

THE ROLE OF STOCK MARKET ON ECONOMIC DEVELOPMENT OF RWANDA

(A CASE STUDY OF RWANDA STOCK EXCHANGE)

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Abstract: In Rwanda there is need to provide funds to start new businesses and to expand existing businesses and industries. The stock market provides companies and the government with an avenue to raise Stock through the sale of shares and bonds to the public. The stock markets bring together those with surplus funds and those with a deficit and facilitate the exchange of the monies. This has however not gotten to its optimal level due to the following challenges facing the Rwanda stock market. First, in RSE there are a limited number of companies listed in the Rwanda Stock Exchange, the investors in Rwanda have limited investment portfolio and another challenge is the limited access to long term securities. The general objective of this study examined the role of stock market on economic development of Rwanda. This study was adopted descriptive research design. The target population of this study is 12 employees of Rwanda Stock Exchange. The researcher was used an open ended questionnaire as data collection. This means that that researcher collected the data through questionnaire. Researcher was used primary data. The Rwanda economic development has an overall correlation with stock market products of 0.776 which is strong and positive. This means that approximately 77.6% variations of economic development of Rwanda are explained by the stock market products at 5% level of significance. These indicate good fit of the regression equation used. Results indicate that Treasury bond is the most significant in explaining the economic development of Rwanda with a significance of 0.000 which is less than a p-value of 0.05 and beta value is 0.872. Pearson correlation coefficient, ($r=0.864$) shows that there is a positive and high correlation relationship between stock market and economic development where the P-value ($0.000 < 0.05$). Stock markets also help finance the public sector borrowing requirement while reducing fiscal pressure of debt redemption if maturities of securities are lengthened. To increase the stock market products in the market should ensure an increase in economic growth.

1. BACKGROUND TO THE STUDY

The main role of Stock markets is to make funds available for investors undertaking long-term projects at a competitive cost of Stock (Jensen, 2007). Most of the banks in an economy are lenders of short-term. And banks that are specialized in long-term financing are few and usually not equipped with either human or financial resources to handle the financing of all the long-term development projects, especially those related to agriculture, education, and other economic development projects of a country (Werner Baer, 2008).

The economists and policy makers had high expectations about the prospects for domestic Stock market development in emerging economies and, particularly, in Latin America. Unfortunately, they are now faced with disheartening results. Though many still hope that securities markets will develop, the reality is that equity and corporate bond markets in most emerging economies remain highly illiquid and segmented, with trading and capitalization concentrated on few firms (Rajan, William & Zingales, 2013). Stock market in many developing countries, particularly in Latin America and Eastern Europe, have seen listings and liquidity decrease, as a growing number of firms have cross-listed and raised Stock in international financial centers, such as New York and London. Debt tends to be concentrated at the short end of the maturity spectrum and denominated in foreign currency, exposing countries to maturity and currency risks. Moreover, government debt is crowding out corporate bond markets in many countries.

Economic development in a modern economy hinges on an efficient and effective financial sector that pools domestic savings and mobilizes Stock for productive projects (Akingbohunge, 2008). Absence of effective Stock market could

leave most productive projects which carry developmental agenda unexploited. Stock market connects the monetary sector with the real sector and therefore facilitates growth in the real sector and economic development. Stock market increases the proportion of long-term savings (pensions, funeral covers, etc.) that is channeled to long-term investment. Stock market enables contractual savings industry (pension and provident funds, insurance companies, medical aid schemes, collective investment schemes, etc.) to mobilize long-term savings from small individual household and channel them into long-term investments (Kolapo & Adaramola, 2012). It fulfills the transfer function of current purchasing power, in monetary form, from surplus sectors to deficit sectors, in exchange for reimbursing a greater purchasing power in future. In this way, Stock market enables corporations to raise capital/funds to finance their investment in real assets.

Recent empirical research linking Stock market and economic development suggests that Stock market enhances economic development. Countries with well-developed Stock markets experience higher economic development than countries without. Evidence indicates that, while most Stock markets in African countries are relatively underdeveloped, those countries which introduced reforms that are geared towards development of Stock markets have been able to grow at relatively higher and sustainable rates (Perkins & Block, 2012). A study in 2011 showed that South Africa, the country whose Stock market is the largest and most developed in Africa, in terms of market capitalization and trading volume, has been growing significantly since 2000. Countries like Egypt, Ghana, Tanzania, Botswana and Mauritius, whose Stock markets have been developing recently, were able to realize average per capita growth rates of more than 2.8% for the past 8 years. However, some economies which did not have formal or effective Stock market like Lesotho, Seychelles and Ethiopia could not manage to realize average per capita growth rates above 2.7 % over the past 8 years. Even those countries with small and less developed Stock market like Swaziland and Uganda did not manage to realize average per capita growth rates above 2.7 % during the past 8 years (CBL Economic Review, August 2009).

In Rwanda, Stock market also provides equity Stock and infrastructure development Stock that has strong socio-economic benefits through development of roads, power plant, water and sewer systems, housing, energy, telecommunications, public transport, etc. These projects are ideal for financing through Stock market via long dated bonds and asset backed securities. Infrastructure development is a necessary condition for long-term sustainable growth and development. In addition, Stock market increases the efficiency of Stock allocation by ensuring that only projects which are deemed profitable and hence successful attract funds (Mathu, 2014). This will, in turn, improve competitiveness of domestic industries and enhance ability of domestic industries to compete globally, given the current momentum towards global integration. The result will be an increase in domestic productivity which may spill over into an increase in exports and, therefore, economic growth and development.

Moreover, Stock market promotes public-private sector partnerships to encourage participation of private sector in productive investments. The need to shift economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish. It assists the public sector to close resource gap, and complement its effort in financing essential economic development, through raising long-term project based capital. It also attracts foreign portfolio investors who are critical in supplementing the domestic savings levels. It facilitates inflows of foreign financial resources into the domestic economy. The aim of this research is to examine the role of Stock market to the economic development in Rwanda.

2. PROBLEM STATEMENT

More liquid markets can create long-term investment and hence economic development through lower transaction cost. Rajan and Zingales (2008) argued that stock market size is correlated to growth of financial dependent firms. Many of the studies done have supported the view that stock markets promote economic development. It has been observed that well functioning stock market increases economic efficiency, investment and growth. Rwanda stock market has been described as narrow and shallow. There has been significant focus on the stock market with for example the institutional development of the stock market and introduction of new instruments in the bonds market. It has been assumed that these efforts will facilitate mobilization of adequate resources and allocation of these resources efficiently to achieve development objectives. In the last three decades, the correlation between financial sector and economic development has been a subject of high interest among scholars, policy makers and economists on the entire globe.

In Rwanda there is need to provide funds to start new businesses and to expand existing businesses and industries. The stock market provides companies and the government with an avenue to raise Stock through the sale of shares and bonds to the public. The stock markets bring together those with surplus funds and those with a deficit and facilitate the exchange of the monies. This has however not gotten to its optimal level due to the following challenges facing the

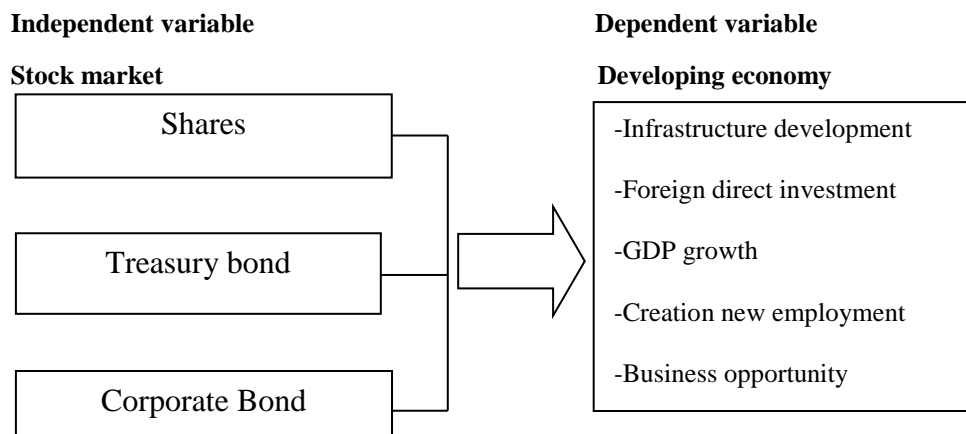
Rwanda stock market. First, in RSE there are a limited number of companies listed in the Rwanda Stock Exchange, the investors in Rwanda have limited investment portfolio and another challenge is the limited access to long term securities. It is on this regard that the researcher was enthused to carry out the research on the role of stock market on developing economy.

3. OBJECTIVES OF THE STUDY

1. To identify the effect of shares to the economic development of Rwanda.
2. To examine the influences of Treasury bond to the economic development of Rwanda.
3. To examine the role of corporate bond to the economic development of Rwanda.

4. CONCEPTUAL FRAMEWORK

Stock market is always a risk proposition and investors are reluctant to invest in Stock market, the investors they may know the primary role of Stock market is to raise long-term funds for governments, banks, and corporations while providing a platform for the trading of securities and investors can then invest in the Stock market by purchasing those stocks and bonds. This study comprises of dependent and independent variables.



Source: Researcher compilation, 2018

5. RESEARCH DESIGN

This study was adopted descriptive research design. This approach provides an opportunity to establish the relationship between Stock market and economic development in Rwanda.

6. TARGET POPULATION

The population under this research consists of organization staff from different levels will conduct mainly in Rwanda Stock Market. In other words, the target population is individuals who are in position to respond the questionnaire and to whom the results of the survey apply. The target population of this study is 12 employees of Rwanda Stock Exchange.

7. REGRESSION ANALYSIS

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.437 ^a	.776	.631	212

a. Predictors: (Constant), shares, Treasury bonds and Corporate bonds

Table 4.10 presents the coefficients of model fitness on how stock markets explain the economic development of Rwanda. The Rwanda economic development has an overall correlation with stock market products of 0.776 which is strong and positive. This means that approximately 77.6% variations of economic development of Rwanda are explained by the stock market products at 5% level of significance. These indicate good fit of the regression equation used.

The rule of Thumb is that, usually an R square of more than 50% is considered as better. This study proves the rule of Thumb the R² is (0.743). In this study the rule of thumb is that, usually an R square of more than 50% is considered as better, this study show that R square is (0.743) implying that stock market influence the Rwanda economic development.

Table 2: ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.612	3	3.401	2.301	.000 ^a
	Residual	.752	9	.010		
	Total	33.355	12			

a. Predictors: (Constant), shares, treasury bond and corporate bond

b. Dependent Variable: Developing Economy

Table 2 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between stock market and economic development at 5% level of significance. Analysis of Variance shows that f-calculated is greater than f – critical that is 2.301 > 0.00. This implies that the regression equation was well specified and therefore the co-efficient of the regression shows that there is a strong relationship between stock market and Rwanda economic development. The analysis of variance of the predictors of the model has a significance of 0.000.

Table 3: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	.162	.081		1.728	.000
	Shares	.724	.034	.833	22.050	.000
	Treasury bond	.872	.044	.052	1.631	.000
	Corporate bond	.646	.024	.014	.122	.000

a. Dependent Variable: developing economy

From Table 3, the regression model therefore becomes:

$$Y = 0.162 + 0.724x_1 + 0.872x_2 + 0.646x_3 + \epsilon$$

On Table 2 the regression coefficients of the predictors (stock market) are presented. Results indicate that Treasury bond is the most significant in explaining the economic development of Rwanda with a significance of 0.000 which is less than a p-value of 0.05 and beta value is 0.872.

This therefore means that the economic development would be at 0.872 when shares and corporate bond are held at a zero constants. Stock market is positively related to the economic development of Rwanda and therefore a unit increase of stock exchange products would lead to an increase in the economic development. However, this is significant at 5% level of confidence.

Table 4: Relationship between stock market and economic development of Rwanda

Economic development		Stock market	
Economic development	Pearson Correlation	1	.864**
	Sig. (2-tailed)		.000
	N	12	12
Stock market	Pearson Correlation	.864**	1
	Sig. (2-tailed)	.000	
	N	12	12

Economic development		Stock market	
Economic development	Pearson Correlation	1	.864**
	Sig. (2-tailed)		.000
	N	12	12
Stock market	Pearson Correlation	.864**	1
	Sig. (2-tailed)	.000	
	N	12	12

** . Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation coefficient, ($r=0.864$) shows that there is a positive and high correlation relationship between stock market and economic development where the P-value ($0.000 < 0.05$).

8. CONCLUSIONS

Stock markets also help finance the public sector borrowing requirement while reducing fiscal pressure of debt redemption if maturities of securities are lengthened. Governments can also raise long term funds through the stock market and enhance the creation of a robust yield curve.

The stock market contributes to the economic development of Rwanda. The results of the study suggest that the stock market growth and economic development have long-run relationship. It reveals that the stock market liquidity do help to improve the future economy development of Rwanda. The findings are consistent with existing theoretical framework as illustrated by several authors about the relationship between stock market and economic development.

This study also concludes that stock market development affects the development of Rwanda. This study also revealed that stock market products change in stock market price and trading volume affect economic the economic development.

9. RECOMMENDATIONS

- ❖ To increase the stock market products in the market should ensure an increase in economic growth.
- ❖ Increasing the number of listed companies there is need to ensure stable macroeconomic environment, encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Rwanda Stock Exchange.

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