and financial firms. This will be monitored using the forecasts for requirements prepared by RDB (see Action 10.9).

Annex 1: Compliance with IOSCO Core Principles

While the CMA has achieved associate membership of the International Organisation of Securities Commissions (IOSCO) it has yet to achieve full compliance with the IOSCO Objectives and Principles of Securities Regulation (Core Principles). Three recent reviews have been conducted:

- Detailed Assessment of Implementation – Objectives and Principles of Securities Regulation issued by IOSCO – May 2015 – prepared by Richard Pratt (“the Pratt Report”). This examined IOSCO Principles 1-5, 9-18, 24-27 and 29-37.
- EAC Partner States Compliance with IOSCO New Principles, Appendix A – EAC - Sept 2014 – (“the EAC Report”). This covered Principles 6-8, 19-28
- Study on EAC Partners States Compliance with IOSCO Principles – Assessment of Principle 38 on Clearing and Settlement – EAC – July 2014 (the EAC 38 Report”). This examined IOSCO Principle 38.

The Pratt Report observed that, while much had been done so that “the preconditions for effective securities regulation are in place”, it acknowledged that the CMA is a new organization and concluded that the CMA had achieved a “modest level of compliance with IOSCO Principles”. Summary of compliance with the 38 IOSCO principles showed

Table 1 – Summary of compliance with IOSCO Principles

Status of implementation	The Pratt Report	The EAC Report	The EAC 38 Report	Total
Fully implemented	2	2		4
Broadly implemented	2		1 ¹¹	3
Partly implemented	5	3		8
Not implemented	18	4		22
Not applicable	1			1
Total	28	9		38

¹¹ The report did not give a definitive assessment but made a number of recommendations to achieve full compliance

The Pratt Report also observed that the process of adjusting Rwandan laws and regulations to conform to EAC Directives (which have the force of law in member states) is not yet complete with a consequent risk of confusion and inconsistent treatment. A second document, covering the Principles assessed in the Pratt Report, detailed an action plan for the CMA proposing a four-year programme of changes to laws and regulations. The other reports contained recommendations for action.

It would be unexpected for a market as new as the Rwandan market to display a high level of compliance with IOSCO principles. Indeed, it is unusual for such a new market to seek an assessment. Therefore, the assessments should be taken not as a judgement but as an indication of the work plan for the next development phase of the market.

Table 2 summarises the findings of the Pratt Report and the EAC Report on IOSCO compliance of the regulations relating to the CMA:

Table 2: IOSCO Compliance on regulation and disclosure

Principle		Status
1	The responsibilities of the Regulator should be clear and objectively stated.	Fully implemented
2	The Regulator should be operationally independent and accountable in the exercise of its functions and powers.	Not implemented
3	The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.	Not implemented
4	The Regulator should adopt clear and consistent regulatory processes	Not implemented
5	The staff of the Regulator should observe the highest professional standards, including appropriate standards of confidentiality	Not implemented
6	The regulator should have or contribute to a process to monitor mitigate and manage systemic risk, appropriate to its mandate	Not implemented
7	The Regulator should have, or contribute to a process to review the perimeter of regulation regularly	Partly implemented
8	The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.	Partly implemented

Principle		Status
9	Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	Not applicable
10	The Regulator should have comprehensive inspection, investigation and surveillance powers.	Fully implemented
11	The Regulator should have comprehensive enforcement powers.	Partly implemented
12	The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	Not implemented
13	The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.	Partly implemented
14	Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts	Partly implemented
15	The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.	Partly implemented

Source: the Pratt Report, the EAC Report

Annex 2: summary of legislative requirements

13.3 Recommended Changes to Laws, Orders and Regulations

<i>Amendments to the Law Regulating the Capital Markets</i>	IOSCO Principle
If the Law is going to refer to paragraphs by number, then the paragraphs should be numbered. For example, Article 34 makes reference to paragraph 3 but the paragraphs are not numbered.	Various
Delete the repealing provision in Article 77. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted law, the provisions of the CM Law should prevail.	Various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 3 should have the word "and" inserted after the penultimate item. In Article 5, insert the word "or" after item 1 in the list. Article 8, last paragraph, the word "and" should follow the first item. Article 9, insert the word "or" after the first item. Article 28, insert the word "or" after the penultimate item.	Various
The Law should be reviewed to remove the inconsistencies, errors and anomalies. For example (this list is not exhaustive): a) Article 5(2) should be amended to remove the words "and in compliance with the Regulations established by the Authority" from item 2 in the first paragraph. b) Article 38 remove the word "when" in the third line. c) Article 53 should be clarified to state whether or not in the event of a conflict, the provisions of the CM Law or the Law on Companies should prevail. d) In Article 55, the Law should be clarified to state that the compensation is not confined to investors who have been made bankrupt but is intended to provide support to investors who have been harmed by licensed or approved persons but cannot be compensated because the licensed or approved persons have become bankrupt.	Various
Amend Article 7 to state that: a) The CMA shall grant a licence or give its approval (as the case may be) if it is of the opinion that, having considered all of the information provided by the applicant and made such enquiries as it sees fit, that the applicant, its owners and senior management are fit and proper persons and that the applicant has the capacity and willingness to comply with the Law and Regulations. Further specific criteria shall be prescribed in Regulation; and b) The CMA may place a condition on the grant of a licence or of approval, if it considers that this is necessary to meet its regulatory objectives.	29

<i>Amendments to the Law Regulating the Capital Markets</i>	IOSCO Principle
Amend Article 49 so that, as an exception from the blanket exemption from restrictions on disclosure by the CMA, the CMA may not disclose any confidential information received from a foreign regulatory authority, nor the fact that a request for information has been received from a foreign authority, unless: a) The CMA is required to do so by the court; b) Disclosure is necessary to perform the action for which the information was originally required; or c) Disclosure is agreed or within the terms of an agreement with the providing authority.	14
Amend Article 38 so as to provide that, when the CMA determines that there are reasonable grounds to suspect that a breach of the Law or Regulations has occurred and that a person who is exempted, or who is neither licensed nor approved has information that is relevant to that investigation, the CMA should be able to require that person to provide such information, books records and other documents as the CMA may reasonably require and should provide a statement or submit to interview if so required by the CMA. It should be an offence to fail to comply with such a request or to provide information that is false or misleading.	11 13
Give the CMA the power to require issuers to provide information or to co-operate with an investigation, where the CMA considers this necessary to fulfil its regulatory responsibilities with respect to the obligations on issuers of securities concerning shareholder rights and public disclosures.	16 17
Give the CMA the power to impose administrative sanctions on issuers who fail to meet their obligations.	16 17
Amend the definitions of capital market business and capital market instruments in annex 1 and 2, to include collective investment schemes in the definition of capital market business.	24,25,26,27
Give the CMA the power to appoint an administrator, with full powers to take over the management of a failed intermediary, transfer client assets to another intermediary as appropriate; wind down the business, or sell it to another business or take such other action as may be appropriate and report to the CMA. The CMA should be able to use this power when it reasonably considers that it is necessary to protect client assets or the orderly functioning of the market and where the intermediary has breached or there is a real risk that the intermediary may, imminently breach the capital requirements.	32
Review the broad exemption granted to exchanges in the CM Law and consider seeking an amendment to the CMA Law to re impose obligations to comply with certain aspects of the CM Law, for example, including the Chapter on Practices and Ethics (Chapter IV), the Chapter on Market Abuse (Chapter VIII), the Chapter on Restrictions on Disclosure (Chapter IX), the Chapter on the Independent Review Panel (Chapter XIII) and the Chapter on Offences and Penalties (Chapter XIV);	34
Amend Article 54 to provide for exemptions from the requirement to publish a prospectus that apply in the Law on Companies which are recommended to be as follows: a) All offers by the government or central bank which will, after the offer, be guaranteed by the full faith and credit of the Government of Rwanda; b) Other offers of debt securities guaranteed by the Government or made by other public sector bodies guaranteed by the government;	16 EAC

<i>Amendments to the Law Regulating the Capital Markets</i>	IOSCO Principle
c) Securities issued by associations with legal status or non-profit making bodies that are recognized by the Government for the purposes of them obtaining the means of achieving their non-profit making activities; d) Offers of securities by private companies; e) Offers made to fewer than 100 investors; f) Offers made to members of a club or association which have a common interest; g) Offers made to a restricted circle of persons who might be expected to be sufficiently knowledgeable to render a prospectus superfluous (the Law should include a definition of a qualified or sophisticated investor that is in line with the EAC Directives); h) Offers where the minimum which may be paid by any person exceeds the equivalent of \$10,000 and which would only be attractive to a small group of wealthy investors who could be expected to make their own demands as regards disclosure; i) Offers that are covered by Takeover Regulation; j) Offers where the securities may not be freely transferable; and k) Offers made by an issuer based elsewhere in the EAC and which has received the approval of another EAC regulatory authority for its prospectus and its offer and also has the approval of that authority to make the offer throughout the EAC.	
The CMA should have the authority to withdraw the exemption under Article 54 if the conditions are no longer satisfied. The CMA should also have the power to impose additional requirements where the offer is to be made throughout the EAC	16 EAC
The CMA should have the power to waive the requirement for an intermediary to be licensed where the CMA is satisfied that the intermediary has been granted a licence or approval by a regulatory authority elsewhere in the EAC, is properly supervised by its home authority and has its approval to offer its services throughout the EAC in accordance with the Directive. The CMA should be able to withdraw this waiver if the conditions are no longer satisfied.	EAC
The CMA should have the power to impose additional licensing criteria and conduct of business requirements, where this is necessary, according to the EAC Directive, to enable an intermediary that is based in Rwanda and wishes to offer its services throughout the EAC.	EAC
The CMA should review the EAC Directives to determine if any further amendments should be made to the Law to achieve compliance with the Directive	EAC

<i>Amendments to the Law Establishing the Capital Markets Authority</i>	IOSCO Principle
If the Law is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 19. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted law, the provisions of the CMA Law should prevail.	Various

<i>Amendments to the Law Establishing the Capital Markets Authority</i>	IOSCO Principle
Where there is a list of items, use the conjunctions “and” or “or” as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 3 should have the word “and” included after the penultimate item.	Various
Review the list of functions and powers in Articles 3 and 4 with a view to: • Achieving consistency in the nature of the items listed; • Clarifying whether any items are actually granting powers or simply describing the scope of activity; • Ensuring that the normal mission of a securities regulatory authority are given emphasis – namely to protect investors, ensure fair markets reduce systemic risk and co-operate with domestic and foreign regulatory authorities.	1
Amend Article 7 to make clear that each Director should have a fixed term of three years (or such greater number that the authorities may wish), save that the term of office may be adjusted to ensure that no more than one third of the Directors reach the end of their term in any on year.	2
Introduce a new Article to provide that members of staff and Board may not be subject to litigation with respect to decisions they have made in the course of their duties provided that such decisions were made in good faith.	2

<i>Amendments to the Law on Companies</i>	IOSCO Principle
If the Law is going to refer to paragraphs by number, then the paragraphs should be numbered.	various
Delete the repealing provision in Article 386. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted law, the provisions of the CMA Law should prevail.	various
Where there is a list of items, use the conjunctions “and” or “or” as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 5 should have the word “or” included after the penultimate item. The list in Article 6 should have the word “and” after the penultimate item.	various
Include in the Law on Companies a definition of a public offer, consistent with that in Article 5 of the Public Offer Regulation.	16
Amend the Law on Companies to correct errors and inconsistencies particularly with respect to the Public Offer Regulations. Examples (but not an exhaustive list) are included below.	16
Create a provision in the Law on Companies that places an obligation on a public company to disclose, at any time, any information that is material to the price of a security issued by the public company or the decision by an investor as to whether or not to invest in the security.	16

<i>Amendments to the Law on Companies</i>	IOSCO Principle
Create a provision in the Law on Companies that places an obligation on a public company to publish a report annually that contains audited financial statements. Include in that provision the power to the Registrar General to issue instructions as to the form and content of periodic reports. Those instructions should be approved by the CMA. The Instructions may also include provisions on disclosures necessary for enabling shareholders to make informed decisions where they are entitled to vote.	16
The Law should place an obligation on the offeror to report to the CMA and the Registrar General if it becomes aware of any information in the prospectus that is false or misleading and to issue a supplementary prospectus to correct any errors, if so required by the CMA. The supplementary prospectus should be subject to the same requirements as a full prospectus. The provisions should be consistent with those in Article 9 of the Public Offer Regulations.	16
The Law should provide for prospectuses issued in electronic form in a manner consistent with Article 15 of the Public Offer Regulation.	16
The Law should include provisions on the allotment of securities in a manner consistent with Article 16 of the Public Offer Regulation.	16
Amend Article 68 so as to remove the provision that states that an advertisement shall be treated as a prospectus but insert instead a provision that every advertisement should be submitted to the CMA for approval before being issued. This should be consistent with Article 12 of the Public Offer Regulations. Add the word "or" before the penultimate item in the list in Article 68.	16
Include a provision that permits the CMA to waive the requirement for prior submission where the CMA is satisfied that the advertisement to be issued is within general parameters agreed by the CMA are consistent with and contain the same information relating to the same security as previous advertisements approved by the CMA.	16
Amend Article 69 so as to provide that the instructions issued by the Registrar General with regard to the content of a prospectus may also include instructions on the distribution of a prospectus and on the form and content of an application to make a public offer and must also be approved by the CMA.	16
Create a provision in the Law on Companies that gives the Registrar General the power to issue instructions, with the approval of the CMA as to the conditions to be met prior to making a public offer.	16
Create a provision in the Law on Companies that creates a liability on issuers, directors, underwriters, authorizing officers and promoters for the truthfulness of the prospectus and a similar liability for experts and advisers with respect to the disclosures they make.	16
There should be exemptions from the requirement to issue a prospectus as follows: l) All offers by the government or central bank which will, after the offer, be guaranteed by the full faith and credit of the Government of Rwanda; m) Other offers of debt securities guaranteed by the Government or made by other public sector bodies guaranteed by the government; n) Securities issued by associations with legal status or non-profit making bodies that are recognized by the Government for the purposes of them obtaining the means of achieving their non-profit making activities; o) Offers of securities by private companies;	16 EAC

<i>Amendments to the Law on Companies</i>	IOSCO Principle
p) Offers made to fewer than 100 investors; q) Offers made to members of a club or association which have a common interest; r) Offers made to a restricted circle of persons who might be expected to be sufficiently knowledgeable to render a prospectus superfluous (the Law should include a definition of a qualified or sophisticated investor that is in line with the EAC Directives); s) Offers where the minimum which may be paid by any person exceeds the equivalent of \$10,000 and which would only be attractive to a small group of wealthy investors who could be expected to make their own demands as regards disclosure; t) Offers that are covered by Takeover Regulation; u) Offers where the securities may not be freely transferable; and v) Offers made by an issuer based elsewhere in the EAC and which has received the approval of another EAC regulatory authority for its prospectus and its offer and also has the approval of that authority to make the offer throughout the EAC.	
The CMA must have the authority to withdraw these exemptions if the conditions justifying them cease to exist. The CMA should also have the power to impose additional requirements, including corporate governance requirements where the offer is to be made throughout the EAC.	16 EAC
Amend the Law on Companies to include provisions on the following: a) Create an obligation on directors to give shareholders timely notice of meetings and to ensure that they have all the information necessary to make informed decisions; c) Create an obligation on directors to disclose their shareholdings; d) Create an obligation on Directors to act in the interests of all shareholders; e) Create an obligation on shareholders to make a public declaration as soon as their shareholdings reach a threshold of 5 per cent, 10 per cent, 20 percent, 30 per cent and 40 per cent and extend this obligation to all shareholders acting in concert; and f) Include a provision that requires foreign issuers with a listing in Rwanda to make certain disclosures including their domestic governance requirements.	17
Articles 85 – 92 should be amended so as to provide that when a company is a mutual fund company operating a CIS, the restrictions on the issue of new securities should not prevent the normal creation and cancellation of shares when investors subscribe for or redeem units in the CIS.	25
The CMA should review the EAC Directives to determine if any further amendments should be made to the Law to achieve compliance with the Directive	EAC

<i>Amendments to the Law Establishing ICPAR</i>	IOSCO Principle
If the Law is going to refer to paragraphs by number, then the paragraphs should be numbered.	various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 7 should have the word "and" included after the penultimate item. The list in Article 22 should have the word "or" inserted before the penultimate item.	various
Amend the Law to create a public interest oversight body with a majority of independent (i.e. non accountant) members with powers to oversee the work of ICPAR in line with the recommendations of the ROSC in 2008.	18

<i>Amendments to the Law Regulating CISs</i>	IOSCO Principle
If the Law is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 67. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted law, the provisions of the CMA Law should prevail.	Various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 3 should have the word "or" included after the penultimate item. The items in Article 12 should have the word "and" inserted before the second item.	Various
Clarify and maintain consistency in the description of those who need a licence, namely investment advisers, investment managers, custodians, and scheme administrators. Use these terms throughout and especially in Chapter IV. Clarify that any of these functions can be combined except that the custodian must be separate from the other functionaries. State that this means, at a minimum, that the custodian should not be in the same legal group as the other functionaries.	24
Clarify and maintain consistency with respect to the provisions regarding the composition and qualifications required for the governance bodies of the three kinds of schemes (mutual fund companies, unit trusts and contractual)	24
Clarify that all schemes should have constitutive documents that include the legal constitution of the legal or other entity forming the scheme (company, trust or management company), the prospectus and investment policy.	24
Define Investors Agent in Article 2 by reference to its function (at present the definition simply states how the agent is to be appointed. Show how this differs from the functions of a trustee.	24
Remove the deadline for considering applications in Article 19 of the Law	24
Amend article 4 to refer to the Ministerial Order on inspections and investigations which sets out the detailed investigation and inspection powers regarding CISs.	24,25,26,27

<i>Amendments to the Law Regulating CISs</i>	IOSCO Principle
Include provisions similar to Article 51 and 52 of the CM Law so as to enable the CMA to provide assistance to foreign regulatory authorities.	24
Remove the integrity tests in Article 28 but state instead that all of the fit and proper criteria will be in the Regulations (so that they can be drafted in a manner consistent with the Licensing Regulation).	24
Amend the CIS Law to give the CMA the power to go to court to seek remedy for investors who have been harmed by the improper actions of CIS functionaries.	24 25
Amend the double negative error in Article 49.	25
Restrict the ability of investors to seek remedy for losses to cases where the CIS has acted improperly – i.e. in a manner contrary to the constitutive documents or the regulatory framework.	25
Create a power for the CMA to direct a CIS or a CIS functionary to do or cease doing something that the CMA may reasonably consider to be necessary in the interests of investors or to prevent or stop a breach of the regulatory framework.	25
The CMA should have the power to grant a waiver from all or some of the requirements of the Law on CISs (except that its ability to undertake inspections and investigations and apply sanctions should still apply), where the CMA is satisfied that the CIS is properly approved and supervised by another EAC regulatory authority. The extent of the exemptions should be prescribed by the CMA.	EAC
The CMA should also have the power to impose additional requirements on Rwandan based CISs, where it is proposed that the CIS should be offered throughout the EAC and the CMA considers that additional requirements are necessary to meet the terms of the EAC Directives.	EAC
The CMA should review the EAC Directives to determine if any further amendments should be made to the Law to achieve compliance with the Directive	EAC

<i>Amendment to Prime Minister's Order on CMA Supervisory Authority</i>	IOSCO Principle
If the Order is going to refer to paragraphs by number, then the paragraphs should be numbered.	
Delete the repealing provision in Article 18. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted Order or Regulation, the provisions of the Order should prevail.	various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 5 should have the word "and" inserted after the penultimate item. The list in Article 9 should have the word "or" inserted after the penultimate item.	various

<i>Amendment to Prime Minister's Order on CMA Supervisory Authority</i>	IOSCO Principle
Amend Article 9 to make clear that a member of the Board of Directors may not be dismissed except for one of the reasons listed in the Article. State that any dismissal notice must give the reasons for the dismissal. Delete item 8 (jeopardising the interests of the CMA). Insert "or" after the penultimate item.	2
Article 9 should also state that any dismissal must be effected by a written notice that should include the grounds for dismissal and state that a person aggrieved by a dismissal decision may appeal to the court.	2

<i>Amendment to Ministerial Order on Inspection and Investigation</i>	IOSCO Principle
If the Order is going to refer to paragraphs by number, then the paragraphs should be numbered.	
Delete the repealing provision in Article 12. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendments. Alternatively state that, in the event of a conflict with any provision of a previously enacted Order or Regulation, the provisions of the Order should prevail.	various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 3 should have the word "and" inserted after the penultimate item.	various
Amend Article 10 to state that: a) A licensed person is required to disclose any information, confidential or otherwise that the CMA may reasonably require for the performance of its functions. b) A person who is exempted or not licensed is required to provide information, whether confidential or not only if: I. The CMA has determined that there are reasonable grounds for believing that a breach of the Law or Regulations has occurred; and II. The person has information that the CMA reasonably requires for the purpose of investigating that breach c) The information that a person should be required to give may be in the form of books, records, documents, whether stored in paper electronic or other form; d) The CMA may require the person to submit for interview and or make a statement; and e) It should be an offence to fail to comply with a request by the CMA properly made under this provision.	11 13
Amend the recitals to include the CIS Law.	24
Include an Article that gives the CMA the power to require an issuer to give information where it has reason to believe that there may be a breach of the issuers obligations.	17
Define the scope of the Order so that it applies to everyone conducting capital markets business as defined in the CM Law and to CISs and their functionaries as defines in the CIS Law and to others engaged in capital markets business as defined in the Order (i.e. to include issuers and unlicensed persons in the circumstances defined in the CM Law and the Order.	16 17 24

<i>Amendment to Ministerial Order on Inspection and Investigation</i>	IOSCO Principle
<i>Amendment to Public Offer Regulation</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 26. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Delete the reference in Annex 1 to issuers not seeking a listing on a securities exchange, since the Regulation does not apply to such issuers.	Various
Amend Articles 7 – 9, 19 and Annex I, to state that a person making a public offer, where a listing is sought, should comply with the Registrar General's instructions. Include in these Articles only requirements that are <u>additional</u> to those in the Registrar General's Instructions.	16
Amend Annex I to remove any reference to an offeror who is not seeking a listing, since these will be covered by the Registrar General's Instructions.	16
The CMA should review the EAC Directives to determine if any further amendments should be made to the Regulation to achieve compliance with the Directive	EAC

<i>Amendment to Registrar General's Prospectus Instructions</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 33. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Review the Registrar General's Instructions so as to eliminate inconsistencies with the Public Offer Regulation and to include all the Core Requirements for any public offer and ensure that the provisions are consistent with the EAC Directives on public offers and the and the IOSCO report on IOSCO's International Disclosure Standards for (i) Cross-Border Offerings and Initial Listings by Foreign Issuers and (ii) Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers	16 EAC
The CMA should review the EAC Directives to determine if any further amendments should be made to the Instructions to achieve compliance with the Directive	EAC

<i>Amendment to Licensing Regulation</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	
Delete the repealing provision in Article 28. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Where there is a list of items, always use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. This is done in some Articles (Articles 19 and 20 for example) but not in others. The Regulation should be consistent.	Various
Amend Article 1 to remove the reference to "guidelines". Insert the word "standards".	29
Review the licence categories as described in the Regulation and ensure that they match those in the CM Law, for example (and this list is not necessarily exhaustive) a) Include licence criteria for custodians; and b) Decide if the licence criteria for intermediaries is for brokers and dealers; and separately (single capacity) or for broker/dealers (dual capacity and amend the Regulation accordingly.	29
Determine what CMA policy is to the legal form of an intermediary and state this in the Regulation (for example, the CMA may conclude that all intermediaries, apart from advisers, should be legal persons).	29
For each licence category state the criteria that applies to: a) The applicant (normally a legal person) – where the CMA will be examining the balance of skills available to the applicant in relation to its stated business, the level of financial resources and the regulatory or disciplinary history of the legal entity (if any) b) The senior management, where the CMA will be stating the minimum qualifications and experience for specified posts, the required level of financial standing (no bankruptcy and good bank references) and integrity (the items listed in Article 27(a) – which will need to be amended since most of the criteria cannot, as the Article purports to claim, apply to corporate bodies; and c) The owners, where the criteria are broadly the same as for senior management except that the competence requirements can relate to general business experience rather than specific capital markets qualifications and experience.	29
Review the licensing criteria and ensure that the list of information in Annex 1 matches the criteria.	29
Remove the deadlines for considering applications for licenses and approvals	29 33
Introduce a new provision that stipulates that any licensee must give the CMA advance notice of any decision to appoint a new person to a senior management post or where it is envisaged that there should be a change in owner and should not proceed until the CMA have given approval.	29

<i>Amendment to Licensing Regulation</i>	IOSCO Principle
Amend Article 26 to ensure that a licensee must be displayed in a way that includes the status of a licence and the names of senior management and those authorised to act in the name of the intermediary.	29
Amend the capital requirement for each licence category so as to: a) Include a mechanism for adjusting the level of capital so that the minimum required capital is sensitive to the nature and quantity of risk (e.g. that capital requirements should include an element for operational, market, foreign exchange and counterparty risk; b) Include a liquidity requirement (for example, that liquid assets (defined as cash, bank accounts and tradable securities that are not pledged or otherwise encumbered should be equal to the equivalent of three months expenditure under the budget for the forthcoming year, or actual expenditure in the previous year, whichever is less); and c) Clarify the drafting of the minimum capital requirement so as to state that the actual capital (namely the difference between the assets and liabilities must be equal to or greater than the stated minimum capital requirement in the Regulation.	30
Amend the capital requirements for investment advisers, investment managers and investment banks so as to give the CMA the power to increase capital on the same basis as currently exists for other intermediaries.	30
Amend Article 7 to include appropriate criteria for exchanges as follows: a) The legal form of the exchange; b) A requirement that the exchange will be operated in a way that protects the interests of the investors and the capital market; c) The operational competence of the operator of an exchange or trading system; d) The governance of the exchange; e) Rules that are consistent with the Exchange Regulation f) The adequacy of the proposed internal procedures; g) The prudential or other requirements relating to the risk of non-completion of transactions that must be put in place by an exchange that assumes settlement risk, or by the clearing house to whom it delegates that function; h) The human, technological and other resources of the exchange; i) The minimum financial requirements; j) The degree of pre and post trade transparency; and k) The ability and willingness of the exchange to comply with the obligations set out in the Exchange Regulations.	33
Amend the Licensing Regulation to clarify that the fit and proper standards apply separately to: a) The applicant (normally a legal person) – where the CMA will be examining the balance of skills available to the applicant in relation to its stated business, the level of financial resources and the regulatory or disciplinary history of the legal entity (if any) b) The senior management, where the CMA will be stating the minimum qualifications and experience for specified posts, the required level of financial standing (no bankruptcy and good bank references) and integrity (the items listed in Article 27(a) – which will need to be amended since most of the criteria cannot, as the Article purports to claim, apply to corporate bodies; and	33

<i>Amendment to Licensing Regulation</i>	IOSCO Principle
c) The owners, where the criteria are broadly the same as for senior management except that the competence requirements can relate to general business experience rather than specific capital markets qualifications and experience.	
The CMA should review the EAC Directives to determine if any further amendments should be made to the Regulation to achieve compliance with the Directive	EAC

<i>Amendment to Conduct of Business Regulation</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 34. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Amend the Regulation to remove references which are not relevant to Rwandan Laws, such as (this list is not exhaustive): All references to a "firm" should be deleted and the term "licensed or approved person" substituted – since this is the term used in the CM Law.	10
Amend Article 16 to create an obligation on a licensed or approved person: a) Where the client is a natural person, establish whether or not that person is acting on behalf of someone else (and if so, establish and verify the identity of that person); and b) In all other cases, establish: i. The identity of the person authorised to act on behalf of the client; and ii. The beneficial owner of the client It will also be necessary to include a definition of the beneficial owner in Article 2.	11
Amend Article 32 to provide for an automatic, non-discretionary fine that increases with every day that a periodic report is late and is applied to any failure to meet any reporting deadline set in the Regulations	29
Amend Article 4 to: a) clarify the drafting of the minimum capital requirement so as to state that the actual capital (namely the difference between the assets and liabilities) must be equal to or greater than the stated minimum capital requirement in the Regulation; b) stipulate that a calculation of capital should be undertaken daily and a record kept on the file; c) stipulate that a licensee should report to the CMA as soon as capital requirements fall below 120 per cent of the minimum or falls by more than 50 per cent since the last quarterly report.	30
Amend Article 5 to include a requirement that a licensee should conduct a risk assessment no less frequently than annually and should communicate that assessment to staff.	31

<i>Amendment to Conduct of Business Regulation</i>	IOSCO Principle
Amend Article 32 to require an intermediary to supply periodic reports that include the following, in addition to the matters already required: a) <i>Annually</i> i. Submission of internal policies and procedures; ii. Submission of intermediary's risk assessment; iii. Submission of template client agreements; iv. The internal audit plan; v. A list of internal audit reports received; and vi. The management letter prepared by the external auditor. b) <i>Quarterly</i> i. A confirmation that daily client account reconciliations and capital calculations have been made; and ii. A confirmation that the capital of the intermediary was above the minimum throughout the quarter.	31
Amend Article 32 to clarify that: a) the quarterly submission of complaints data should include the number of complaints received, resolved (either accepted or rejected) and outstanding; and b) the business data report should include the latest data for all the items in the business plan that was submitted at the time of licence application (with the exception of the bank and business references); c) the compliance report should include all reports made to the Board by the Compliance officer during the quarter and the minutes of Board discussions of that report, together with evidence of action taken to follow up the recommendations in the report.	31
Amend Article 32 to clarify that the following matters should be reported to the CMA at least four weeks in advance of their occurrence: a) any change in the name, business name (if different), business address, or nature of business, including any decision to withdraw from any area of business; b) any new appointments to the key personnel; c) any change to the external auditor; d) any decision to seek a licence from another regulatory authority in Rwanda or abroad; e) any change to its financial year and hence to its annual reporting date; f) any change in controller or shareholder; g) a substantial acquisition; h) any change to its premises and any new premises it may acquire; i) any other material change in the information supplied in any application for a licence or any other matter; or j) a decision to surrender its licence.	31
Amend Article 32 to clarify that the following matters should be reported to the CMA immediately the licensed person becomes aware of them: a) any event which could reasonably be expected to affect the CMA's assessment of the ongoing fitness and properness of the licensed person, its owners or senior management; b) a breach of the regulatory requirements applicable to the market intermediary or a change, misstatement or error in any of the information provided to support the licence application that might reasonably be expected to affect investors' interests	31

<i>Amendment to Conduct of Business Regulation</i>	IOSCO Principle
or the CMA's assessment of the ongoing fitness and properness of the market intermediary, its owners or senior management; c) any concern by the market intermediary that it may not be able to meet obligations, including obligations to clients, as they fall due; d) any shortfall in the funds held in the client account as compared with the total obligations to clients; e) any discrepancy between the records of assets held on behalf of clients and the evidence held of legal title to those assets; f) any inability to comply with any instruction or direction of the Authority imposed in accordance with the Law or Regulations; g) any fraud on the market intermediary (including a fraud that affects money or assets held on behalf of clients) by any person including, inter alia its employees or clients; h) any disciplinary action against any of the staff of the market intermediary; i) any investigation, finding or conviction relating to the market intermediary, any of its owners or senior management by a law enforcement authority, regulatory authority or professional association; j) any civil claim against the market intermediary in excess of 25% of the market intermediary's minimum financial resource requirement; or k) any litigation instigated by the market intermediary.	
Amend Article 3 to give the CMA the power to impose additional requirements that may be necessary to ensure that an intermediary that wishes to offer its services throughout the EAC will meet the obligations required by the EAC Directive.	EAC
The CMA should review the EAC Directives to determine if any further amendments should be made to the Regulation to achieve compliance with the Directive	EAC

<i>Amendment to Takeover Regulation</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 49. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Include provisions giving a "right of squeeze-out" (where the offeror holding 90% of voting shares is able to require the holders of the remaining shares to sell him those shares at a fair price), or the "right of sell-out" (where the holder of the remaining shares is able to require the 90% holding offeror to buy his shares from him at a fair price).	17
Amend Article 47 so that it refers to the supervision and investigation powers granted under the Law regulating capital markets (the Law establishing the CMA does not include supervision powers)	17
The CMA should review the EAC Directives to determine if any further amendments should be made to the Regulation to achieve compliance with the Directive	EAC

<i>Amendment to Regulation on Enforcement Guidance</i>	IOSCO Principle
If the Regulation is going to refer to paragraphs by number, then the paragraphs should be numbered.	Various
Delete the repealing provision in Article 39. Preferably, Parliamentary drafters should identify any conflict with previous legislation (which given the relatively recent developments of capital markets, should not be very onerous) and make specific amendment. Alternatively state that, in the event of a conflict with any provision of a previously enacted Regulation, the provisions of the Regulation should prevail.	Various
Where there is a list of items, use the conjunctions "and" or "or" as appropriate to make it clear if all of the items apply or, if any one of them may apply as circumstances dictate. For example, the list in Article 5 should have the word "and" inserted after the penultimate item. The list in Article 10 should have the word "or" inserted after the penultimate item.	Various
Amend the Regulation to remove references which are not relevant to Rwandan Laws, such as (this list is not exhaustive): a) the requirement for external legal review (Article 15 – which is not feasible for CMA at present) b) the appointment of a skilled person (Article 17 – which is a power not included in Rwandan legislation), c) the reference to agreed guidelines (Article 21 – there are no such guidelines); d) The reference to contempt of court (Article 27 and 31) – the Rwandan legislation creates specific offences for failing to co-operate with an investigation; and e) The reference to settlement (Article 34 et seq) it is not clear if the CMA has the power to enter into settlement on the basis described).	4
Introduce a new Article that states that the CMA: a) will always make public any action or policy decisions it may take (including enforcement actions) where these affect the market or the interpretation of the regulatory requirements; b) will always give full reasons for any decisions that may adversely affect an individual and that such reasons would provide a sufficient basis for the individual to make focussed representations to the CMA itself and the review panel if necessary; and c) will always give individuals the right to make representations about a decision to the CMA before the decision is implemented, unless the CMA finds and documents its reasons for so finding,, that a decisions must be implemented immediately in the interests of investors or the market and that, in such a case, the representations may be made as soon as possible thereafter.	2

<i>New Regulation on Exchanges</i>	IOSCO Principle
A new Regulation on exchanges should have the following elements	33
a) The provision of a fair, transparent and efficient market in securities; b) Appropriate exchange corporate governance requirements to include measures to ensure the prudent management of the risk associated with the exchange and	35

<i>New Regulation on Exchanges</i>	IOSCO Principle
adequate internal procedures and controls designed to manage the risks and meet the exchange's obligations; c) Operation of the exchange in compliance with the Laws and Regulations and in a manner that does not bring the capital markets in Rwanda into disrepute d) The maintenance of minimum financial requirements to be prescribed by the CMA; e) The maintenance of operational capacity including: i. adequately equipped premises, ii. adequate, skilled staff; iii. robust IT systems (with appropriate contingency arrangements for operational failure); and iv. surveillance technology that permits the person operating the exchange to monitor the market in real time, monitor compliance with trading rules and detect trading patterns that might indicate market misconduct, financial crime or money laundering; v. effective use of the technology to monitor and analyse trading activities; vi. the ability to suspend or halt trading in securities where appropriate or where required to do so by the Authority; and vii. other mechanisms for dealing with disorderly trading conditions; f) The publication of such information to the market as may be necessary to ensure transparency and fair treatment to investors and this information shall be provided on an equitable basis to all similarly situated market participants and shall include inter alia: i. the exchange rules; ii. the exchange order routing and other procedures; and iii. completed transactions and other trading information. g) Appropriate arrangements for clearing and settlement; h) The publication of Rules which provide for: i. Appropriate criteria for participation in the exchange; ii. Obligations on participants to comply with Rules, submit to investigation by the exchange operator and accept enforcement measures properly imposed by the exchange operator; iii. The equal and fair treatment of all participants and the management of conflicts of interest; iv. Appropriate criteria for determining the securities to be listed on the exchange, which include criteria relating to the issuer, the form and design of the securities and the nature of the public offering; v. Appropriate trading rules that provide for pre and post trade transparency, the conditions under which trading takes place, the matching and execution of bids and offers and procedures for dealing with market disruptions vi. Appropriate risk management procedures designed to minimise the risk of non-performance of transactions; vii. A mechanism for resolving disputes and dealing with appeals against exchange decisions; viii. Mechanisms for identifying and dealing with disorderly markets or conduct, including the imposition of trading halts as appropriate; ix. Procedures for removing securities from the official list and protecting investors when so doing; x. Transparency and adequacy of default procedures, where a participant fails to deliver either cash or securities on settlement day;	

<i>New Regulation on Exchanges</i>	IOSCO Principle
xi. Obligations on listed companies with respect to business conduct and disclosure; and xii. Measures to reduce the risk of market abuse. i) The identification and management of conflicts of interest within the exchange and between the exchange and market participants; j) Procedures to include surveillance activity on the market to deter and detect fraudulent practices; k) Supervision of members (and their employees) to ensure compliance with regulatory obligations and prevent fraudulent behaviour; l) Pre trade controls to enable risk management by participants; m) Transparency and fairness of fees and charges; n) Protection of confidentiality; o) Co-operation between exchanges that trade linked products (there are no other exchanges in Rwanda with products linked to those on the RSE but there are cross listed stocks that are also traded on other EAC exchanges); p) Record keeping, including records that allow the reconstruction of any trades, that cover the exchange's finance, administration and operations, including its supervision of the market and market participants and are sufficient to demonstrate compliance with the exchange obligations by the exchange; q) Access to any records kept by persons to whom exchange functions may be delegated; r) The maintenance of proper financial statements and external audit; and s) Relations with the CMA, which should include: i. A general obligation to co-operate with the CMA and to provide such information and assistance as the CMA may require; ii. An obligation to comply with any direction that the CMA may impose; iii. A requirement to seek CMA approval to any Rules, any change to the Rules and to amend the Rules if so instructed by the CMA; iv. A requirement to seek CMA approval to the nature of products traded on the exchange; v. An obligation to report to the CMA regularly with respect to financial information and any other matter the CMA may require; vi. An obligation to report to the CMA immediately if any one of a range of specified events occur, such as a change in the information on which the CMA relied to approve the exchange, any material breach of the Rules by a member and any disciplinary measures imposed on members, any litigation, any significant deterioration in financial requirements; and vii. An obligation to comply with any CMA inspection or investigation into alleged breaches of violations of exchange obligations and comply with any enforcement action that the CMA may properly impose where this includes an administrative fine, a statement of censure, a requirement to remove a specific officer, a restriction on exchange activities, a change to exchange operational procedures, or a condition on a licence.	
The Regulation should also include reporting requirements to the CMA as follows: a) <i>No less than 4 weeks in advance:</i> i. Any change in business address; ii. Any change to the rules;	33 35

<i>New Regulation on Exchanges</i>	IOSCO Principle
iii. Any new appointments to senior management positions; iv. Any change to the external auditor; v. Any change in the reporting year; vi. Any substantial change to capital; and vii. Any material change to information supplied when the application was made for approval; <i>b) Annual</i> i. Financial statements; ii. A list of senior management and owners; iii. Market report; iv. Applications for membership; v. The exchange risk assessment; vi. Compliance reports; vii. A list of internal audit reports; and viii. Its Business Plan; <i>c) Quarterly</i> i. Management accounts; ii. Market report; iii. Complaints received resolved and outstanding; iv. A description of supervision activities including on-site inspections, investigations and sanctions; and v. A description of market surveillance activities, including the number of investigations; <i>d) Immediately</i> i. Any event which could reasonably be expected to affect the CMA's assessment of the ongoing fitness and properness of the exchange, its operator, owners or senior management; ii. any serious failure of the exchange systems; iii. any event that may interfere with the ability of the exchange to carry out its responsibility to enforce its rules; iv. a material failure by the exchange operator to meet its responsibilities (including its regulatory requirements) and any material change in any of the information provided to support the initial application that might reasonably be expected to affect investors' interests or the CMA's assessment of the ongoing fitness and properness of the exchange, its owners, or senior management; v. a reduction in financial resource requirements below 120% of the minimum specified in these Regulations or a reduction of 50% since the previous report to the CMA; vi. any concern by the exchange operator that it may not be able to meet obligations as they fall due; vii. any inability to comply with any instruction or direction of the Authority imposed in accordance with the Law and Regulations; viii. any misstatement or error in any return or application previously submitted to the CMA of which the exchange operator becomes aware; ix. any fraud on the exchange or its members or participants by any person; x. any disciplinary action against any of the exchange staff; xi. any investigation, finding or conviction relating to the exchange, its owners, senior management or staff by a law enforcement authority or professional association;	

<i>New Regulation on Exchanges</i>	IOSCO Principle
xii. any regulatory finding that may reasonably be expected to affect the CMA's assessment of the continuing fitness and properness of a member, of or participant, in the exchange; xiii. any civil claim against the exchange; or xiv. any litigation instigated by the exchange operator.	
Review the RSE rules to ensure compatibility with the EAC Directive on Admission to trading and, if necessary require an amendment to those rules to ensure consistency with the Directive.	EAC
The CMA should review the EAC Directives to determine if any further amendments should be made to the Regulation to achieve compliance with the Directive	EAC

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
The Law on CISs contains many provisions where the detailed requirements must be defined in Regulations. No Regulations have yet been issued. The CMA has sought assistance from a local law firm in the drafting of CIS Regulations. However, the draft prepared by the law firm is unusable. The first part of the draft Regulation has been copied from the draft Maldives CIS Act. It is therefore not a Regulation at all, but a draft Law. Since Rwanda already has a CIS Law in place, most of the provisions in the substantive text are duplications of what is already in place in the CIS Law without adding any further detail. There are many references to the "CMDA", "the Maldives", "the Ministry of Finance and Treasury" scattered throughout the text. The draft has numerous references to more detailed provisions being in Regulations. But since this draft is supposed to be the Regulations, this is where those detailed provisions should be. The second part of the draft consists of a series of schedules about what should be in constitutive documents. These schedules also come from the Maldives but in this case they do come from Regulations and contain some potentially useful material. Unfortunately, the draft omits those parts of the Maldives schedules that deal with conduct of business. Moreover, the Maldives structure for CISs is a little different from that defined in the Rwanda CIS Law. The Rwandan CIS Law envisages three different types of CIS: a mutual fund company, a unit trust and a contractual scheme. Each has different governance structures that are outlined in the Law and would have to be filled out in Regulations. The Maldives Law only envisages two kinds of scheme (companies and trusts) and do not have contractual schemes. This leaves a serious gap. Moreover, the draft removes some of the useful distinctions in the Maldives Regulation between closed and open ended CISs and many of these provisions simply do not make sense. The terminology in the draft is quite different from that in the CIS Law. For example, the CIS Law states that whoever establishes and operates a trust is a promoter. It also states that a mutual fund company is both the fund itself (in corporate form) and the scheme manager. For contractual schemes, the CIS Law requires a scheme management company. These are	24-27

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
responsible for overall governance (for unit trusts the CIS Law introduces the concept of the Board of investors agents). However, the draft Regulation uses the term investment management company or asset manager. In many cases it is just not possible to see how these terms relate to those in the CIS Law. Some of the detailed provisions are similar to but inconsistent with those already in the Law, for example the record retention period in the draft Regulation is 5-6 years: in the Law, it is 10 years. It is simply not worth seeking to amend this draft, which is misconceived in concept and executed apparently without comprehending the fundamental structure of the Rwandan Law. Instead, the CMA should start again.	
Because the CIS Law makes frequent reference to Regulations, it is important that the Regulation should contain provisions relevant to these Articles in the Law. The Regulation should therefore cover the following matters: a) The minimum frequency of redemptions (Article 2 definition of open ended scheme); b) The definition of the role of investors' agent and trustee (Article 2), the obligations of investors' agents and the nature of the relationship between agents, directors and investors (Article 9), the appointment of investors' agents, the requirements for such appointment, the code of ethics and rights and responsibilities of agents and investors in a unit trust scheme (Article 27); c) The modalities for supervision (Article 4); d) The requirements for establishing a trust for a unit trust scheme (Article 9); e) The share capital for a CIS (Article 11) or reserve fund requirements (Article 50) ; f) The period of validity of a certificate of scheme registration (Article 13); g) The conditions to be satisfied for a CIS seeking registration (Article 13); h) The essential features of the separate contracts between the custodian, on the one hand and the investment manager on the other respectively with the Directors of a mutual fund company, the Managing Director of a contractual scheme and the investors' agents of a unit trust (Articles 16 and 18); i) The detailed requirements for the segregation of scheme assets (Article 18); j) The procedure for licensing, granting or denying applications for licensing of a CIS, the investment manager or custodian (and, presumably, the criteria for licensing such functionaries as well as the criteria and procedure for the other functionaries of a CIS (Article 19); k) The licensing fees (Article 19); l) The general responsibilities of the officers of a contractual CIS, the general responsibilities of equivalent officers in other forms of CIS (Article 27) and the responsibilities of Governors of CISs (Article 29); m) Risk management standards for scheme Governors (Article 31); n) The nature and form of reports to the CMA by auditors (Article 32); o) The requirements for the disclosure of constitutive documents of a CIS (Article 33), the procedures for amending the constitutive documents (Article 34) and the required content of the constitutive documents (Article 43); p) Provisions for investment policies (Article 35) and scheme assets (Article 36); q) Valuation methods (Article 39); r) Record keeping requirements (Article 44); s) Requirements for disclosures to investors about their investment in a CIS (Article 47); t) Factors to be taken into account when selling scheme assets in circumstances of wind up (Article 54).	24-27

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
The Regulation should define the criteria for approving a CIS, including the following: a) It complies with the Law and Regulation; b) Its prospectus includes all the matters required by the Regulation; c) Its formation documents comply with the Regulation, where a company, trust or contractual scheme; d) The investment manager and custodian are separate from each other in the manner described in the Regulation; e) The name of the scheme is not undesirable or misleading; f) The arrangements for subscription and redemption are satisfactory; g) The functionaries are properly licensed; h) The scheme has available to it the human and technical resources necessary for efficient operation, and for the performance of its required functions; i) The scheme has appropriate internal controls and risk management procedures, which enable it to identify and manage risks; j) The scheme Governors are fit and proper, in that they have the appropriate, specified experience and qualifications, sound financial standing and integrity – as defined in Article 27 of the Licensing Regulation.	24
The Regulation should include criteria for all functionaries that deal with: a) The fitness and properness of the licence applicant: namely the balance of skills available to it, the capital requirement and a clear regulatory history; b) The fitness and properness of the senior management, namely the qualifications and experience required, the financial standing and integrity (determined on the same basis as is described in Article 27 of the Licensing Regulation); c) The fitness and properness of the owners – which should be broadly similar to that of the senior management except for the need for specialist knowledge of CISs.	24
The Regulation should describe the functions and duties of the scheme Governors	24
The Regulation should clarify that a custodian should be separate from the investment manager and clarify that this means that they should not be members of the same legal group.	24
The Regulation should state the procedure for obtaining approval for any material changes to the constitutive documents and clarify that no such changes should be made without investor and CMA approval.	24
The Regulation should state the record keeping requirements, which should include a general obligation on the Governors to keep records that: a) Demonstrate the financial position of the scheme; b) Give full details of any transactions undertaken by the scheme; c) Provide a basis for assessing the balance sheet, income and expenditure and profit and loss of the scheme; d) Demonstrate compliance with the Law and Regulation.	24

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
The scheme Governors should be under the following obligations with respect to conflicts of interest: a) Have a policy on identifying and managing conflicts of interest; b) Keep a register of conflicts of interest; c) Manage conflicts of interest; d) Train staff and ensure that functionaries of the scheme train their staff in identifying and managing conflicts of interest.	24
The Regulation should give detail on what is meant by the requirement that a scheme should agree transactions at the best price.	24
The Regulation should include operational conduct standards for CISs such as: a) A prohibition on churning; b) Allocation of transactions; c) Related party transactions; d) Underwriting arrangements e) Setting and disclosure of fees and charges; f) Due diligence in the selection of investments.	24
The Regulation should set standards for the outsourcing of functions by the Scheme Governors and should state that: a) The Governors remain responsible for outsourced functions; b) The Governors should agree a service level agreement with the delegatee to whom functions are outsourced; c) The Governors should retain the capacity to take back the outsourced functions or transfer them to another delegatee; d) The Governors should monitor the performance of the delegatee; e) The Governors and the CMA should have full access to all the records of the delegatee; f) The delegatee should abide by all the relevant requirements of the Regulations including record keeping and conflicts of interest.	24
The Regulation should define the rights of investors – whether in the contract for a contractual scheme, or for any other scheme. These should include: a) The right to be consulted before any material change is made to the constitutive documents; b) The right to redeem the investment (with terms explaining the circumstances under which this may be suspended); c) The rights associated with the units; d) The right to obtain information on the method of valuation, the methodology for determining pricing, the price at which redemptions shall be made, and any other information material to a decision on whether or not to invest in or disinvest from the Scheme.	25
The Regulation should describe the limitations on the investment policy of a CIS and should cover the following matters: a) A requirement that the investment policy should be described in sufficient detail that enabled an investor to understand the nature and risks of the securities in which the scheme would be invested;	25

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
b) Any limitations on the extent of borrowing (typically limited to 10 per cent of the NAV); c) Any requirements designed to ensure that the scheme is diversified (for example that no more than 5 percent of the scheme NAV should be invested in any securities issued by a single issuer (subject to exceptions, such as for Government securities, "funds of funds" or "feeder funds" as the CMA may consider appropriate;; d) A restriction on investment in asset in which the investment manager or custodian has an interest, unless this interest is disclosed; e) Limitations on the extent of investment in derivative instruments; f) A requirement that most of the NAV should be invested in listed securities; g) Prohibitions on investing in real estate or in lending money (other than by purchasing a debenture); h) A prohibition on investing in any security that involves the assumption of unlimited liability.	
The Regulation should provide a standard format for a CIS and that the essential features of a scheme should be available in a summary document to be approved by the CMA.	26
The Regulation should include a schedule setting out the minimum contents of the Scheme prospectus.	26
The Regulation should include an obligation on the scheme Governors to prepare an annual report on their activities (to accompany the annual report on the investments held within the Scheme (required by Article 42 of the Law).	26
The Regulation should impose an obligation on a CIS to calculate the NAV on a regular basis and no less frequently than once every two weeks.	27
The Regulation should state that: a) Offer and redemption prices shall be calculated on the basis of the net asset value of the collective investment scheme divided by the number of units outstanding; b) The prices may be adjusted by fees and charges for management of the Scheme; c) The amount or method of calculating such fees and charges shall be clearly disclosed in the prospectus; d) The audit of the Scheme shall include the valuation.	27
The Regulation should state how investments should be valued when there is no current market price available, for example: a) By employing an independent valuer for assets; or b) By applying a stated discount for every day since a price was last determined by supply and demand on a recognised market.	27
The Regulation should cover the pricing of units in a Scheme and cover, for example: a) Whether there should be single or dual pricing (or whether this is to be left to the investment manager or administrator with proper disclosure; b) That the price should be based on the NAV on the day of a subscription or redemption and not on the NAV at close of business on the previous day);	27

<i>New Regulation on Collective Investment Schemes</i>	IOSCO Principle
c) The price should be published on a regular basis and no less frequently than one every two weeks; d) Any errors in pricing should be corrected by the investment manager using the manager's own resources, so that neither investors who redeemed or subscribed at the erroneous price should be disadvantaged and there should be no loss to the overall assets of the Scheme	
The Regulation should state that the prospectus should disclose any circumstances where there may be deferrals in the redemption rights, place limits on the length of such deferrals. It should create an obligation on the Governors to inform the CMA of any deferrals and give the CMA the right to extend or reduce (including to zero) the number of days during which redemptions are deferred, where it considers such action to be in the interests of investors.	27

<i>Amendment to Office Procedures Manual</i>	IOSCO Principle
The Manual should be reviewed to ensure it is consistent with Rwandan circumstances and practices. For example (this list is not exhaustive): a) There is a reference on page 5 to the use of CISs in Rwanda but Rwanda has no CISs) b) There is a reference on page 6 to professional indemnity insurance (there is currently no requirement in Rwanda for a licensee to have such insurance; c) There is a reference on page 7 to the risk assessment made by the CMA of licensees, whereas at present, the CMA makes no such assessment; d) There is a reference on page 10 to a requirement placed on an intermediary to make daily calculations of the segregation of client assets but there is no such requirement in Rwanda; and e) The items in a periodic report to be examined do not match the matters that should be reported according to Article 32 of the CoB Regulation, for example the Regulation does not require submission of the number of investors or the number of suspicious activity reports (and the reference on page 12 is to complaints being reported annually, whereas the CoB Regulation requires such reports quarterly.	4
The Manual should include a section that emphasises the need for CMA staff to be familiar with the obligations the Law and Regulations place on the CMA and to abide by them – in particular the need to give full reasons for decisions, to inform a person of their right to appeal and to undertake a full analysis of licence applications according to the Licensing Regulation.	4
The Manual should include a section on the methodology and practice of filing papers so that they are available for review by CMA staff.	12
The Manual should include a section on the procedure for assessing Licence Applications.	29
The Manual should emphasise the importance of taking enforcement action where intermediaries fail to abide by reporting obligations.	29

<i>Amendment to Office Procedures Manual</i>	IOSCO Principle
The Manual should have a section on how to assess capital levels	30
The check list of matters to be submitted with annual and quarterly reports should be updated	31
The Manual should describe the analysis that should be undertaken of intermediaries' procedures manuals, complaints, internal audit, client agreements and client risk categorisation to assess compliance with the CoB Regulation;	31
The Manual should include a contingency plan for the action to take in the event of an imminent failure of an intermediary. The plan should include: a) an allocation of responsibility for immediate decisions, b) a contact list for all those with such responsibilities; c) draft statements to make to the market, to the investors and to the public as appropriate; d) contact details of the officers in other agencies – especially the RSE and BNR, with whom contact should be made; e) A list of early decisions that would have to be addressed; f) A list the relevant powers – for example to make a direction, to impose a condition or to appoint an administrator, with a list of the tests that would need to be passed to enable those powers to be used; and g) draft resolutions of the Board authorising such powers should also be included within the plan. The Manual should also include provisions for the CMA to undertake drills to test the feasibility of the plan.	32
The Manual should include procedures for assessing applications by exchanges, to include assessments of applications to be senior managers or owners of an exchange.	33
The Manual should include a section on the ongoing supervision of exchanges, including the reports to be expected of exchanges and the procedure for conducting an inspection.	34
The Manual should include a description of how to investigate allegations of improper market behaviour.	

<i>Amendment to Administration Manual</i>	IOSCO Principle
The Manual should include a section giving the CMA powers to investigate alleged breaches by staff.	5
The Manual should include an obligation on staff to co-operate with any investigation into alleged breaches of the Manual or Code of Ethics.	5
The manual should instruct staff on the importance of protecting confidential matters and in particular, any information received from foreign regulatory authorities (including the fact that a request from a foreign regulatory authority has been received).	13,14,15

Annex 3: case studies

1. Crowdfunding
2. Botswana
3. Ireland
4. Mauritius

Case study: Crowdfunding

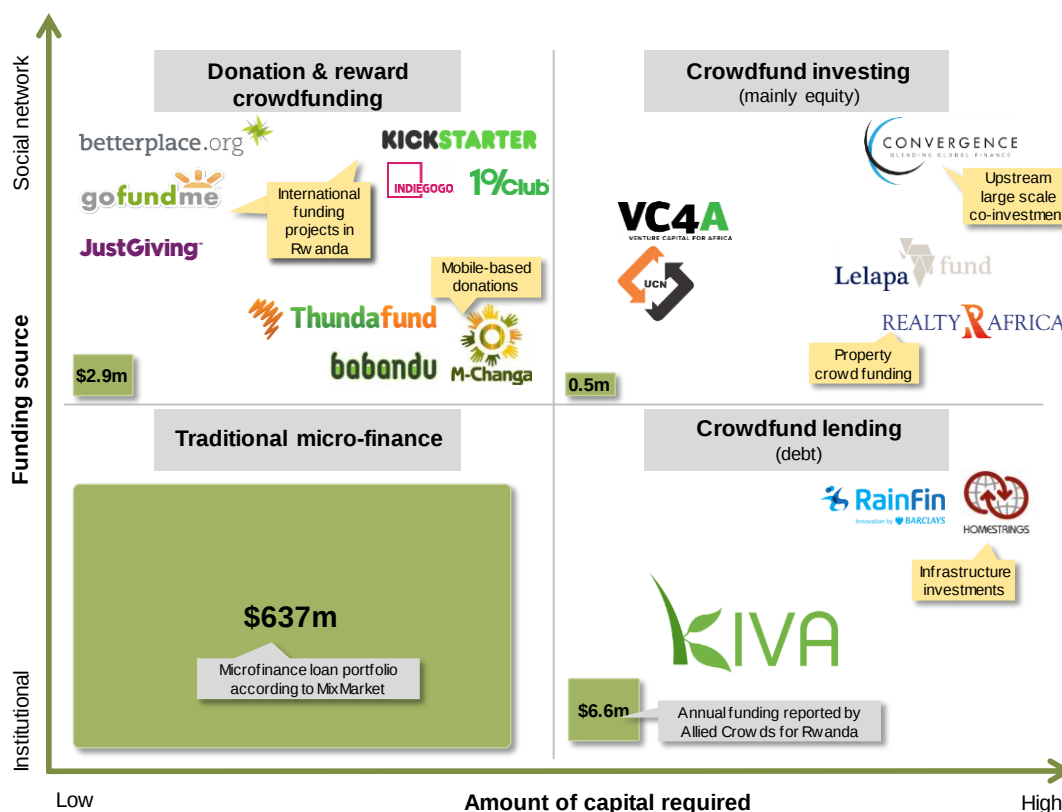
Crowdfunding is a form of raising money from a large number of people, typically through an internet platform for a project or business venture. The money may be raised as donations, pre-purchases of products, debt or equity. It is seen as a potential alternative source of finance to support smaller, younger firms in their growth stage and to close the SME financing gap.¹²

According to the World Bank, developing countries in Africa are among the lowest performers worldwide in terms of utilising crowdfunding – out of a total estimated global market of \$16 billion African funding totals only \$70 million (of which \$54 million arises from Kiva alone). As the Figure below shows, the market in Rwanda is estimated at around \$8.7 million annually; where the bulk of funding arises in the form of debt, followed by donations and then micro-equity.

Though the market for equity crowdfunding is still very small it has significant potential as a mechanism to finance SMEs in Rwanda that have a proven business plan but that lack access to appropriate finance, often because they are too small to attract the interest of private equity investors. However, running an equity crowdfunding campaign requires considerable effort, with the risk that it diverts time and energy from running the business. By offering investors a stake in an unlisted company equity, crowdfunding would also create an alternative vehicle to promote long-term savings. According to the Milken Institute¹³, the online platform could also provide a vehicle for facilitating compliance by the SME with regulatory requirements as well as providing useful information to credit bureaus pertaining to the company funded, improving their likelihood of obtaining finance in future.

¹² Milken Institute Centre for Financial Markets (2016) *Framing the issues: developing capital markets in Rwanda*

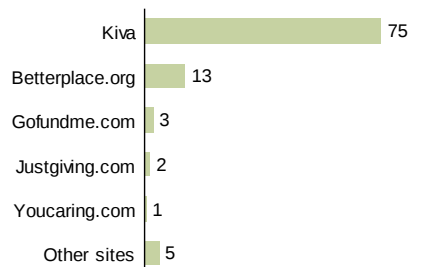
¹³ Milken Institute Centre for Financial Markets (2016) *Framing the issues: developing capital markets in Rwanda*



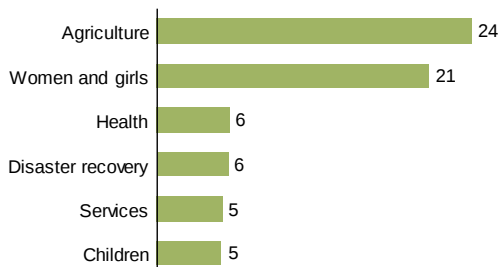
Crowdfunding statistics for Rwanda

Amount raised in the last 30 days	Estimated annual run rate for Rwanda	Estimated number of live projects in Rwanda
\$729k	\$8.7m	223

Estimated market share of top platforms (%)



Top categories of projects financed (%)



Source: MixMarket, Allied Crowds Rwanda Country Profile; Genesis Analytics team analysis; InfoDev (2013) Crowdfunding's potential for the developing world

To realise these benefits and to support the growth of an active crowdfunding market in Rwanda it is important that an appropriate policy and regulatory environment is in place but also that there is sufficient infrastructure and support to foster an entrepreneurial culture in the country.

Drawing from a review of crowdfunding approaches across East Africa the World Bank¹⁴ highlights the following policy, regulatory and infrastructure learnings that may be relevant for Rwanda to consider:

- The legal and regulatory framework must strike an appropriate balance between investor protection and ease of access for small businesses. This is likely to involve setting standards for and licensing platforms; qualification requirements for investors; and reduced prospectus requirements for investment through compliant platforms to qualified investors.
- Appropriate **KYC requirements** need to be in place to ensure that the platforms can adequately raise funding from local retail investors that may lack formal identification but also to raise funding from international investors whose identification standards may be different to those required in Rwanda.
- At the same time **investment protection** and financial education guidelines need to be in place to educate investors of the risks associated with crowdfunding. A 'suitability' test should be introduced to screen for suitable investors.
- A **reporting tool** should be created to allow government to track which organisations receive crowdfunded investment. A standardised reporting model should be introduced for platforms to make the necessary disclosures to this tool.
- Measures need to be put in place to ensure that equity crowdfunding is not used as a vehicle for **money laundering** or the financing of terrorism.
- Bankruptcy legislation needs to be reviewed to ease the burden of **bankruptcy** on early-stage entrepreneurs.
- The regulator needs to be satisfied with the systems utilised to manage transactions of crowdfunded securities. This will require inter alia the use of appropriate **escrow or transfer agents** to provide security over online transactions.

¹⁴ World Bank (2013), Crowdfunding's Potential for the Developing World and World Bank (2015), Crowdfunding in Emerging Markets: Lessons from East African Startups

- Alternative **payment functionality** needs to be offered to cater for different types of investors. This requires the issuer to decide whether it is seeking to raise finance from local investors or international investors (for example, from the diaspora), as different payment mechanisms will be required. This would include mobile money and debit card functionality for local retail investors and credit card and PayPal functionality for international investors.

Case study: Botswana

The challenges of developing a small capital market

Botswana does not stand out as an obvious IFC. Its capital markets are also not very developed. It does however boast an impressive track record of macroeconomic and political stability – it has the highest sovereign credit rating¹⁵ and has been ranked the least corrupt country¹⁶ in Africa. Its economy is surprisingly diversified but historical reliance on diamond mining has necessitated further diversification in services, particularly in the financial sector. Given this attractive investment climate and the need for diversification, the Ministry of Finance and Development Planning established the International Financial Services Centre (IFSC) in 2003.

Drawing inspiration from the Dublin IFSC, Botswana aimed to position the centre as a world class hub for cross-border financial and business services into Southern Africa. Although no physical centre was constructed, a regime of tax concessions accompanied by institutional support was put in place. Companies providing financial services in particular were targeted to receive IFSC incentives – a lower corporate tax rate (15%), zero-rated VAT, exemption from capital gains tax and withholding tax on payments to non-residents and a 20% training rebate – on the condition that they conduct only offshore business in currencies other than the Pula. This ring-fencing between onshore and offshore business requires IFSC accredited companies to establish a separate local entity, subject to ordinary tax rates, if they wish to access the local market. IFSC accreditation is granted by a certification committee that includes representatives from key Ministries and the Botswana Unified Revenue Service (BURS). An important condition for the award of IFSC accreditation is that a company or investor be able to demonstrate local employment potential and value-add to Botswana. Originally, these incentives were put in place with a 'sunset' clause to 2020 – a clause that has since been removed so as not to act as a deterrent for companies considering a domicile under the IFSC regime.

¹⁵ S&P and Moody's

¹⁶ Transparency International Corruption Perception Index 2014

In 2012, as part of a broader effort to rationalise government institutions, the IFSC was merged with the Botswana Export Development and Investment Authority to create the Botswana Investment Centre (BITC).

Through this merger the IFSC regime remained unchanged and today the BITC administers the regime as part of its role as an investment promotion agency, offering, among other services, a “one-stop shop” for foreign investors to provide assistance with registering companies, acquiring foreign work permits, and accessing foreign investment incentives. It is important to note, however, that the BITC does not have regulatory authority over the IFSC incentives.

Since 2003 the IFSC has managed to attract 51 companies, the majority of which are international holding companies (23) followed by investment fund companies (23) and a smaller representation of international banks (3), insurers (1) and BPO companies (1). From a review of the incentives offered by the IFSC and the factors that attract the type international holding companies and investment fund companies¹⁷ the following enablers and stumbling blocks characterise Botswana’s offer.

Enablers	Stumbling blocks
Track record of macroeconomic and institutional stability	Corporate tax incentives are less competitive than those offered by the incumbent Mauritius
“One-stop-shop” approach to licensing and assistance for beneficiaries of the IFSC regime	Narrow network of double taxation agreements (19 compared to Mauritius 43 and South Africa’s 102)
Absence of capital and forex controls; a concern for investors considering a domicile in adjacent South Africa	Limited recognition of modern investment vehicles (protected cell companies and limited liability partnerships)
Rwanda Development Board is empowered with certain regulatory authority that can enhance its effectiveness as an investment promotion agency	Challenges in acquiring work permits for skilled foreign workers
	Network of bilateral investment treaties limited to Switzerland and Germany not of value to holding companies wishing to expand operations into Africa
	Indigenisation requirements (requirement for local office and staff) perceived as restrictive
	Accessibility and size of the local market. The development of Botswana as an air travel hub is constrained by its close proximity to Johannesburg. Botswana’s small and dispersed population (2million people) also limits the attractiveness of the local market to direct investors
	Limited network of support service providers located in Gaborone

¹⁷ FSD Africa, EMPEA, UKAid (2015) *Conduits of capital – onshore financial centres and their relevance to African private equity*

Another feature of Botswana's capital markets that has relevance for Rwanda is the establishment of the Venture Capital board by the Botswana Stock Exchange (BSE) in 2004. This secondary board of what is soon to be a fully demutualised exchange succeeded in attracting a variety of junior mining companies in the years preceding the financial crisis. Though many of these companies maintained a primary listing elsewhere (for example in London or Toronto) these did establish head offices in Botswana and accessed local capital markets. Unfortunately, since the commodity super-cycle came to an end many of these mining companies have since de-listed, leaving only two companies still listed on venture capital board.

Beyond the IFSC the state of the Venture Capital board does indicate the difficulties inherent in finding and sustaining a pool of smaller domestic and foreign companies. The BSE's experience is that this universe is quite small to begin with and also requires significant marketing effort by the exchange to raise awareness of the benefits of listing. Once established, Botswana's experience also points to the need to achieve long-term scale in the market. This is something that could be achieved in Rwanda through the use of structured fund products that pool together these smaller listed companies in an effort to create scale and reduce the risk in a way that attracts institutional investment.

Case study: Ireland

A financial services centre in an integrated regional market

Ireland has similarities to Rwanda as a small economy operating within a larger regional grouping, traditionally based on agriculture, but diversifying, including into services, to support a growing population. The economy has grown rapidly in the 21st century, getting the nickname “Celtic Tiger”. It was badly hit in the 2008-9 financial crisis, largely because of excessive property investment, but has recovered faster than other countries.

Ireland offers a lesson in how a regional capital market can create scale benefits for a small country within a larger region. As a user of capital markets, Ireland has been able to benefit from the economies of scale offered by market infrastructures serving larger markets than it could provide on its own. At the same time, as a producer, it has been able to build an industry serving a much larger market. A lesson for Rwanda is that success in an integrated market is less about developing best-of-breed market infrastructure and more about developing a competence in a specific range of services that attract international investment looking for the most advantageous location within a region.

Ireland's place in a regional capital market

Ireland's economy has been integrated with its larger neighbours for a long time. After independence in 1922, the Irish pound remained pegged to the British pound until 1979. It then floated within boundaries defined by the European Exchange Rate Mechanism until Ireland joined the euro at the outset in 1999.

Partly as a result, Ireland has little of the infrastructure normally expected for a capital market:

- From 1973 to 1995, the Irish Stock Exchange (ISE) was merged with the London Stock Exchange. It now serves primarily as a listing venue. It does not operate its own trading system, as this is outsourced to Deutsche Borse in Frankfurt.
- There is no commodities or derivatives exchange in Ireland, as there is easy access to exchanges elsewhere in Europe.

- There is no clearing house in Ireland, as ISE trades are cleared through Eurex Clearing in Frankfurt.
- There is no CSD in Ireland, as government bonds are settled in Euroclear Bank in Brussels and equities in Euroclear UK & Ireland in London.

Major Irish stocks are usually 'dual listed' on the London Stock Exchange to boost liquidity. Other Irish companies are listed outside Ireland, including more than 50 on AIM and the LSE's main board in the UK.

Ireland as a centre for investment fund domicile

Despite this lack of financial market infrastructure, Ireland has become a leader as a listing location for debt and investment funds and now has over 34,000 issues listed. It is also one of the world's largest centres for the administration of mutual funds, many of which are also authorised in Ireland for marketing across the European Union. It is, in addition, a significant centre for the location of Reinsurance companies and a range of 'special purpose vehicles' used as vehicles for the funding of assets such as aircraft.

This started with the creation of the "Irish Financial Services Centre" in 1987. The IFSC serves a wide range of international business, providing front, middle and back-office services to fund management companies, asset managers, banks and payment service providers, insurers and re-insurers, as well as aircraft leasing and finance companies. The IFSC also services a large local market and is aiming to position itself as a hub for Fintech¹⁸ and BPO companies.¹⁹

The IFSC's rise to prominence is anchored on a number of developments, many of which are common to other offshore financial centres in the attraction of international business, but some of which are unusual.

¹⁸ According to the European Commission, Ireland, together with the UK captures most of the Fintech venture investment occurring in Europe, including 53% of Europe's Fintech deals and over two thirds of total financing in 2013. (European Commission (2014) *Future directions for the Irish Economy*)

¹⁹ Taoiseach (2015) *IFS2020: A strategy for Ireland's International Financial Services sector 2015-2020*

As with many financial centres, the IFSC was set up as a spatially discrete centre, initially with its own streamlined regulatory environment for issuers, close cooperation with major firms and offering tailored tax incentives to attract offshore companies.²⁰

But the Irish IFSC is different from true 'offshore' centres. For example, it no longer has a special tax rate. Companies located in the centre now pay the same, if low, tax rate as other Irish companies. It has substantial regulatory requirements preventing it from becoming a centre for 'brass plate' entities. As a result, the financial entities which locate there bring substantial employment. It also applies the same regulatory rules which apply across the EU and it has no special confidentiality rules.

The Irish IFSC is less an 'off-shore' financial centre depending on secrecy and brass plate companies. It is more of a regional specialist hub for the administration of mutual funds and market listing of wholesale debt instruments. Consequently, the added value back to the Irish economy comes from substantial employment in fund administration and in the professional services which underpin debt listings.

Though Ireland's domestic market is small compared to other international financial centres, it is among the three largest issuers of international structured debt and is the fourth largest domicile for fund management services. At one point, for example, the Irish Stock Exchange (ISE) accounted for 80% of asset backed security issues seeking a listing in Europe²¹. Part of this success has been attributed to the creation of a skilled workforce, the presence of a large network of supporting service providers based in Dublin, a strong network of double taxation agreements which are kept vigorously up to date, a regulator and the creation of a favourable regulatory environment to conduct transactions that were more difficult²² or more capital intensive²³ elsewhere in Europe.

The bigger reason for its success is due to the **entry of Ireland into the EU**. As the result of the development of a single market in Europe for banking, mutual funds, securities issuance and insurance, Ireland was able to develop as a regional centre for back office services.

²⁰ ESPON (2013) *CAEE: The case for agglomeration economies in Europe*

²¹ Dillon Eustace (n.d.) *Listing of specialised debt on the ISE*

²² Tax Justice Network (2015) *Narrative report on Ireland*

²³ IIS (2013) *Low tax financial centres and the financial crisis: the case of the Irish Financial Services Centre*

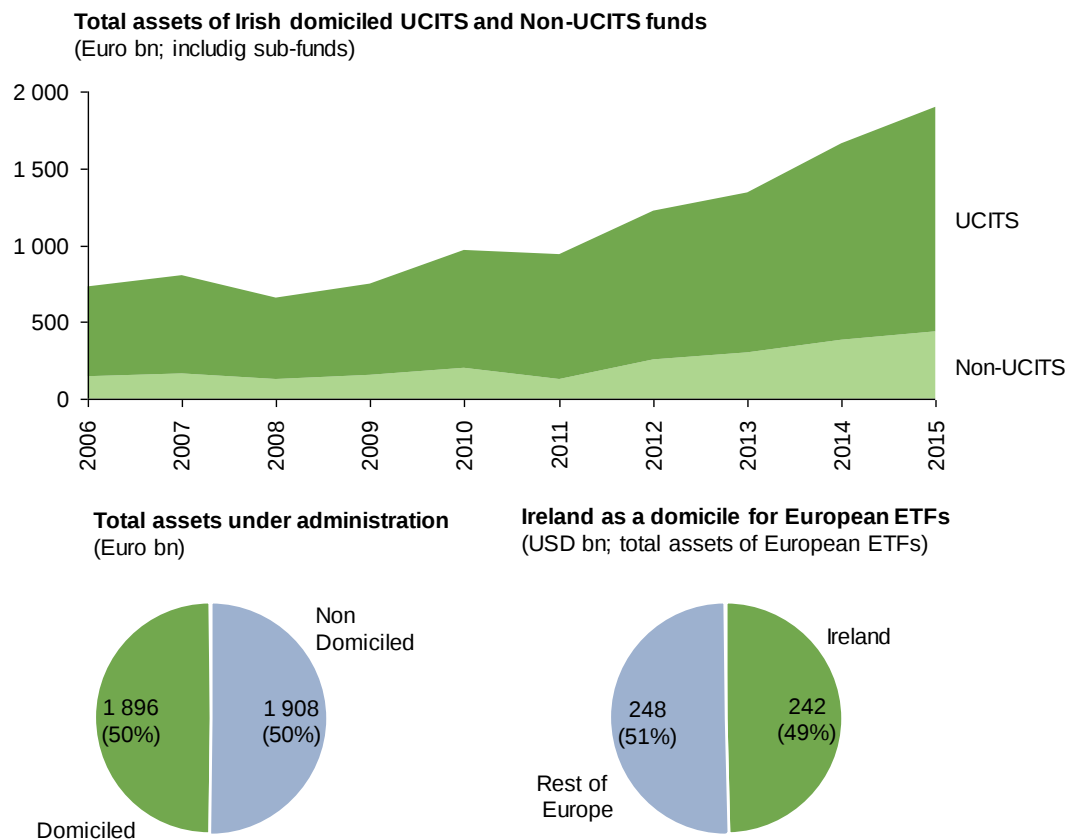
In particular, the European collective investment scheme regime (UCITS) created a key opportunity for a flexible open economy within the European Union when it provided a passport for marketing funds across Europe.

This created an opportunity to domicile funds in one centre that could be marketed across Europe, provided they complied with the rules of the regime. Ireland supplemented this with a non-UCITS regime that provided a 24-hour fast-track approval process for highly leveraged funds and attracted a great deal of US and EU sub-prime funding before the crisis. While this may have produced short-term benefits for the country the European Commission is sceptical whether this particular growth has benefitted the real economy.²⁴

There has been controversy around its role following the 2008-9 financial crisis, as many of the asset-backed securities based on sub-prime mortgages and many hedge funds that subsequently failed were registered in Ireland. Lax regulation was blamed for some of these failures. Ireland has responded to this by increasing the intensity of its regulation and the independence of its regulator. However, it has also maintained its low tax regime and continues to update its local legislation and its network of tax treaties to support its very large financial services sector.

²⁴ European Commission (2014) *Future directions for the Irish Economy*

Figure 1: Overview of the Irish funds industry



Source: Irish Funds (2015) *Industry Monthly Statistics Factsheet*

Nevertheless, the mainstream (UCITS) investment funds business should be distinguished from these controversial aspects and has not been affected by the controversy (see above). Ireland remains one of the two leading European centres for domiciling investment funds of all types that are subsequently marketed throughout the EU. Ireland is hoping to reconfirm its reputation by repositioning the IFSC as a leader in emerging fund services such as compliance and risk management solutions to the financial services industry²⁵ and as an international hub for insurance opportunities arising through the introduction of Solvency II. More relevant to Rwanda's context is the establishment of a **securitisation hub** based in the IFSC that builds on Ireland's track record in asset-based securitisation activity and on planned regional policy initiatives (for example under the Capital Markets Union initiative) to increase non-bank financing to the corporate and SME sector across Europe and into infrastructure projects across the region.

²⁵ Taoiseach (2015) *IFS2020: A strategy for Ireland's International Financial Services sector 2015-2020*

Like Luxembourg (the other leading centre) its success is based on:

- A legal environment that enables different fund structures to be used.
- The EU “passporting” regime that enables qualifying funds to be marketed easily throughout the EU.
- The availability of a wide spread of professional services experienced in the funds business (banks, lawyers, accountants, company secretaries, management companies).
- Expertise in the exchange and regulators that enables them to give short approval times for new funds (as little as 24 hours for funds that can only be sold to professional investors).
- Tax arrangements that mean that profits and income are taxed in the investor’s country and not in Ireland.

Drawing from Ireland’s experience, the following lessons stand out for Rwanda:

- A competitive tax and an enabling regulatory environment are fundamental prerequisites to attract offshore funds, particularly private equity, hedge fund and asset management investment. Without a very low corporate tax rate and a speedy regulatory approval process footloose funds are unlikely to choose Rwanda over more competitive nearby centres such as Mauritius – which also benefit from a very broad range of bilateral investment treaties.²⁶
- Tax and regulatory arrangements alone are important but not sufficient to attract international business. These need access to a deep network of support services, a bespoke licensing regime and specific financial structures such as SPVs that suit their needs.
- The success of the IFSC demonstrates that efficiency and certainty in regulation are key in attracting international business. The presence of annual amendments to the Finance Act in Ireland to make the IFSC more attractive and current with international developments attests to the speed and certainty of the regulatory and

²⁶ FSD Africa, EMPEA, UKAid (2015) *Conduits of capital – onshore financial centres and their relevance to African private equity*

legislative process. Given that Rwanda has already acquired a reputation for institutional stability this could be one such area of competence to develop over the next few years.

- The creation of a securisation centre in Ireland specialising in managing SPVs, establishing securitisation and covered bond programmes and vehicles as well as acquiring, managing and trading portfolios of foreign asset-backed securities may be worthwhile considering in Rwanda. Given the potential for infrastructure-related securitization in the region, it would be worthwhile to support a dedicated process to acquire the necessary knowledge of the techniques and products required, provide leading edge training courses to the local market and create a programme aligned with regional initiatives.

Case study: Mauritius

Factors behind its success as a centre for fund domicile and the extent to which they can be replicated in Rwanda

Mauritius is the preeminent international financial centre (IFC) in Africa. Its incumbency is due to the creation of a business-friendly environment and the use of attractive regulatory and tax instruments that demarcate permissible activities within the centre and establish a specialist offering (in the Global Business company - GBC1 - regime) to attract offshore business. By leveraging Mauritius' tax treaty with India this proposition was initially developed to position the centre as a gateway for investment into the subcontinent. Since then, guided by an expanded tax treaty network, Mauritius has grown into a gateway for investment in Eastern and Southern Africa.

The **tax treatment** of funds and holding companies under GBC1 licensing regime is the cornerstone of Mauritius' success in attracting international fund management business. A Global Business Company licence, the GBC1 regime, is administered by the Financial Services Commission with the support of a large network of management companies – of which there are 151 in Mauritius. Holding a GBC1 licence entitles companies to access the country's wide network of double taxation agreements (43) and foreign tax credits to reduce a company's effective tax rate from 15% (the official corporate tax rate) to 3% (or even less). In addition to this, registered companies are exempt from capital gains tax and from withholding taxes typically imposed on payments to non-residents arising from dividends, interest, royalties and management fees. In spite of what this low tax rate may suggest, Mauritius is not considered a tax haven by the OECD and is a signatory to the Multilateral Convention on Mutual Administration in Tax Matters. According to the IMF²⁷ it has made good progress in implementing FATF AML and CFT guidelines and only requires minor adjustments to be fully compliant with the Multilateral Convention on Mutual Administration in Tax Matters.

In addition to a very favourable tax regime Mauritius stands out as an investment destination because of the breadth of its network of **bilateral investment treaties** with African and foreign countries alike – currently 24 according to the Bank of Mauritius.

²⁷ IMF Financial Action Task Force review of Mauritius.

Jurisdictions with bilateral investment treaties (such as investment promotion and protection agreements) with the countries that multinational companies want to operate in and funds want to invest in are clearly preferred because they provide protection from expropriation and recourse to international arbitration if the value of a foreign investment is affected.

Mauritius also stands out as having affordable and extensive **ICT infrastructure**²⁸, which is critical to international financial services. Where Mauritius has excelled is in the creation of strong network connectivity, data centre capacity and utilisation, cyber-security protection measures, data legislation and access to ICT skills. The ICT industry is not simply a support industry for Mauritius' financial hub but exports services to large markets such as France, the USA, the UK, Belgium, and other European countries – particularly in the business process outsourcing (BPO) market.⁵ ICT is therefore an important source of income and employment, contributing 6.4% of national income and creating 14,747 jobs in 2014.⁶

Mauritius' success as an international financial centre also hinges on its innovative Stock Exchange which has successfully positioned itself as an attractive capital-raising, listing and trading platform for Africa-focused ventures. Leveraging on its unique multi-currency listing and trading platform, its innovative listing framework and Mauritius' thriving global business sector, the Stock Exchange of Mauritius has listed nearly 50 new international securities during the last three years and its pipeline of international listings is growing. The international companies listed on SEM have, during the last five years, raised capital to the tune of USD3 billion to fund their expansion. The SEM is actively positioning itself as a multi-asset class international Stock Exchange and is well poised to become an important regional player in the capital markets space in Africa. SEM currently has 146 securities listed on its two platforms and has a total market capitalisation of USD10.6 billion.

Finally, and in order to attract investment funds in particular, Mauritius put in place **dedicated legislation** to recognise limited liability partnerships and protected cell companies, structures that are not typically recognised in emerging IFCs.

²⁸ According to the WEF Network Readiness Index Mauritius has better and more affordable ICT infrastructure than its two closest African rival IFCs; South Africa and Botswana.

Mauritius' success suggests the following learnings for Rwanda:

- Given how low Mauritius' effective tax rate is for GBC1 companies it is unlikely that Rwanda would be able to create a more attractive tax offering to attract international holding companies or fund management business.
- In the absence of a competitive tax offer Rwanda can however develop other attributes that could make the market attractive in a regional context. The development of a comparative advantage in **ICT infrastructure**, for example, is something that can be replicated in Rwanda provided this is made a national and policy-led priority. Commitment to a clear set of goals and the coordination of government agencies would therefore be required to: i) liberalise the ICT sector, ii) strengthen legislation over ICT, cybercrime, data protection, security, and electronic transactions, iii) reduce termination charges, bandwidth costs and increase network capacity (critical for the development of call centres and BPO companies), iv) Develop an ICT Academy to train school-leavers and graduates on various aspects of financial services-related ICT, and v) adopt an open approach to labour migration and an easy work permit system to attract skilled foreign workers.

What both Mauritius and Rwanda have in common is the surgical targeting of World Bank Ease of Doing Business-type indicators. Following the advice of intermediaries, lawyers and management companies, international investors are very sensitive and reliant on such indices to gauge the **health of the business and institutional environment** in foreign jurisdictions. In order to attract these companies it is important that Rwanda maintain a strategy to retain its high rank and improve its ranking on indicators within its control.